



SCREENING CHAPTER 22

REGIONAL POLICY AND COORDINATION OF STRUCTURAL INSTRUMENTS

AGENDA ITEM I: LEGAL FRAMEWORK

**Country Session: The Republic of TURKEY
9-10 October 2006**



CONTENT:

- I. Budget Planning and Implementation Mechanisms
- II. Co-Finance
- III. Specific Financial Control and Legal Provisions
- IV. Compliance with Community Policies
- V. Territorial Organisations



I. Budget Planning and Implementation Mechanisms



Budget Preparation Process

- ☐ Medium-term Program
- ☐ Medium-term Fiscal Plan
- ☐ Budget Call and Budget Preparation Guide
- ☐ Investment Circular and Investment Preparation Guide
- ☐ Submission of budget proposals
- ☐ Budget negotiations
- ☐ Finalisation of Draft Budget
- ☐ Submission of Draft Central Government Budget Law
- ☐ Budget negotiations in the Turkish Parliament
- ☐ Approval of Central Government Budget Law
- ☐ Issuance of Central Government Budget Law before end of year



Budget Implementation Process

- ☐ Expenditure and Financing Programme
- ☐ Spending order by the Authorising Officer
- ☐ Realisation of expenditure by the Realisation Officer
- ☐ Ex-ante Financial Control and On-going Control
- ☐ Payment Order by the Authorising Officer
- ☐ Payment and Accounting by the Accounting Officer



Multi-year Budgeting

- ☐ Preparation of medium-term program
- ☐ Preparation of medium-term fiscal plan
- ☐ Strategic plans to be prepared by the administrations
- ☐ Three-year budget covers the revenue and expenditure figures for the current year and following two years
- ☐ The link between planning and budgeting is strengthened

- ✓ When preparing 2006 budget, budget revenues and expenditures for 2007 and 2008 were also estimated.



II. Co-Finance



Co-finance at national level

- ☐ Secured by the provisions set out in Annual Budget Laws and Annual Programme Decrees

[2006 Central Government Budget Law (No:5437/Article-18)]

“Co-financing commitments for the EU funds are being included in the institution’s budget for the central government agencies and they have to be transferred to the National Fund in 30 days latest upon the request of State Minister responsible for Treasury. Additional appropriation requirements, which would be arised in the implementation of the projects, can be covered by transferring from the budget of the MoF.”



Co-finance at national level (Cont'd)

[Annual Programme Decree Article-17]

“The projects which will be financed in the framework of EU Financial Assistance are submitted to SPO with the appropriation request for national co-financing to associate with Investment Programme by the project owner institution. By this way, complementarity of national co-financing with Investment Programme is ensured.”

[Annual Budget Law-Article-18 /Annual Programme Decree Article-7]

“The funds allocated as national co-financing for the projects in the framework of EU financial assistance couldn't be transferred to any other projects.”



Co-finance at local level

- ❑ Provided from the budgets of relevant local authorities.
- ❑ [Metropolitan Municipality Law (No:5216/Article-24) Expenditures Metropolitan Municipality)/ Municipality Law (No:5393/Article-60) Expenditures of Municipality/Special Provincial Administration Law (No:5302/Article-43) Expenditures of Special Provincial Administration]

“Expenditures for services and projects which will be realized with the partnership of domestic and foreign public, private sector and NGOs”

Co-finance at local level (Cont'd)

- ☐ Secured by By-Law on the Local Administrations' Budget and Accounting
- ☐ [By-Law on the Local Administrations' Budget and Accounting (Articles 17, 36 and 39)] includes measures to prevent the utilization of appropriations allocated as provisional/earmarked grants and aids for different purposes.
- ☐ Other sources for co-finance

Loans provided by İller Bank, (Bank of the Provinces) for the investment projects of municipalities, which is in compliance with the Bank's evaluation criteria.



Transfer of co-finance between programs, funds and years

- ☐ Regulations allowing transfers between appropriations and years in the current budget system.
 - Appropriation transfers and the grants from the central government budget
 - Commitments Carried Over to Subsequent Years



Financing of Local Authorities

Expenditures of local authorities financed by:

- ☐ REVENUES

- ☐ Tax Revenues

- Local Taxes
 - Tax Share from General Budget

- ☐ Non-Tax Revenues

- ☐ Factor Income

- ☐ BORROWING



Financing of Local Authorities

Revenues

Local Taxes;

Regulated by Law on Municipal Revenues No. 2464 and Law on Property Tax No. 1319

- ☐ Property Tax
- ☐ Announcement and Advertisement Tax
- ☐ Entertainment Tax
- ☐ Communication Tax
- ☐ Electricity and Gas Consumption Tax
- ☐ Fire Insurance Tax
- ☐ Environment Cleaning Tax



Financing of Local Authorities (Cont'd)

Revenues

Tax Share from General Budget

The Law on Transfer of Tax Revenue of General Budget to Municipalities and Special Provincial Administrations No: 2380

- ☐ 6% of general budget tax revenues transferred to municipalities
- ☐ 1.12% of general budget tax revenues transferred to special provincial administrations

Metropolitan Municipality Law-Article 23;

- ☐ 5% of the general budget tax revenue collected within the metropolitan municipality area
- ☐ 35% of tax share of municipalities within the metropolitan area

Financing of Local Authorities (Cont'd)

Revenues

Non-Tax Revenues

- ☐ contribution to expenditures
- ☐ revenue from properties of municipalities
- ☐ revenue from municipal duties
- ☐ fees
- ☐ fines
- ☐ grants
- ☐ others

Factor Incomes

- ☐ Sales revenues and profits of enterprises and utilities managed by local authorities

Financing of Local Authorities (Cont'd)

Revenues

Draft law on the revenues of local authorities

- ☐ Allocation of tax revenues between central and local administration to be redesigned
- ☐ Amount of transfers from general budget to local administrations to be increased
- ☐ Rates and amounts of local taxes and fees to be increased
- ☐ Transfers from local administration revenues to various central government units to be eliminated

