

POTENTIAL SOURCES OF FINANCING THE MUNICIPALITIES IN TURKISH REPUBLIC OF NORTHERN CYPRUS (TRNC)

Okan Veli ŞAFAKLI

Near East University

Erdal GÜRYAY

Near East University

ABSTRACT

Together with the central government, the local governments that are mainly municipalities have a lot of responsibilities and positive contributions for the economic, social, cultural and democratic development of a country. Hence, the municipalities have to obtain the financial resources to undertake their modern functions. The purpose of the study is to underline the potential ways of financing the municipalities in TRNC. As a summary, this study shows that the financial resources of the TRNC municipalities is not even enough for their essential planned investments. Furthermore, it should be pointed out that the municipalities come across great difficulties of getting loans; the insufficiency of the state's contribution and other aids; and inability and impossibility of applying for international sources due to the country's international unrecognized situation.

Key Words: TRNC, Municipality, Finance

INTRODUCTION

The municipalities are the greatest actors in local governments, therefore we have to explain local government concept first. Local government is a type of organization in which the community uses the public power¹. According to its generally accepted definition, local government is a publicly legal entity, which is founded to serve the people who live in the same geographical area (city, village, town, etc.) or which voted to serve by these people and has got its own budget, special incomes and legal authority². Within the framework of this definition, the local government has got an important role in the development of the country as the central government. That is the municipalities have got lots of responsibilities in town planning, infrastructure, transportation, sports, cultural, activities,

¹ Birgül A. Güler , *Yerel Yönetimler*, (Ankara: TODAİE, 1998).

² TÜSİAD , 'Yerel Yönetimler : Sorunlar, Çözümler', Yayın No. *TÜSİAD-T/95 – 9/184*, Eylül 1995, p. 21.

agriculture, education and etc.^{3 4 5}. On the other hand, the contributions of municipalities also affected by globalization to social and economic democracy and world peace noticeably increased^{6 7}. Furthermore, municipalities as the democratic establishments assumed the role of protecting consumers against monopolistic and speculative movements due to the liberal politics applied by the central governments especially after 1980 in order to strengthen the free-enterprise economy and protect capital against labor and the monopolistic pressure of the international companies on local economy⁸.

As it is understood from the explanations above not only central government but also local governments as municipalities dealing mainly with the structural, cultural and other problems of cities play essential roles for the development of the country⁹. In maintaining these responsibilities the missions of the local and central governments should be put down clearly in addition to obtaining necessary financial sources in order to provide contemporary municipal services¹⁰. In this respect, the main aim of this study is to find out measures to handle financial problems faced by municipalities in TRNC.

In the first part of the study importance and missions of the municipality are explained. In the second part, all of the national and international financial sources are put down, which the municipalities can apply. The financial sources used presently by the municipalities in TRNC take place in part three. Finally, part four is devoted to the general evaluation and conclusion.

1. Potential Financial Sources of the Municipalities

The potential financial sources potentially to be applied by municipalities can be analyzed under two main titles as national and international.

1.a. National Financial Sources

The potential national financial sources of the municipalities are basically equity capital, the state shared revenues, the state aid and loaning¹¹.

1.a.1. The Equity Capital of the Municipalities

The main equity capital of the municipalities consists of taxes, charges, fees, lots of participation in expenditures and other sources.

³ Büyük Larouse, 'Belediye', *Gelişim Yayınları*, 3. Cilt, 1986, p. 1481.

⁴ Neriman Ener, 'Yerel Yönetimlerin Hizmet Sunumuna Çağdaş Bir Bakış Açısı', *Çağdaş Kentler ve Yerel Yönetimler Sempozyumu*, Cilt 1, 6-8 Şubat, KTMMOB Lefkoşa, Kıbrıs, 2002, p. 116.

⁵ İ. Güneş, 'Belediyelerin Görevleri', *Yerel Yönetimler Dersliği*, <http://idari.cu.edu.tr/igunes/yerel/bel-8.htm> (10 November, 2003)

⁶ Nuri Tortop, 'Demokratik Mahalli İdare Anlayışının İlkeleri', *Çağdaş Yerel Yönetimler Dergisi*, TODAİE Yayınları, C: 1 S: 3 Mayıs, 1992, p. 6

⁷ T. Yomralıoğlu & K. Çelik, 'Konumsal Bilgi Sistemi İçin Yerel Yönetimlerde Re-organizasyon İhtiyaçları', *Yerel Yönetimlerde Kent Bilgi Sistemi Uygulamaları Sempozyumu*, KTÜ, Trabzon, 1999.

