Rise of the Anatolian Tigers

Turkey Urbanization Review

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RISE OF THE **ANATOLIAN TIGERS**

Turkey's demographic and economic transformation has been one of the world's most dramatic, with urban growth and economic growth proceeding hand in hand. In the 1950s, despite concerted efforts to promote industrialization and the concentration of population in cities necessary to support it, Turkey still featured a largely agrarian economy with no more than 25 percent of its population in cities. But over the next five decades, starting in 1960, the share of industry in GDP rose from 18 percent to 27 percent and that of services from 26 percent to nearly 64 percent. These structural shifts and accompanying productivity gains paid dividends, as per capita GDP more than doubled from $6,000 in 1980 to $13,800 in 2013 [1]. Some 92 percent of Turkey's gross value added is now produced in cities, and the last decade has witnessed dramatic and consistent declines in poverty in parallel with a rise in most human development indicators. Cities today accommodate nearly 75 percent of the country's population and contribute much to its industrially competitive economy.

Turkey's first-generation urban agenda drove its economic and social progress. Early and substantial investments in urban settlement planning and transport infrastructure helped establish a sound settlement foothold and vital transportation network connecting Turkey's large land mass. This enabled a "system of cities" to take root over the second half of the last century. Over the last decade new firms increasingly moved toward dynamic secondary cities, capturing economic spillovers from Turkey's large primary cities, while taking advantage of lower land-rent values and labor costs. Meanwhile, Turkey's leading cities have been diversifying and innovating to remain competitive. Indeed, Turkey features a system of cities today that matches the rank-size distribution prediction of a country's cities. Its cities largely perform above average in achieving density, suggesting efficient land use and higher productivity. And informality in housing is well below what would be expected for a country that went through such a rapid demographic transformation.

Distinguishing Turkey from many other developing countries has been the pace, scale, and geographical diversity of its spatial and economic transformation. Perhaps more important has been its ability to harness the benefits of agglomeration economies that can accompany rural to urban migration. Policies in the 1980s promoting economic liberalization attracted the flow of new domestic and foreign private investment and new jobs that created a critical pull factor for rural migrants, enabling the convergence of production and consumption markets that promoted agglomeration economies in cities. A metropolitan municipality regime adopted in 1984 provided the administrative framework to manage fast-growing cities across their economic footprint. A permissive tenure regime granted legal status to squatters on urban public land and prompted both households and host municipalities to invest in their dwellings and neighborhood infrastructure respectively. And efforts to scale up housing supply through state brokering services triggered a private response that helped accelerate the expansion of housing stock. Added to all this, national programs to support the expansion of access to water, sanitation, and other basic municipal services helped fiscally constrained localities meet national service coverage targets through the use of matching grant subsidies.

1 Figures are cited in PPP-based GDP per capita in constant 2005 international dollars. At nominal GDP per capita in US Dollars the figures are $1,567 and $10,666 respectively.

While Turkey's achievements in harnessing urbanization as a driver of economic and social progress are impressive, it faces pressing challenges in building livable and sustainable cities for a high income future. Among these challenges are improving coordination and planning to avoid inefficient urban sprawl, devising urban renewal policies that leverage commercial interest for wider social gains, containing the environmental footprint of growing cities, and creating an urban culture that facilitates social inclusion.

Fast-growing secondary cities bring added challenges that define Turkey's second-generation urban agenda. With an amendment to the Metropolitan Municipality Law in December 2012, 14 municipalities—several of the Anatolian Tigers and other cities in the interior—were elevated to metropolitan status, bringing the total to 30 (See Figure1). Each faces the challenges of managing a city with a larger footprint, with expanded planning responsibilities, with greater delegated functions, and with new corporatized water utilities and urban transport systems to plan, upgrade, and expand across that larger footprint. New and differentiated service standards will need to be established across both dense urban built-up areas and small villages and rural settlements within the newly-expanded Metropolitan Municipality administrative area. These developments make *planning, connecting,* and *financing* important policy principles for Turkey's second-generation urban development agenda. This policy brief frames a second-generation urban development agenda to support Turkey's transition from upper middle income to high income.

Planning, connecting and financing cities

Planning for the new metropolitan municipalities is now a top policy priority. Routinely collecting, analyzing, and monitoring urban data can inform national and local policymaking. But longer planning horizons have to anticipate future urban growth—of both populations and land—in environmentally, economically, and socially sustainable ways. Policy and institutional collaboration will have to be advanced across and within different tiers of government—and with civil society and the private sector. And institutional and planning tools will have to be more advanced and sophisticated to equip Turkish cities to value and manage urban land, deliver larger and more complex infrastructure systems, and coordinate land use planning with infrastructure delivery across the entire metropolitan footprint.