Financing of Local Authorities (Cont'd)

Revenues

☐ Tax Share as a Percentage of Total Revenues (2005)

Municipalities	46
Metropolitan Municipalities	74
Special Provincial Administrations	68

Financing of Local Authorities (Cont'd)

Borrowing

- ☐ Borrowing decisions must be taken by the council of local authorities
- ☐ Foreign borrowing only for the projects in Investment Programme [Law on Public Finance and Debt Management, No. 4749]
- ☐ Permission of Treasury is necessary for foreign borrowing
- ☐ Issuance of bonds is only possible for projects in Investment Programme [the Law on Public Finance and Debt Management No. 4749 and The Law on Capital Market No. 2499]

Financing of Local Authorities (Cont'd)

Borrowing

- ☐ Domestic borrowing up to 10% of the revaluated value of the last year budget revenues can be realized with decision of local council. Domestic borrowing, which exceeds this amount, must be approved by Ministry of Interior
- ☐ Local authorities can use investment credit and cash credit from Iller Bank

Financing of Local Authorities (Cont'd)

Borrowing

- ☐ Domestic and foreign debt stock (including interest) of local authorities, their related institutions and the companies of which more than 50% of capital belong to local authorities can not exceed the revaluated value of the last year budget revenues (one and half times for metropolitan municipalities)
- ☐ These limits do not apply to infrastructure projects which satisfy the following;
 - excessive amount of financing requirement and,
 - approval by Council of Ministers.



Financing of Development Agencies (DAs)

[The Law on the Establishment, Coordination, and Duties of Development Agencies at NUTS II Level (No. 5449)]

Incomes and the funds to be managed by the DAs

- ☐ 0.5% of the previous year's general budget tax incomes after deduction of tax refunds and share of local authorities and funds
- ☐ resources to be provided from the EU and other international funds (to be managed by DAs),
- ☐ operating incomes

Financing of DAs (Cont'd)

- ☐ Over the budget revenues of the previous year;
for special provincial administrations; appropriation to be transferred from the current year budget; at the rate of 1% excluding borrowing, allocated revenues, and aid items received from the other public budgets
for municipalities; appropriation to be transferred from current year budget at the rate of 1% excluding borrowing and allocated revenue items
- ☐ 1% of the previous year budget income of the Chambers of Commerce and Industry in relevant region
- ☐ Aid/Donations by the national and international organizations
- ☐ Incomes transferred from previous year

Public-Private Partnerships

- ☐ Several models such as Build-Operate-Transfer (BOT), Build-Operate (BO), Build-Lease-Transfer (BLT) and Transfer of Operating Rights (TOR) used to attract private co-financing for investments.
- ☐ Airport terminals, ports, dams, hydro-electric power plants, natural gas plants with current PPP laws



Public-Private Partnerships (Cont'd)

- ☐ The Law on the Realization of Certain Investment and Services in the Framework of Build-operate-transfer Model No. 3996
- ☐ The Law on Granting Authorization to Institutions Other Than The Turkish Electricity Authority for Generation, Transmission, Distribution and Trade of Electricity No. 3096
- ☐ The Law on the Establishment and Operation of Electric Energy Production Plants and Regulation of Energy Sales No. 4283
- ☐ The Law on the Basic Health Services (as amended by the law No. 5396)



Public-Private Partnerships (Cont'd)

- ☐ The Law on Granting Authorization to Institutions Other Than The General Directorate of Highways for Construction, Maintenance and Operation of Motorways. No. 3465
- ☐ The Law on Privatization Applications No. 4046
- ☐ The Law on the Long Term Leases of the Airports and the Passenger Terminals to the Private Sector No. 5335
- Technical studies to diversify models and the content



III. Specific Financial Control and Legal Provisions

Legal Framework of PIFC System

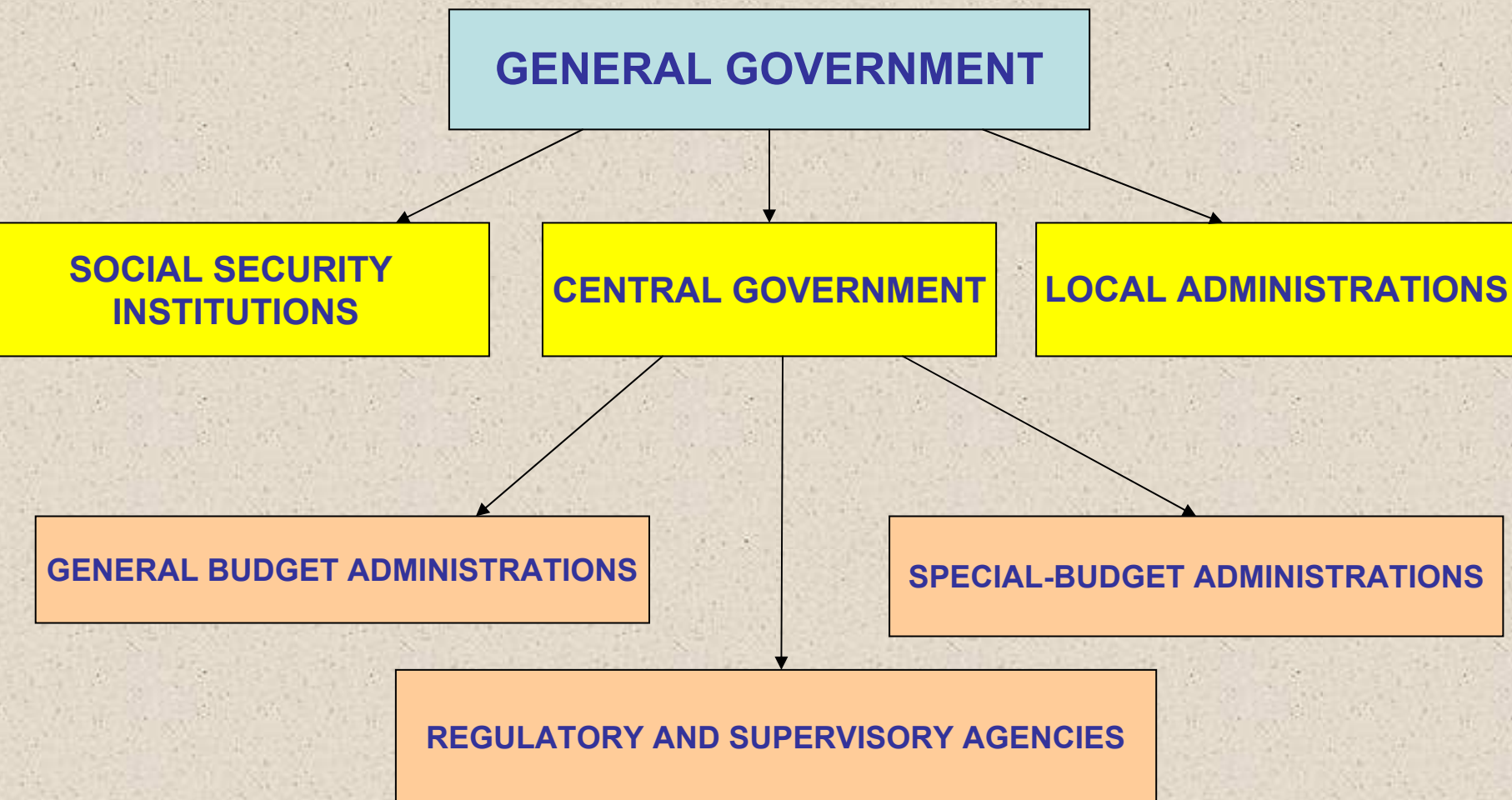
☐ **Related Provisions of the Constitution**