⁸ Reyhan Leba, 'Türkiye'de Belediyelerin Ekonomik Girişimleri Ve Ortaya Çıkardığı Sorunlar', <http://idari.cu.edu.tr/igunes/makale/belediye.doc>, (November 10, 2003).

⁹ Öznal, Nevzat, 'Çağdaş Kentler, Yerel Yönetimleri', *Çağdaş Kentler ve Yerel Yönetimler Sempozyumu*, Cilt 1, 6-8 Şubat, KTMMOB Lefkoşa, Kıbrıs, 2002, p. 1.

¹⁰ Ruşen Keleş, *Yerinden Yönetim ve Siyaset*, (İstanbul: Cem/Kültür Yayınları, 1994), p. 277.

¹¹ Muhammet Akdiş, 'Belediyelerin Finansmanı Konusundaki Çağdaş Yaklaşımlar ve Azerbaycan', *Çağdaş Yerel Yönetimler*, c. 7, sayı 2, Nisan 1998, pp. 71-82

- Taxes

The municipalities can gain an important income by taxing the areas allowed by the central government. The most important ones of these are income tax, sales and use tax, gasoline tax, ad valorem tax, taxes on utility bills paid to electric, telephone, water and sewer companies and property tax.

- Charges and Fees

Charges and fees are the revenues, which are taken from the ‘Works’, permitted by the municipality. These are basically related to market place, occupation, working in day rest, water usage, animal slaughtering and medical examination, examination of measurement and weighting tools, building, trade register, private minibuses and buses, part form the management and other taxes such as report and license taxes.

- Shares of Participating the Expenses

The municipality takes a fee from the people who only favored from the services. It’s called share of participating the expenses. They can be listed under titles of share of participating road expenses; share of participating drainage expenses; and share of participating water foundations¹².

- Other Equity Sources of the Municipalities

The municipalities can gain some extra incomes by using their private authorities. We can point out these such as the companies that the municipalities founded and attended^{13 14}; money fines¹⁵; wage for the works performed by municipalities to private businesses; rents; allocation of usage; taking succour¹⁶; the associations such as cooperatives that the municipalities founded among themselves¹⁷; the model of ‘Build-Operate-Transfer’¹⁸; and state banks founded unique to municipalities¹⁹.

1.a.2. State Shared Revenues

This model is mostly used all over the world. For example, in France there’s a system in which under the name of common funds, taxes are collected centrally and partly distributed to other state authorities such as municipalities. The various criteria used to distribute these shares to the municipalities are the population, geographical situation and local development, the financial state of the municipality, touristic characteristics and some other factors²⁰. In TRNC, population is

¹² DPT, *Yerel Yönetimler*, (Ankara: Sekizinci Beş Yıllık Kalkınma Planı Özel İhtisas Komisyonu Raporu, 2001), pp. 44-52.

¹³ Bilal Eryılmaz, ‘Belediye Hizmetlerinin Yürütülmesinde Alternatif Yöntemler’, *Kamu Yönetimi I. Ulusal İdare Hukuku Kongresi*, 1-4 Mayıs, Ankara, 1990.

¹⁴ Enis Yeter, ‘Yerel Yönetimlerin Ekonomik İşlevleri’, Toplantıda Yapılan Konuşma, *Türk Belediyecilik Derneği – Konrad Adenauer Vakfı*, Ankara, 1993, p. 57.

¹⁵ Belediye Başkanlığı, *Genel İş ve Yürütme Teftiş Rehberi 1995*, (Ankara: Mahalli İdareler Genel Müdürlüğü Yayınları, 1995), pp. 159-160.

¹⁶ Mahalli İdareler Genel Müdürlüğü, *İnceleme-Araştırma Raporları*, (Ankara: Mahalli İdareler Genel Müdürlüğü Yayınları, 1995) pp. 60-61.

¹⁷ Halil Ünlü, *Yerel Yönetimler Arası İşbirliği*, (İstanbul : TC. Başbakanlık Toplu Konut İdaresi Başkanlığı, 1993), p. 22.

¹⁸ Erol İmre, *Türkiye’de Yap-İşlet-Devret Modeli; Yasal Çatısı, Uygulanması*, (Yüksek Denetleme Kurulu, 10-11,01,2001).