Connecting housing markets with job markets and increasing the mobility of urban residents is another policy priority. While most cities in Turkey's system of cities benefit from connective air, road, and rail networks, the challenge now is to manage connections within cities. As expected in any country experiencing economic growth, motorization rates are rising dramatically. Private taxis and buses are oper-

Figure 1: Turkey's Metropolitan Municipalities

Note: Purple indicates new metropolitan municipalities

ated in most of Turkey's cities today, an important market response to growing demand. But connecting people to jobs—and to public areas, institutions, and facilities—cannot be left to private vehicles or private providers alone. An additional 14 metropolitan municipalities need systematic public transit routing systems and more effective traffic management systems to accommodate growing city populations and mitigate congestion. Effective urban transport systems also need to factor in how low-income communities in remote parts of the city will get to work—and how women, who are more reliant on public transit, can have safe, clean, and affordable transit options.

Financing and capital investment planning, consistent with territorial plans, is a third policy priority, essential for sustaining urban growth. Central government transfers have been robust in view of local administration expenditure assignments, particularly in recent years. But Turkey's second-generation urban development agenda requires the financing of larger scale investments in growing cities. For mass transit systems, wastewater treatment facilities, and sanitary landfills meeting higher environmental standards, Turkey's cities will need to improve the planning of capital investments and devote more concerted efforts to preparing bankable, larger-scale infrastructure projects that promote sustainability.

ECONOMIC AND SOCIAL PROGRESS UNDER THE FIRST-GENERATION URBAN AGENDA

For developing countries at incipient and intermediate stages of urbanization, Turkey offers important lessons. Advancing from incipient urbanization in the 1950s to advanced urbanization today, Turkey provides a glimpse for many developing countries of how this process took place, how agglomeration economies were harnessed, and how pressing housing needs were met and infrastructure services delivered. At the core were policy and institutional adjustments to manage urbanization.

Turkey's early investment in settlement planning set a foundation for the future of Turkey's cities. During the Republic Period (1923–1950) as nationwide industrialization and urbanization took firm root beyond Istanbul, policymakers promoted the planning and development of settlement areas. Turkey's capital city of Ankara, in the interior of the country without the typical endowments that would attract people and firms, is a prime example of a planned city. A metropolis of 4.5 million people today, Ankara owes its modern-day existence to such planning. Across Anatolia, planners in the early days selected small Anatolian cities for the development of industrial enterprise at a time when the state was a majority owner of commercial activity. State manufacturing investments, public enterprises, and transport investments were designed and executed to expand development eastward. The coastal Marmara region's population actually declined during this period in favor of the Anatolian hinterland. This spatial transformation was spearheaded by state intervention, with 23 settlements planned over a decade starting in 1923.

Connective infrastructure was another hallmark of Turkey's young system of cities, enabling the flow of goods and skills that fuel Turkey's urban economies. Starting in the early days of the Republic, connecting cities with an efficient railway system met the political objective of linking settlements across the country to promote national cohesion. But improving accessibility and connectivity also provided a strong economic foundation for cities. Turkey's rail network and later its highly developed road network provided the economic backbone to support vibrant local economies, even in the interior.

A further key action was to ensure that cities were adequately financed. As many developing countries have experienced, it is one thing to plan a city and devolve functions to local governments. It is quite another to ensure they have adequate financing to fulfill those functions and build the needed infrastructure. Turkish policymakers were keenly aware of this need. And

with private banks unable or unwilling to provide long-term finance for infrastructure, Iller Bank, the Bank of Provinces/Municipalities, was founded in 1933. Its mandate was to provide the long-term financing for newly prepared municipal development plans and infrastructure services. To this day, Iller Bank remains critical in the planning, financing, and development of Turkey's cities.

A system of cities for national growth

Over the last 60 years, Turkey has witnessed the world's second fastest pace of urban growth. Only the Republic of Korea grew faster, while India still lags far behind, and China, with a major push by its policymakers in the 1990s, is now surging. In 2012, Turkish cities hosted more than 57 million people, nearly 75 percent of the national population, up from 64 percent in 2000. Turkey's urban population has in a decade grown three times faster than its overall population, with an average rate of urbanization since the 1980s well over 4 percent (See Figure 2).

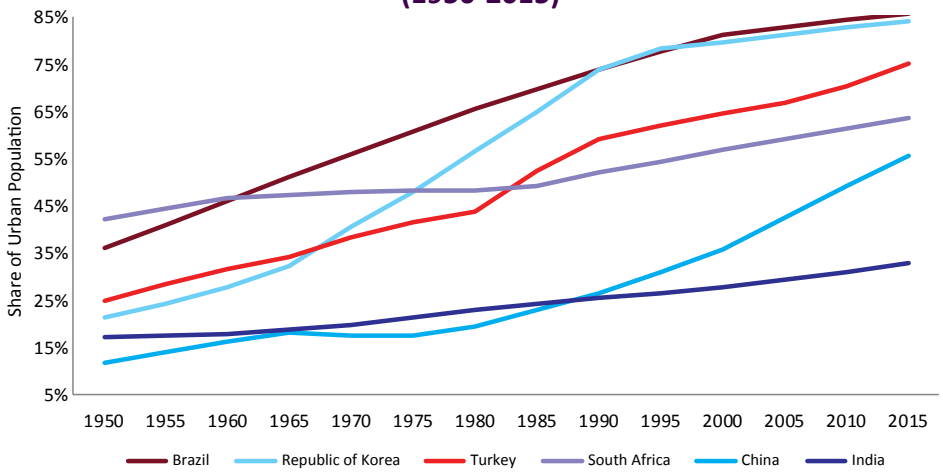
City growth has been dominated by Turkey's first 16 metropolitan municipalities. They account for about 60 percent of urban dwellers and have grown three times faster than other municipalities. They are expected to double in population size over the next 15 years. Home to 11 million people, Istanbul dominates the urban landscape, with 21 percent of the urban population. Six other agglomerations, with between 1 and 5 million people, host another 24 percent.