Constitution includes some provisions relating to preparation, implementation, control and final account of the Central Government Budget.

☐ **Public Financial Management and Control Law No.5018**

Turkey's PIFC system is regulated basically by PFMC Law which was adopted in December 2003 and all provisions of this law put into practice as of January 1, 2006.

Scope of the PFMC Law





Components of PIFC System of Turkey

- ☐ Managerial Accountability/Responsibility
- ☐ Financial Management and Control
- ☐ Internal Audit
- ☐ Central Harmonisation Units

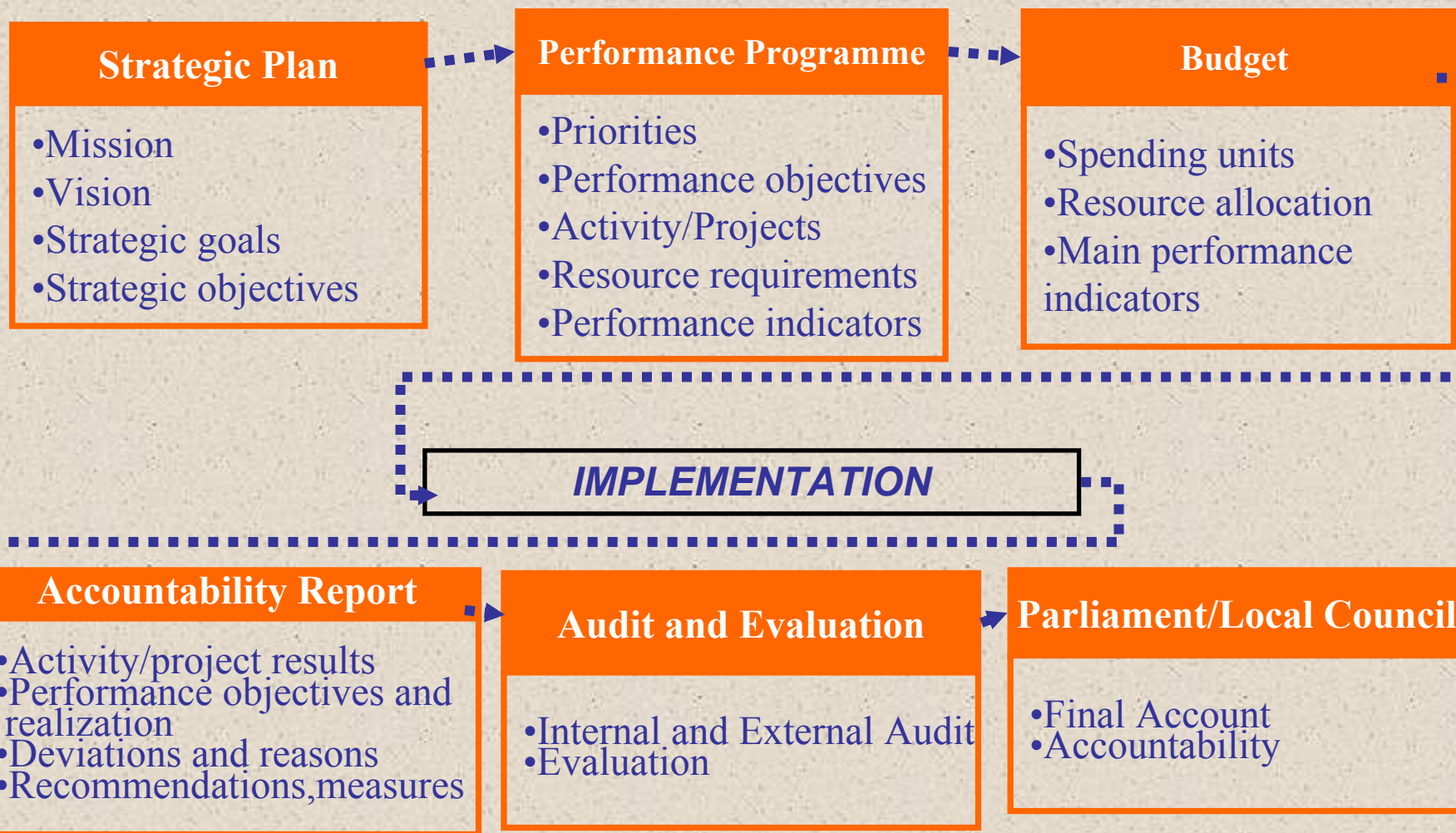
Managerial Accountability

Managers are to;