¹⁹ Cander Hamza, ‘Belediyelerin Finansmanı Açısından İller Bankası’, *Yerel Yönetim ve Denetim*, C. 4, Sayı 11, Kasım 1999, p. 23,33.

²⁰ İsa Sağbaş, ‘Türkiye’de Yerel Yönetim Harcamaları ve Ölçek Ekonomileri’, *Maliye Dergisi*, Maliye Bakanlığı, Araştırma Planlama ve Koordinasyon Kurulu Başkanlığı, Sayı: 143, Mayıs-Ağustos 2003, Ankara, p. 27.

the sole criterion used to distribute these shares to the municipalities. Such that, specified percentage (6 %) of local state revenues is distributed to Turkish Cypriot municipalities according to their stable population. Naturally, the reflection of these shares will run parallel with the total amount of the state revenue²¹.

1.a.3. State Succour

Almost in all the countries state aid to municipalities can be observed. These succours can acquire a different character due to their reasons and kinds. Those that has no specific reason is called 'General Succours' while the ones with specific reason is called 'Special Succours'. Another state aid to municipalities is to postpone and/or delete their debts to the state's banks. There are basically economical and social reasons for the state succour to the municipalities²². However, the basic state criteria applied are the situation of the development, the incomes of the municipalities, the geographical situation of the area and etc. In Turkey state aid to municipalities depends on different funds such the municipality fund, the fund of oil consumption, local management fund etc^{23 24}.

1.a.4. Loaning

Municipalities have various ways of borrowing. These are mainly state banks granting loans with low interest rates and long terms; private banks; and municipal bonds issued²⁵. In addition, they can apply for outsourcing by the way of treasury guarantee and/or endorsed²⁶.

1.b. International Financial Sources

The municipalities (itself or by means of the state) can also apply for international financial sources in order to perform their basic and modern functions. The following foundations and institutions can be listed as the most important international financial sources.

1.b.1. United Nations Development Program (UNDP)

UNDP is the UN's global development network, an organization advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. It is on the ground in 166 countries, working with them on their own solutions to global and national development challenges. UNDP's network links and coordinates global and national efforts to reach the Millennium Development Goals. The focus of UNDP is helping countries build and share solutions to the challenges of: democratic governance, poverty reduction, crisis prevention and recovery, energy and environment, HIV/AIDS²⁷. In the light of these challenges, UNDP finances and coordinates municipal investment projects in different countries such as Kosovo²⁸, Albania²⁹ and Turkey³⁰.

²¹ Halil Nadaroğlu, *Mahalli İdareler*, 5. Baskı, (İstanbul: Beta Yayınları, 1994), p. 88.

²² Ruşen Keleş, *Yerinden Yönetim ve Siyaset*, (İstanbul: Cem/Kültür Yayınları, 1994), pp. 306-307.

²³ Osman Pehlivan, *Kamu Maliyesine Giriş*, (Trabzon, 1994), pp. 246-247.

²⁴ İ. Güneş, 'Belediyelerin Gelir Kaynakları', *Yerel Yönetimler Dersliği*, <http://idari.cu.edu.tr/igunes/yerel/bel-9.htm> (November 10,2003)

²⁵ Frederick S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, Fifth Ed., (Addison Wesley, 1998), p. 149.

²⁶ Ayşegül Yakar Önal, 'Türkiye'deki Yerel Yönetimlerin Borçlanma Süreci:1980-2000', <http://www.marmara.edu.tr/maliyesempozyumu/tebligler/7-3.doc>, (November 16, 2003)

²⁷ <http://www.undp.org/about/>, February 12, 2005.

²⁸ <http://www.kosovo.undp.org/Projects/TAM/tam.htm>, February 12, 2005.

²⁹ UNDP, (ALB/01/004) *Local Governance Programme*, <http://www.undp.org/al/?projects>, 4 (November 16, 2003).

³⁰ UNDP, *Turkey: Implementing Local Agendas 21 in Turkey (2nd Phase)*, <http://www.undp.org/capacity21/europe/turkey.html> (November 16, 2003).

1.b.2. Islamic Development Bank

Islamic Development Bank (IDB) Group, a multilateral development financing institution, established in 1975 to foster social and economic development of its member and Muslim communities world-wide³¹ worldwide based on the principles of shari'ah (i.e. Islamic jurisprudence)³². In this context Islamic Development Bank consider municipal projects as inevitable for the development of countries and support them. For instance, the Islamic Development Bank and UNDP signed a US\$ 5 million Memorandum of Understanding in support to Palestinian municipalities and village councils³⁴.

1.b.3. World Bank

The World Bank Group's mission is to fight poverty and improve the living standards of people in the developing world³⁵. It is a development Bank that provides loans, policy advice, technical assistance and knowledge sharing services to low and middle income countries to reduce poverty. The Bank promotes growth to create jobs and to empower poor people to take advantage of these opportunities³⁶. By this way, it supports the municipality projects. For example, The World Bank today approved a \$28.7 million International Development Association (IDA) interest-free credit to strengthen financial and environmental management in one third of rural municipalities in Nicaragua³⁷.

1.b.4. European Union (EU)

European Union, through Structural Funds and European Investment Bank (EIB), directly or indirectly finances municipal projects in member, candidate and Euro-Mediterranean Partnership countries³⁸ ³⁹. Before all else accession candidate countries, under the authority of Council of European Municipalities and Regions, can apply for the instrument like New Phare, ISPA and SAPARD in order to finance their municipal projects⁴⁰. On the other hand, the task of the EIB, the European Union's financing institution, is to contribute towards the integration, balanced development and economic and social cohesion of the Member Countries. To this end, it raises on the markets substantial volumes of funds, which it directs on the most favourable terms towards financing capital projects according with the objectives of the Union. Outside the Union the EIB implements the financial components of agreements concluded under European development aid and cooperation policies⁴¹. In this context, the EIB supports capital investment including municipal projects in Central and Eastern European countries, in countries of the Euro-Mediterranean Partnership, in Asia and Latin America and in South Africa. For this reason, it can give credit to the countries, which are not member of the union. For example, more recently

³¹ <http://www.isdb.org/>, February 12, 2005.

³² Rıdvan Karluk, *Uluslararası Ekonomik, Mali ve Siyasal Kuruluşlar*, 4. Baskı, (Ankara: Turhan Kitabevi, 1993), p. 93.

³³ http://www.isdb.org/english_docs/idb_home/faq/q_ans.htm, February 12, 2005.

³⁴ http://www.papp.undp.org/undp_papp/pr/idb03.htm, February 12, 2005.

³⁵ İlker Parasız, *Uluslararası Para Sistemi*, (Bursa: Ezgi Kitabevi, 1996), pp. 86-87.

³⁶ <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,pagePK:50004410~piPK:36602~theSitePK:29708,00.html>, February 12, 2005.

³⁷ <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,contentMDK:20015619~menuPK:34466~pagePK:64003015~piPK:64003012~theSitePK:4607,00.html>, February 12, 2005.

³⁸ Rıdvan Karluk, *Avrupa Birliği ve Türkiye*, Yedinci Baskı, (İstanbul: Beta Yay., 2003), pp. 222, 482-488.

³⁹ European Commission, *European Union Assistance For Employment and Human Resources*, (Belgium, 2000).

⁴⁰ <http://www.ccre.org/docs/est/chap1.html>, November 17, 2003.

⁴¹ <http://www.eib.org/about/>, February 12, 2005.

(2002-2003), the Bank advanced a loan for the establishment of Turkey's first major gas storage facility and for water sector works in medium-sized Turkish municipalities, located primarily in eastern Turkey (Central or Eastern Anatolia)⁴². Another example is the agreement made between Turkey and EIB on 4th July of 2002. Such that EIB provided a credit of 40 million Euros, which is 25 years term to the usage of municipality water and canalization systems in Turkey⁴³.

As it is explained in section 2.d EU is very important potential financial source for municipalities in TRNC. In order to promote a comprehensive settlement of the Cyprus problem the European Commission proposed a package of measures, which aims, at promoting economic development of the northern part of Cyprus and bringing it closer to the EU. Naturally, the backbone of this package has been devoted to municipalities. TRNC's full EU membership will make it possible for Turkish Cypriot municipalities to apply for all relevant EU sources just like their counterparts in other EU member countries.