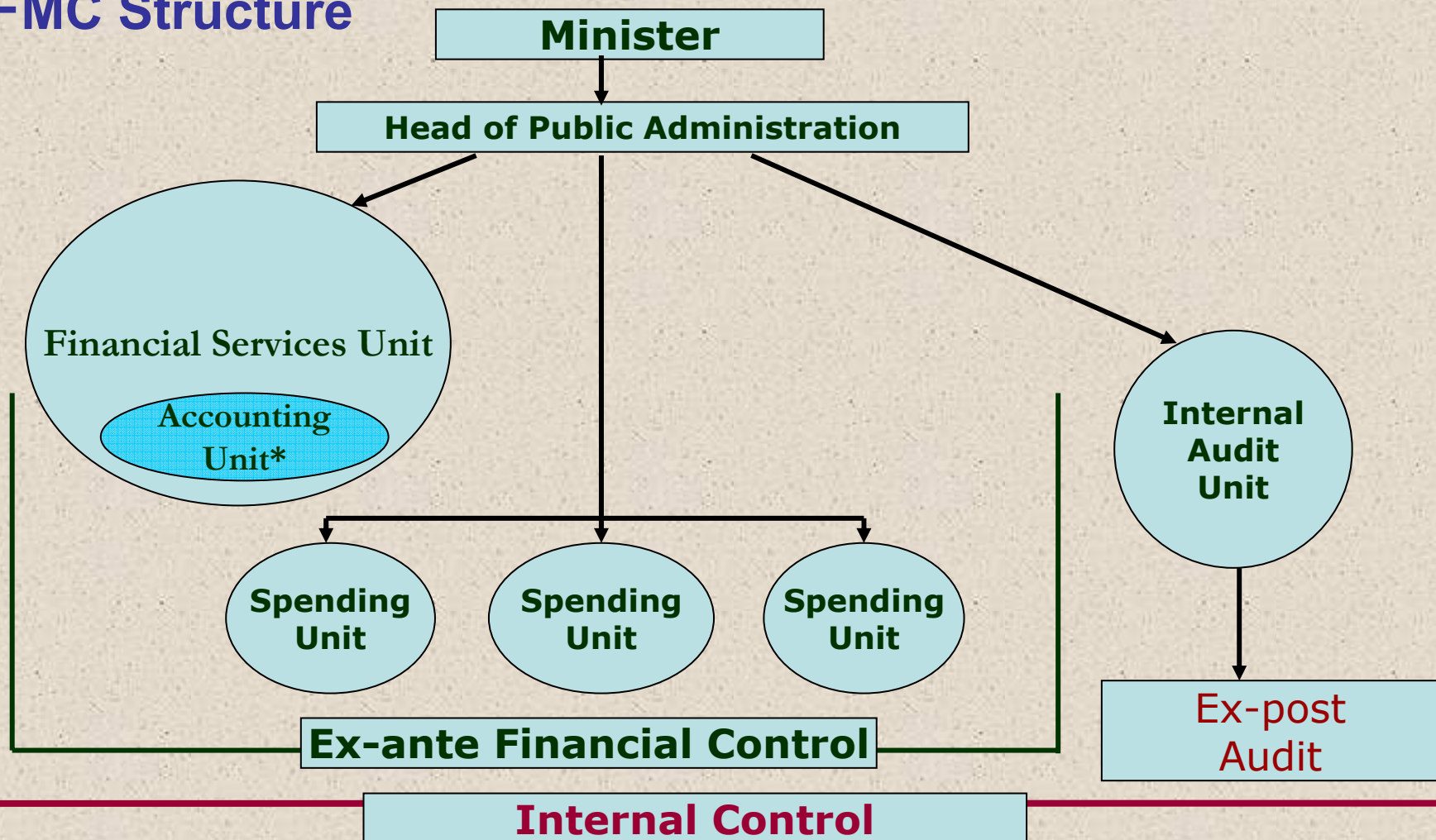
- ☐ establish financial management and control system,
- ☐ set up internal audit system,
- ☐ assign duties, authorities and responsibilities clearly,
- ☐ monitor execution and take necessary measures,
- ☐ report the results

In line with managerial accountability, segregation of duties and sound financial management principles.

FMC Process



FMC Structure



*Accounting services within general budget administrations are carried out by the Ministry of Finance

Internal Control Responsibility

- ☐ **Head of public administration:** To establish, improve and supervise the system
- ☐ **Financial services unit:** To carry out works regarding establishment, improvement and supervision of the system, to make recommendations to head of public administration and perform ex-ante financial control
- ☐ **Authorizing officer:** To implement internal control and ex-ante financial control and to monitor the process control
- ☐ **Realization officer:** To perform process control
- ☐ **Accounting officer:** To check payments, to keep accounting records in line with defined standards and to ensure transparency of accounting transactions and reports

Segregation of Duties

- ☐ The duty of the authorizing officer and accounting officer cannot be carried out by the same person.
- ☐ Those performing ex-ante financial control in the financial services unit cannot be involved in the financial transaction process.



Ex-ante Financial Control

- ☐ Performed by financial services unit and spending units.
- ☐ Covers the control of compliance of all financial transactions
- ☐ Financial decisions and transactions subject to ex-ante financial control are determined on the basis of risks.
- ☐ Consultative and preventive
- ☐ Inappropriate financial decisions and transactions are reported to the head of public administration as well as internal and external auditors.