2. The Financial Sources of Municipalities in TRNC

Just like in other parts of the world, local governments of TRNC that are mainly municipalities are supposed to perform the contemporary functions of nature protection and conservation, public transport, the planning and placing of major transport facilities consisting of number of maintenance and construction functions connected with the road system, social services such as the running of kindergartens and day nurseries, care of the elderly and administration of social benefits, culture and regional economic development. The local governments and the municipalities are legal persons, which are voted by the people every four years. Currently, there are 28 municipalities, seven of which are city municipality while the rest is considered as rural municipalities. Another statement of fact, 5 of these municipalities is district municipality^{44 45}.

There is no doubt that performing contemporary municipal functions depend on financial capabilities of municipalities. Table 1 shows the revenues and expenditures of the municipalities in T.R.N.C. for the years between 1997 and 2002. The most noticeable data is the proportion of total revenues to Gross National Product (GNP), which fluctuates between %2 and %3 percent.

Table 1.

Revenues and Expenditures of the T.R.N.C. Municipalities (1997-2002)

	1997	1998	1999	2000	2001	2002
GNP (Current prices million TL)	117683403,8	233660805,3	407069775,4	651380055,0	1070424473,0	1418703263,6
Municipalities' Total Revenues (Million TL)	3447519,4	6717582,2	12079989,4	20092439,0	30084099,2	41273984,1
Municipalities' Total Expenditures (Million TL)	3113199,4	6772308,2	12066288,7	19765337,6	28998567	41487837,2

⁴² http://www.eib.org/Attachments/country/turkey_en.pdf, February 12, 2005.

⁴³ Hazine Müsteşarlığı, *Stand-By Düzenlemesi Aylık Rapor*, TC Başbakanlık Hazine Müsteşarlığı Dış Ekonomik İlişkiler Genel Müdürlüğü IMF ile İlişkiler Dairesi, Temmuz- Ağustos 2002.

⁴⁴ Gülev Sival, 'KKTC ve Yerel Yönetimler', *Çağdaş Kentler ve Yerel Yönetimler Sempozyumu*, 6-8 Şubat, Cilt 2, KTMMOB Lefkoşa, Kıbrıs, 2002, pp. 220-227.

⁴⁵ D. Dana Kemal, 'Mülki Yönetim', *Çağdaş Kentler ve Yerel Yönetimler Sempozyumu*, Cilt 1, 6-8 Şubat, KTMMOB Lefkoşa, Kıbrıs, 2002, pp. 136-138.

Municipalities' Total Revenues/ GNP (%)	2,9	2,9	3,0	3,1	2,8	2,9
Municipalities' Total Expenditures/ GNP (%)	2,6	2,9	3,0	3,0	2,7	2,9

Source: SPO, 2003 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 439-442; SPO, 2004 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 420-422; SPO, *Economic and Social Indicators 2003*, (Nicosia: T.R.N.C. State Planning Organisation Follow Up and Coordination Department, 2004), pp. 2-3.

The revenues of municipalities in TRNC can be categorized under four headings. These are, equity, state shared revenues, debt and EU aid by the mediation of UNDP at the range preparation of membership for EU. As it is shown in Table 2 and Figure 1, the main source of revenues is state shared revenues. Secondly, equity income mainly consisting of income tax, immovable property tax, fees, share of participating road expenses, grants and other taxes is very close to the half of revenues. Finally, while its relative importance is decreasing; debt is the last remedial financial measure for municipalities in TRNC.

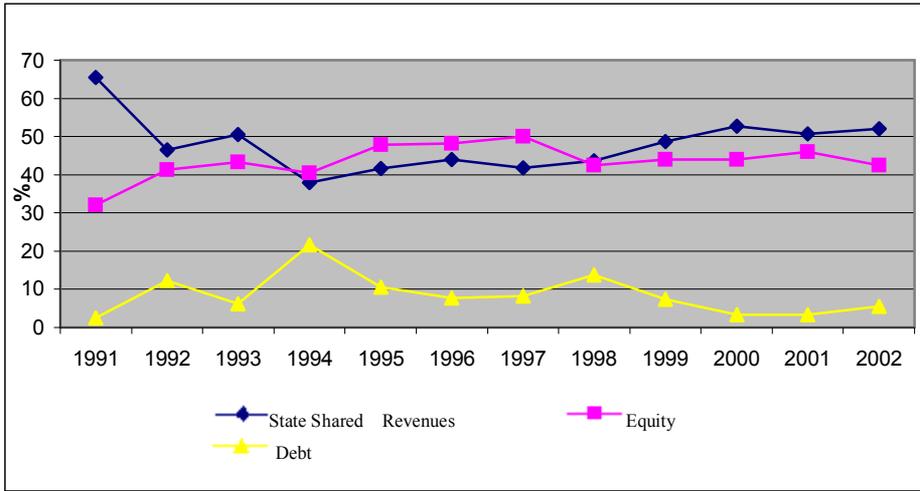
Table 2: The Revenue Shares of T.R.N.C. Municipalities (%) (1991-2002)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
State shared revenues	65,4	46,5	50,5	37,9	41,7	44	41,8	43,7	48,7	52,7	50,7	52
Equity	32,1	41,3	43,3	40,4	47,8	48,2	50	42,5	43,9	44	46	42,4
Debt	2,5	12,2	6,2	21,7	10,5	7,8	8,2	13,8	7,4	3,3	3,3	5,6

Source: SPO, 2003 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 439-442; SPO, 2004 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 420-422; SPO, 1996 *Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 1996), pp. 424-425, SPO, 1999 *Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 1998), pp. 452-453.

As it is clearly seen at Figure 1, the state shared revenues got over the main source after the year of 1997. This shows that the dependence of municipalities to state budget. On the other hand the proportion of debt especially after 1998 decreased in an important measurements.

Figure 1: Revenue Shares of T.R.N.C. Municipalities (%) (1991-2002)



Source: SPO, 2003 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 439-442; SPO, 2004 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 420-422; SPO, 1996 *Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 1996), pp. 424-425; SPO, 1999 *Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 1998), pp. 452-453.

Municipalities' expenditures in TRNC consist of the personnel expenditures, personnel-excluded expenditures, investments, transfers and payments of debts. At Table 3 and Figure 2, percentage shares of these elements are taking place.

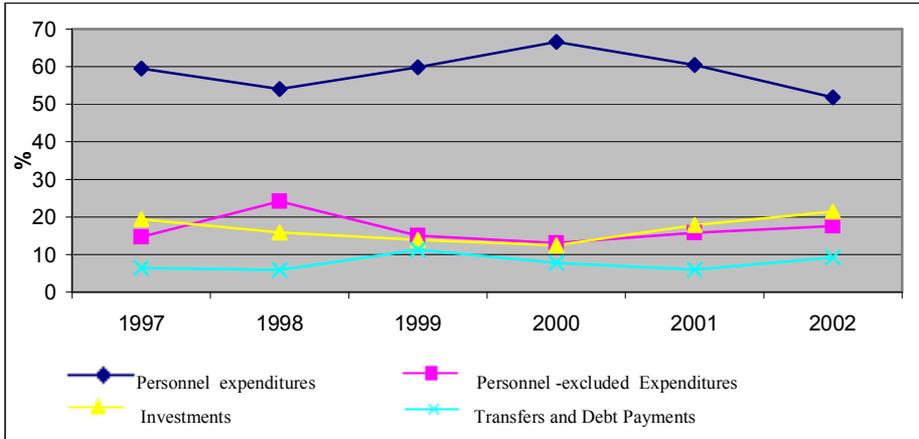
Table 3: Expenditure Shares of T.R.N.C. Municipalities (%) (1997-2002)

	1997	1998	1999	2000	2001	2002
Personnel Expenditures	59,5	54	59,8	66,6	60,4	51,8
Personnel-excluded expenditures	14,7	24,2	15	13,1	15,8	17,6
Investments	19,4	15,9	13,9	12,5	17,8	21,4
Transfers, Debt Payments	6,4	5,9	11,3	7,8	6	9,2

Source: SPO, 2003 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 439-442; SPO, 2004 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 420-422.

As it can be seen in the relevant Table and Figure, in the recent years the share of personnel expenditures goes down while the shares of investments, personnel-excluded expenditures and transfers/debt payments relatively increase.