Internal Audit

- ☐ Carried out by internal auditors
- ☐ Provides independent and objective assurance and consultancy
- ☐ Performed with a systematic, regular and disciplined approach in accordance with generally accepted standards
- ☐ Comprises financial, compliance, system, performance and IT audit

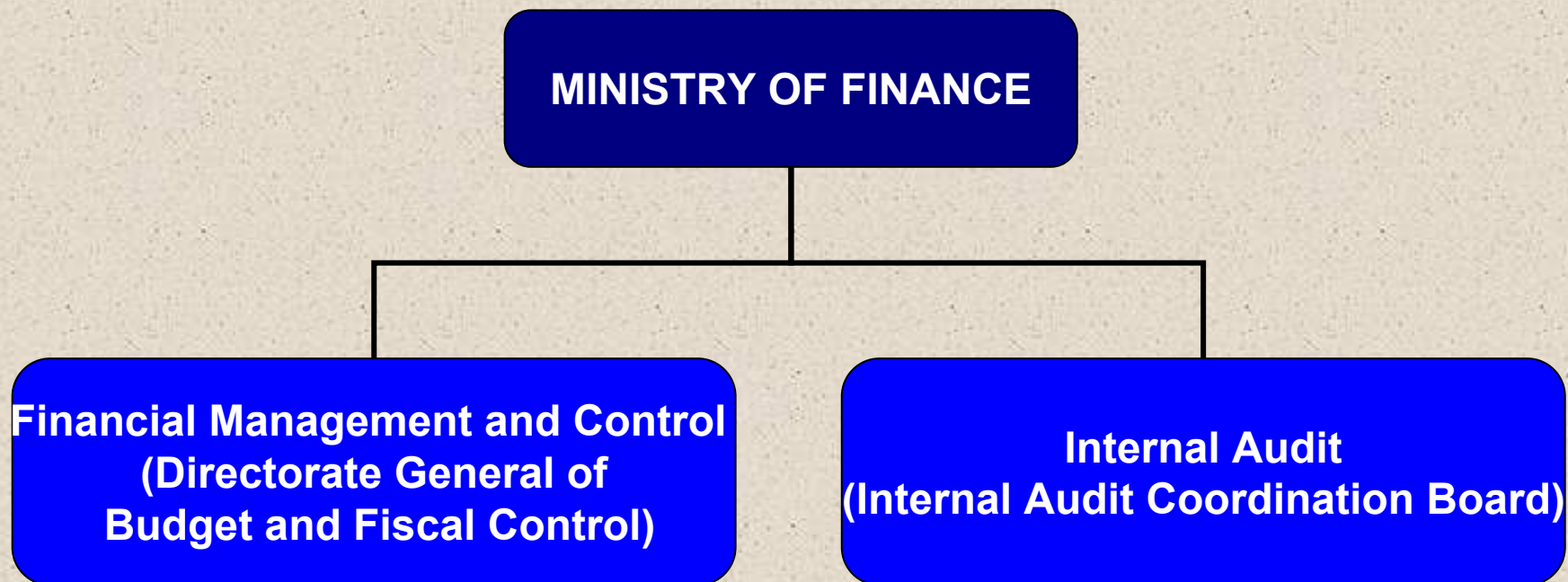


Functional Independence and Objectivity of Internal Auditors

Internal Auditor;

- ☐ Appointed by the Minister in ministries and related administrations upon the recommendation of the heads of public administrations, among the certificated auditors. Dismissal is subject to the same procedure.
- ☐ Can not be appointed to any other position without his/her own will.
- ☐ Directly attached and reports to the head of public administration
- ☐ Independent in planning, execution and reporting of individual audit activity.
- ☐ Can not be assigned to any other duty

Central Harmonisation Units





External Audit

- ☐ External audit is performed by the Turkish Court of Accounts (TCA) in line with the generally accepted international auditing standards.
- ☐ The new PFMC Law expands the external audit authority of Turkish Court of Accounts to cover all public administrations within the scope of general government.
- ☐ The results of external audit are reported to the Turkish Parliament by TCA.



Legal Framework of External Audit

- ☐ The Constitution (Articles 160 and 164)
- ☐ Public Financial Management and Control (PFMC) Law No. 5018
- ☐ The Turkish Court of Accounts Law No. 832

The draft TCA Law is under discussion in the Turkish Parliament



IV. Compliance with Community Policies

State Aids

- ☐ Currently, state aids are regulated by various legal acts,
- ☐ A preliminary draft law has been prepared and submitted to the Prime Ministry, in order to align with the state aid acquis,

State Aids (Cont'd)

The preliminary draft law foresees :

- ☐ Establishment of a State Aid Monitoring Authority and the state aid monitoring and supervision system
- ☐ Prior notification of any state aid scheme or individual aid to the Authority
- ☐ Development of state aid inventory by the Authority
- ☐ Establishment of a database for monitoring the financial dimension of the aids
- ☐ Ensuring the harmony considering the thresholds of the regional aid concentrations
- ☐ Implementing institutions to design aid programmes considering the NUTS based regional aid map and the thresholds

Public Procurement

- ☐ A major reform was made in 2002 in Turkish public procurement system
- ☐ The Public Procurement Law came into force at the beginning of 2003
 - incorporates the basic principles of international standards and EU directives
 - provides transparency, competition, equality of treatment, impartiality, accountability, economic efficiency, public supervision, predictability, confidentiality

Public Procurement (Cont'd)

- ☐ The Public Procurement Authority was established as financially and administratively autonomous regulatory body

In light of the screening process :

- ☐ A preliminary draft law on utilities sector is being prepared by taking into consideration the Council Directive 2004/17/EC
- ☐ Further studies have been undertaken in order to upgrade the existing legislation particularly in terms of novelties brought by the Council Directive 2004/18/EC

Environment

Environmental Impact Assessment (EIA)