Figure 2: Expenditure Shares of T.R.N.C. Municipalities (%) (1997-2002)



Source: SPO, 2003 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 439-442; SPO, 2004 *Transition Year Program*, (Nicosia: T.R.N.C. State Planning Organisation, 2003), pp. 420-422

When the Municipalities' expenditures for the year of 2001 shown at Table 3 are examined, it is noticed that the equity of the Municipalities can only meet the 78 percent of personnel expenditures which are 60.40 percent of total expenditures while for the year of 2002, the share of expenditures falls down to %51.8 percent and equity responds to these expenditures with the proportion of %81.5. Analogically, for the year of 2002, the equity of Municipalities only met the 42 percent of total expenditures while the rest was covered by State shared revenues and debts. Consequently, proportion of investments to the revenues and expenditure remained around 21 percent. Unfortunately, this data reveals that the Municipalities in the TRNC cannot even meet their personnel expenditures without state shared revenues. Therefore, municipalities face serious financial handicaps in financing their investments. Even though municipalities get more state shared revenues than their equity, investments stay limited due to their blistered expenditure.

According to legal provisions in TRNC, allocation and utilization of municipal financial sources should be based on productivity and cost efficiency. Furthermore, all of the municipal services except publicly utilized services should be collected from the beneficiaries⁴⁶. In this framework the current sources of municipalities' income can be summarised as State shared revenues; incomes taken from the companies, organizations and revolving funds operated by the municipalities; the taxes, charges and fees; the incomes they gained through their struggles in law; state succour and aids of public organizations; all of the donations, grants and loans; the rents and sales of the real estates and properties; real estate taxes within the borders of the municipality; money and tax fines; and other incomes. After this summary of current municipal financial sources, the following potential financial sources that municipalities in TRNC can apply should be cited.

2.a. The Equity of the Municipalities

⁴⁶O. Şafaklı & E. Güray, 'Kuzey Kıbrıs Türk Cumhuriyeti (KKTC) Belediye Projelerinin Finansmanında Alternatif Kaynaklar', *Türk Belediyecilik Sempozyumu, Sağlıklı Modern Kentleşme (Uluslararası Katılımlı)*, 13-14 Aralık, Hacettepe Üniversitesi - Keçiören Belediyesi, Keçiören - Ankara, 2003.

The equity of the municipalities in TRNC are occupation tax, the permission of occupation fees, the fees taken from permission of founding business premises the tax of pedlars, cleaning and enlightening fees, dog fees, health tax, advertisement, the tax of entertainment and etc⁴⁷.

2.b. The State Shared Revenues

Currently, municipalities according to their population share the 6 percent of the State local incomes as the state shared revenues. The amount of state shared revenues allocated to municipalities are divided into twelve parts and paid every month before the 15th day. The municipalities have to use 1/6 part of these revenues for their infrastructural investments and show them in their budget. According to the draft of proposed law, State shared revenues are envisaged as 10 percent of local State incomes in order to increase municipal financial sources. As it can be seen in the relevant tables the State shared revenues are so important for the municipalities that they cannot undertake any project without it⁴⁸.

2.c. Loans

The municipalities have to take loans in order to finish their investments. Also through the law of municipalities the state should support the municipalities to reach favorable national and international sources for loaning.

2.d. The EU Aids

Another important potential source for the municipalities in TRNC is the EU aid. Specified amounts of EU aids to the South Cyprus are used for bi-communal projects directed by municipalities in both sides. In addition to this, 'goodwill package' before the UN Plan and EU aid pledged following Turkish Cypriots approval of a UN plan as detailed below can be referred.

Since 1977, Cyprus and the European Economic Community, have signed three protocols on financial and technical cooperation providing for a financial aid of a total amount of 136 million ECU. This aid includes loans, grants, special loans and contributions to risk capital formation. The total amount of the first two Financial Protocols (30 and 44 million ECU respectively) was used to finance infrastructure development projects in Cyprus such as the Sewerage Project of Nicosia Stage II, the Water Development and Supply Project of Vassilikos - Pentaskinos, the Dhekelia Power Project, the Southern Conveyor Project - Phase I and the Nicosia Master Plan - civil works and construction in Ledras / Onassagorou streets in Nicosia and Kyrenia avenue (in the Northern part of Nicosia). It should be noted that part of the resources of the above Financial Protocols were also used in joint projects, also beneficial to the Turkish Cypriot community. The third Financial Protocol of a total amount of 62 million ECU, which was signed in 1989, is being used for the financing of projects in the productive sectors in order to facilitate their adjustment to the new competitive conditions arising from the Cyprus - EC protocol for

⁴⁷ Ekrem Yurdakul , *Kıbrıs Türk Belediyeciliğinin Dünü ve Bugünü*, (Lefkoşa: Kıbrıs Türk Belediyeler Birliği, 2000), pp. 43-47.

⁴⁸ Ekrem Yurdakul, *Mülakat*, Kıbrıs Türk Belediyeler Birliği Genel Sekreteri, 4 Kasım 2003, Lefkoşa.

Customs Union. The risk capital revenues will be used for the creation of joint ventures with partners of EC countries⁴⁹.

In order to promote a comprehensive settlement of the Cyprus problem the European Commission proposed a package of measures which aims, at promoting economic development of the northern part of Cyprus and bringing it closer to the EU. This initiative responds to the request of the European Council of Copenhagen in December 2002, and consists of financial assistance worth €12 million and measures promoting trade between the northern part of Cyprus and the rest of the Union. The Commission proposed financial assistance for 2003 worth €12 million, of which €9 million is for economic development and €3 million for actions aimed at bringing the Turkish Cypriot community closer to the EU.

The assistance for economic development would be implemented in co-operation with the UN and would support: infrastructure projects for the main cities in the northern part (Nicosia, Famagusta, Kyrenia) focusing on wastewater, drinking water, sewage or rehabilitation issues; grant schemes for support to SMEs; and feasibility studies to prepare economic integration of the northern part of Cyprus with the EU after a political solution, including preparation of programmes for future participation in the EU structural policy. The Commission expressed her willingness to assist any further efforts in this context. It has repeatedly stated its strong support for a comprehensive settlement on the basis of the UN plan. In the event of a settlement, an additional amount of €206 million was foreseen for the period 2004-2006 to support the northern part of Cyprus⁵⁰. By its very nature, the goodwill package became off the agenda after the acceptance of the UN plan by Turkish Cypriots and Greek Cypriot rejection. The EU has pledged to release almost 260m euros (£170m) to Turkish Cypriots, following their approval of a UN plan to reunify the island. The money is aimed at ending the economic isolation of Northern Cyprus after years of sanctions⁵¹.

Conclusion and Recommendations

As a consequence of this study it's obvious that the municipalities in TRNC cannot manage to finance all of the essential contemporary functions. Most of them can hardly maintain to pay the salaries and wages of their personnel. Even in the financial budget of the two biggest municipalities in North Cyprus the personnel expenditures take the half of their total revenues. In other word, the largest part of the state shared revenues is unavoidably set aside for the personnel payments. When the other expenditures together with personel expenditure are considered, unsurprisingly insufficient financial sources appear in financing the contemporary municipal functions. Therefore, increasing the income of the municipalities is the remedial measure if municipalities in TRNC are to provide contemporary services. The following recommendations can be made in this regard.

- The share of 6 percent from the state local incomes should be increased to 10 percent as it is in Turkey.
- According to the law of the municipalities the state should supply financial aid to the municipalities. But it isn't used very common till today. Therefore the state should subsidize the municipal project such as substructure. Also there must be an optimal system for allocating state succour to feasible municipal projects fairly.
- State shared revenues should be divided not only according to the population but also the level of local development, sources of revenue, touristic characteristics, and the type of expenditures.

⁴⁹ http://www.cyprusisland.com/01_Information/internationalrelation.htm, February 19, 2005.

⁵⁰ <http://www.europaworld.org/week132/goodwillpackage6603.htm>, February 19, 2005.

⁵¹ <http://news.bbc.co.uk/1/hi/world/europe/3660171.stm>, February 19, 2005.

- The municipalities face great difficulties in getting into favorable debt from the banks. Therefore, state should take active role in order to support municipalities find national and international loans with long term and low interest. In this regard, the state authorities should implement the way of treasury guarantee and/or endorsed.
- A bank unique to municipalities should be founded in TRNC and/or Municipalities of TRNC should be given an opportunity to borrow from the 'Bank of Provinces' in Turkey.
- The formation of finance cooperatives among municipalities should be encouraged.
- The necessary legal and administrative structure should be developed for municipalities in order to issue bonds as a source of finance.
- The leasing alternative and the models of 'Build-Operate' or 'Build-Operate-Transfer' should be considered.
- Because of the international unrecognized identity of TRNC, municipalities can not directly apply for international sources explained above. The only source they can apply is EU funds utilized through UNDP in order to prepare Northern Part of Cyprus to EU acquis. However, municipalities face problems of technical and functional specialization in preparing concrete investment projects. Therefore, state authorities such as Ministry of Internal Affairs and Cyprus Turkish Municipalities Association should help municipalities in order to overcome these problems.