- ☐ The last version of EIA By-law that was put into force in 2003, is in compliance with the provisions of the EIA Directive 85/337/EEC particularly in its procedural aspects
- ☐ Annex I of the By-law lists the projects subject to the EIA
- ☐ Under no circumstances the project receives any incentive approval, permit, licence, credit for financial support unless the decision:
 - “EIA positive” for projects that are subject to EIA
 - “EIA is not required” for projects that are subject to preliminary EIA

Environment (Cont'd)

Natura 2000

- ☐ Technical studies for drafting a law about nature and biodiversity protection have been initiated by Ministry of Environment and Forestry with the contributions of all related parties
- ☐ These studies take into consideration the provisions of the relevant EU Directives on habitats and wild birds and international conventions signed by Turkey
- ☐ Determination of potential Natura 2000 areas and preparation of management and protection plans are among the targets of the draft EU Integrated Environmental Approximation Strategy of Turkey for 2007 – 2023

Environment (Cont'd)

Polluter Pays Principle (PPP)

- ☐ PPP has been defined in the Law on Environment
- ☐ PPP is applied not only to industrial installations but also to individuals
- ☐ The users contribute to the costs of investment, operation, maintenance, repair and rehabilitation of wastewater and solid waste facilities and services
- ☐ PPP is also included in By-laws on;
 - Water Pollution Control
 - Control of Waste Oils
 - Solid Waste Control
 - Control of Used Batteries and Accumulators
- ☐ PPP is among the basic principles of the draft EU Integrated Environmental Approximation Strategy of Turkey for 2007–2023



Environment (Cont'd)

Sustainable Development

- ☐ The principles of sustainable environment and sustainable development are defined in the Law on Environment
- ☐ Sustainable development is also included in the draft EU Integrated Environmental Approximation Strategy of Turkey for 2007 – 2023
- ☐ “Integration of the Sustainable Development into Sectoral Policies” Project



Equality of Opportunities Between Men and Women

- ☐ Equal opportunities for men and women are basically guaranteed in the Constitution,
- ☐ The principle of equal pay for men and women is also guaranteed in;
 - Labour Law
 - Law on Civil Servants
- ☐ As regards access to employment, working conditions, vocational training, promotion, and social security, there exist provisions in various laws focusing on equal treatment;
 - Labour Law
 - Law on Social Insurance and General Health Insurance
 - Law on Vocational Training
 - Law on Civil Servants



V. Territorial Organisation

Structure of the State

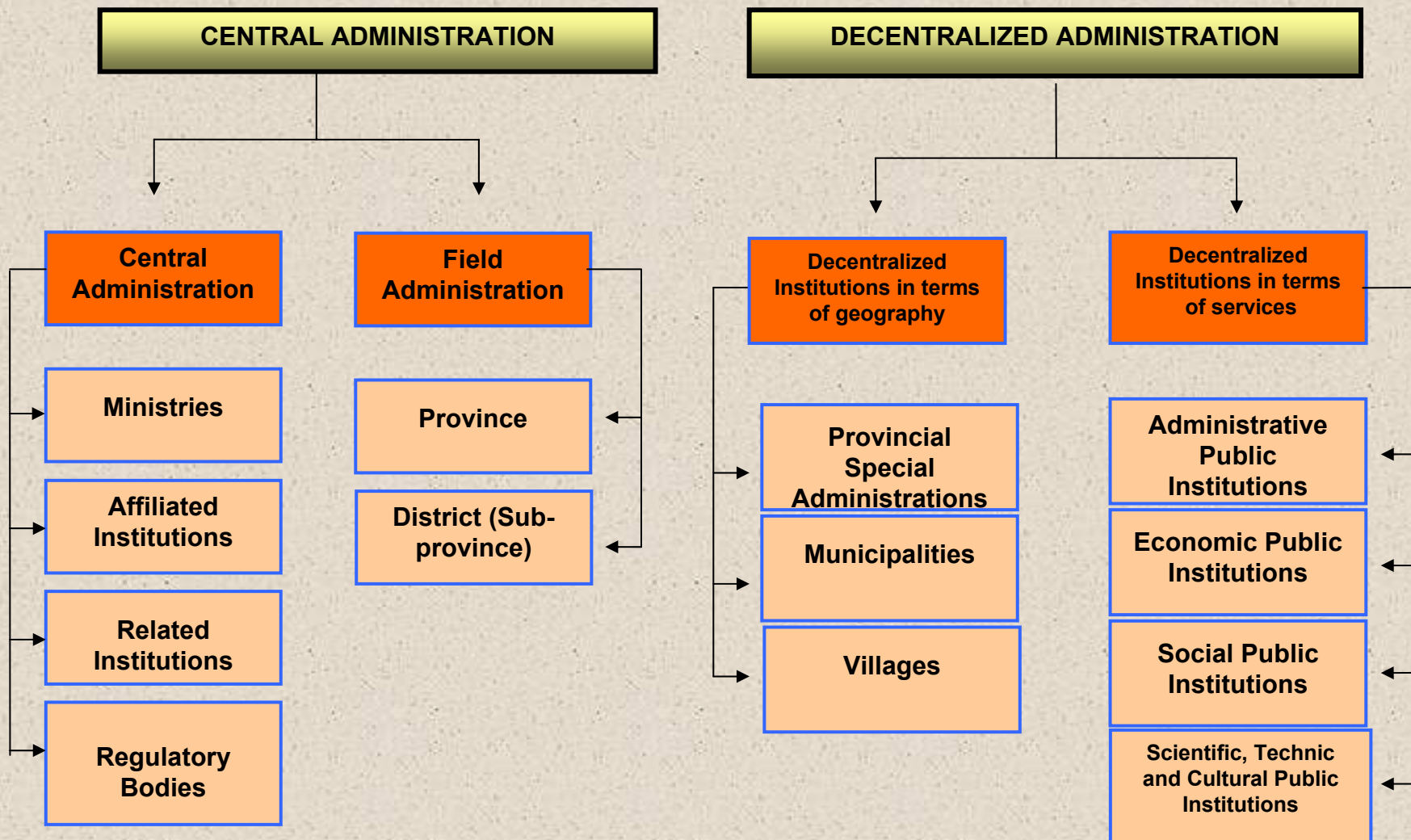
- Unitary state
- Parliamentary democratic system
- The principle of separation of powers

Turkish Administrative System;

- Article 123 of the Constitution :
 - ✓ The organization and functions of the administration are based on the principles of centralization and decentralisation
- Central administration: Central administrative organisations and provincial administrations
- Local authorities



SCREENING CHAPTER 22
REGIONAL POLICY AND COORDINATION OF STRUCTURAL INSTRUMENTS
AGENDA ITEM I: LEGAL FRAMEWORK



Provincial Administration

- Article 126 of the Constitution:
 - ✓ In terms of central administrative structure, Turkey is divided into provinces on the basis of geographical situation and economic conditions, and public service requirements; provinces are further divided into lower levels of administrative districts
- Based on the principle of deconcentration
- Decisions on behalf of the Centre
- Headed by provincial and district governors
- 81 provinces and 850 districts



Provincial Administration (Cont'd)

- Governor
- Provincial Directorates
- Provincial Administration Board

Local Authorities

- Article 127 of the Constitution :
 - ✓ Public corporate entities
 - ✓ Established to meet the common local needs
 - ✓ Decision-making organs are elected
 - ✓ Principles of structure are determined by law
 - ✓ The formation, duties and powers of the local authorities shall be regulated by law in accordance with the principle of decentralization

Local Authorities (Cont'd)

- Provincial Special Administrations (81)
- Municipalities (3,225)
 - ✓ Metropolitan Municipalities (16)
 - ✓ Metropolitan District Municipalities (101)
 - ✓ Metropolitan Lower-Tier Municipalities (283)
 - ✓ Provincial Municipalities (65)
 - ✓ District Municipalities (749)
 - ✓ Sub-district (Town) Municipalities (2,011)
- Villages (34,459)



Local Administration Reform

- ✓ Law on Municipalities, No.5393
- ✓ Law on Metropolitan Municipalities, No. 5216
- ✓ Law on Special Provincial Administrations, No. 5302
- ✓ Law on Local Authority Unions, No. 5355

- Draft Law on Revenue of Special Provincial Administration and Municipalities
- Technical study on Law on Villages



Local Administration Reform (Cont'd)

Outcomes of the Reform;

- A new division of tasks
- Increase in Local Authorities' tasks
- Powerful Councils
- A new tutelage system
- A new control system
- Facilitation of personnel employment
- A flexible organization
- Local Authority Unions

Competences of Local Authorities

Special Provincial Administrations:

- Health, agriculture, industry and trade; provincial development plan, public works and settlement, preservation of soil, prevention of erosion, social services and assistances, granting micro loans to the poor, within province border
- Reconstruction, road, water, sewage, solid waste, environment, emergency aid and rescue, culture, tourism, youth and sport; support to forestry villages, forestation, building park and garden out of municipal border

Competences of Local Authorities (Cont'd)

Municipalities:

- Planning
- Transportation
- Environment
- Social
- Others



Local Authority Unions

- Law on Local Authority Unions No.5355 was adopted to regulate the legal status, establishment, organs, administration, duties and responsibilities and working principles and procedures of Local Authority Unions
- Local authorities can form unions (service unions) with the permission of the Council of Ministers to fulfil the one or more duties assigned by law
- When water, waste water, solid waste and similar infrastructure services and as well as the projects related to the protection of environment and ecology necessitate, Council of Ministers may decide on the accession of relevant local administration to the union established for that purpose
- Nationwide local authorities unions (compulsory membership)

Local Authority Unions (Cont'd)

TYPES OF UNIONS	NUMBERS
INFRASTRUCTURE UNIONS	38
MUNICIPALITY UNIONS	57
ENVIRONMENT AND SOLID WASTE UNIONS	13
POTABLE WATER UNIONS	87
IRRIGATION UNIONS	317
SERVICE UNIONS TO VILLAGES	763
DEVELOPMENT UNIONS	11
SPECIAL PROVINCIAL ADMINISTRATIONS UNIONS	4
TOURISM UNIONS	31
HISTORICAL CITIES UNIONS	42
TOTAL	1363

Development Agencies

- Law on the Establishment and Duties of Development Agencies No:5449 adopted on 8th of February 2006
- Development Agencies are being established at NUTS II level for the purposes of:
 - ✓ Enhancing the cooperation among public sector, private sector and non-governmental organizations
 - ✓ Ensuring the efficient and appropriate utilization of resources
 - ✓ Stimulating local potential through;
 - ✓ Accelerating regional development
 - ✓ Ensuring sustainability
 - ✓ Reducing inter-regional and intra-regional development disparities

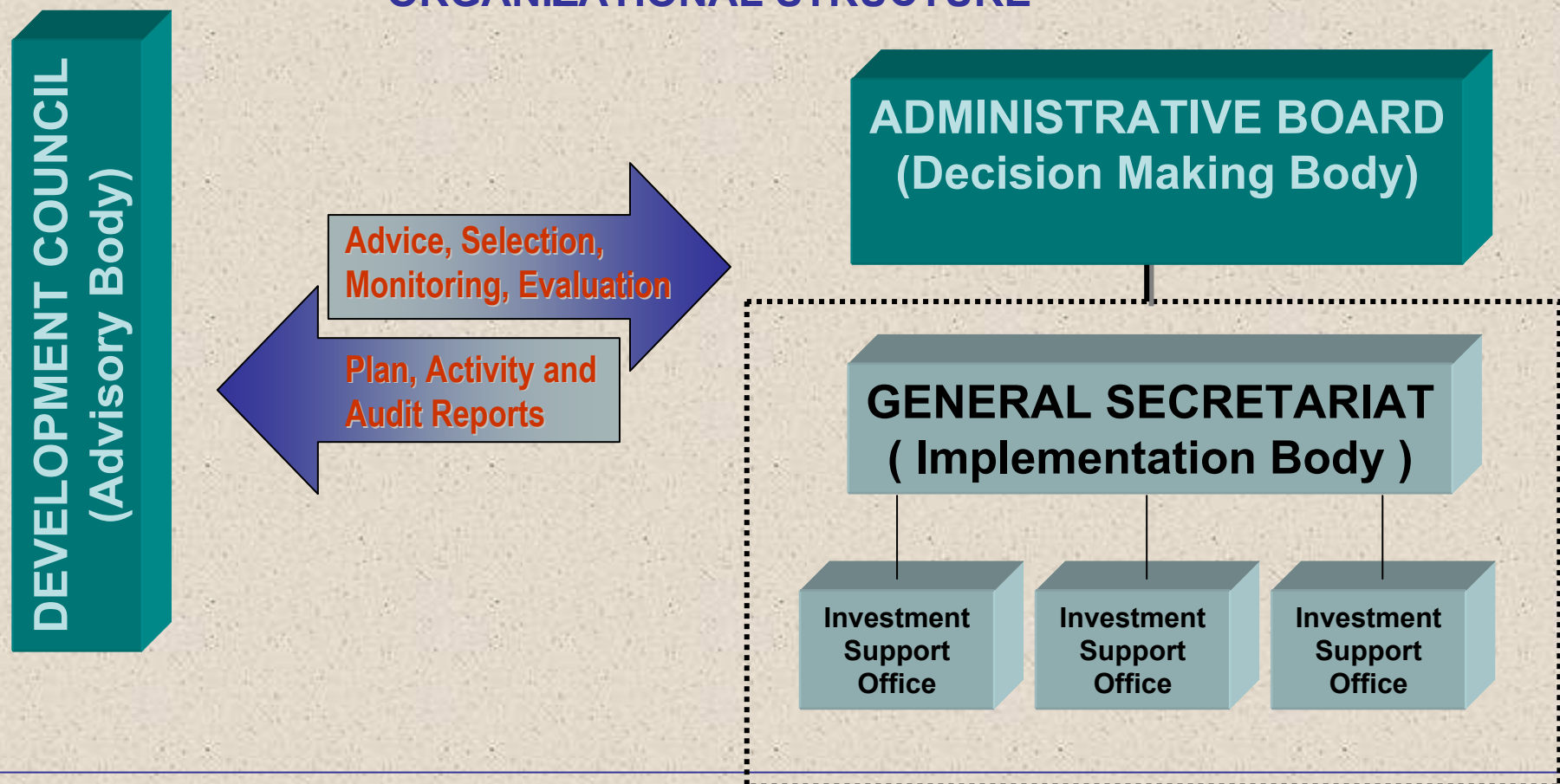
Development Agencies (Cont'd)

Duties and Responsibilities

- to support preparation process of regional development strategies/plans
- to support rural and local development initiatives
- to improve cooperation among public sector, private sector and non-governmental organizations
- to support and promote entrepreneurship
- to follow and coordinate investment permission and licence transactions of the investors through business support offices/one stop shops
- to promote business and investment prospects of the region
- o provide technical support to local government
- to act as an intermediary organisation for utilization of EU or other international funds
- monitoring and evaluation

Development Agencies (Cont'd)

ORGANIZATIONAL STRUCTURE



Development Agencies (Cont'd)

Recent Developments

- Two DAs have been founded by the Government Decree No:2006/10550
 - TR 31 (İzmir) and TR 62 (Adana, Mersin) NUTS II regions
 - Secondary legislation adopted (OG 25 June 2006 and 28 September 2006)
 - By-Law on the Principles and Procedures Regarding Functioning of the Agencies
 - By-Law on the Qualifications and Recruitment of the Personnel
 - By-Law on Budgeting and Accounting
 - Presently, by-laws concerning functioning, audit and performance are being prepared



Roles of Local Authorities in the Development of Regional Strategies and Projects

Contribution to central/regional level

- Adaptation of participatory approach in preparation of Regional Plans. Involvement of local authorities and stakeholders through : baseline surveys, SWOT Analysis, workshops etc.
- Enhanced involvement of local and regional actors in determining regional development strategies through enhanced cooperation and coordination role of DAs (i.e. Development Council)
- Grant Scheme Mechanism: allow local governments to develop local and regional projects in line with their priorities



Roles of Local Authorities in the Development of Regional Strategies and Projects (Cont'd)

Development of own strategies and plans

- Local Authorities: prepare and adopt Provincial Development Plans, Territorial Plans, Implementation plans, Institutional Strategic Plans in conformity with regional plans/strategies
- Local Authority Unions: handling local/regional problems through a joint effort for the delivery of public services: i.e. social and economic development, water, environment and infrastructure etc.
- Regional / Local Initiatives: Grass-root initiatives with the partnership of NGOs and Local Authorities to identify regional/local visions, strategies and to implement them.



Southeastern Anatolia Regional Development Adm.

- The Southeastern Anatolia Project Regional Development Administration (GAP-RDA) was established upon the Decree Law No. 388 in 1989 with a mandate to ensure the rapid development of areas covered by the Region of South-Eastern Anatolia
- Responsible for the coordination, monitoring, evaluation and implementation in the regional development process

Southeastern Anatolia Regional Development Adm.

- GAP Master Plan / 1989, GAP Regional Development Plan / 2002
- Headquarters in Ankara and regional branch in Şanlıurfa
- 270 investment projects and ensuring coordination among 40 governmental agencies and organisations in the GAP region
- Main sectors covered by GAP;
 - ✓ Agriculture, Industry, Transportation, Communication, Urban/Rural infrastructure, Health, Education, Tourism, Culture



THANK YOU FOR YOUR ATTENTION