Critical planning framework for infrastructure and service delivery

Turkey's planning system evolved during the transition years of the 1960s and 1970s. It was during these two decades that full-fledged urban planning took hold. In 1966 an Istanbul Master Plan Office was established and the city's Masterplan completed, followed shortly thereafter by Izmir and Ankara in 1968 and 1969 respectively. Large public works projects on a monumental scale were undertaken across numerous cities. But during the late 1970s, the state's role as a technocratic agent of development shifted from an active interventionist mode to more of an enabler of the private sector. And the private sector had become the main investor in manufacturing.

By the 1980s, as rural in-migration was peaking, urban planning responsibilities were devolved to local authorities, and planning regulations were relaxed to accommodate rapid urbanization and changes in land use. With the emergence of the private sector in this period of economic liberalization, development plans lost their dominant role and were no longer directly led by the central government. This was a period of enormous significance for urbanization, as the largest shift in population from rural to urban settlements took place in the 1980s. Development Law No. 3194, enacted in 1985, delegated more planning functions to local governments as the state turned to regional planning focused on economic zones and leveraging

Figure 2: Growth in share of urban population in Turkey and comparator countries (1950-2015)



Source: World Development Indicators (WDI), World Bank (WB) staff calculations

Box 1: The Rise of the Anatolian Tigers

Turkey's system of cities is evolving, particularly over the last decade, giving rise to the "Anatolian Tigers." The Tigers have increased their share of urban population in the last 10 years, and they continue to experience modest population growth. Meanwhile, the shares of Turkey's largest agglomerations—Istanbul, Ankara, and Izmir—have declined.

This demographic growth among the Anatolian Tigers has contributed to an equally impressive economic expansion. Turkey's secondary cities are not only growing faster demographically—they are also growing faster economically. Istanbul, Ankara, Izmir, and Antalya are well ahead of other Turkish cities in gross value added per capita, but many of the Tigers have been catching up. Led by provincial cities like Gaziantep, Samsun, Malatya, and Trabzon, which recorded some of the fastest growth in gross value added per capita during 2004–11. This is largely explained by market forces, as Turkey's secondary cities benefit from economic spillovers. Rising land-rent values and labor costs in its primary cities force firms to find lower cost alternatives. And connections to external markets have helped cities like Gaziantep position themselves as gateways to regional markets. Factoring in the change in firm location and population movements, Turkey looks today much more spatially distributed than it did only a decade ago. Istanbul is no longer a mountain among molehills, but a city among many that are attracting firms (Figure 3).

Figure 3: Spatial distribution of firms established between 2007 and 2012

Source: The Union of Chambers and Commodity Exchanges of Turkey (TOBB) Survey Data, 2012; WB staff calculations.

transjurisdictional economic endowments. It was at this time, particularly in the early 1980s that metropolitan cities turned to an "incremental planning" approach.

Metropolitan municipality law of 1984

Turkey's metropolitan municipality law was a game-changer for managing cities. It was precisely during the period of economic liberalization and urbanization surge in the first half of the 1980s that the Government adopted a new municipal administration regime. Not only in Istanbul, Turkey's megacity, but also in newly emerging urban conurbations, more effective metropolitan management was needed across a broader footprint. Turkey's landmark legislation—the Metropolitan Municipality Law passed in 1984—provided the legal and administrative basis for managing cities at a metropolitan scale. Sixteen cities were elevated as metropolitan municipalities between 1984 and 2012, and in December 2012, an amendment to the Metropolitan Municipality Law created 14 more, for a total of 30. Many of the law's key provisions enable metropolitan municipalities to formulate policies and support linkages across a city's administrative boundaries and in line with its economic footprint. For instance, the Law enabled metropolitan municipalities to undertake their own higher scale territorial planning (1:50,000 scale) that provides a strategic framework to plan city development. Until such time, these plans were prepared by the central government. Urban transport planning and investment functions were also consolidated, enabling planners to ensure access and mobility across a metropolitan municipality's entire footprint.

Competitive cities, thanks to the metropolitan effect

Turkey's metropolitan municipality regime clearly promotes economic growth. Every city's desire is to remain vibrant as its economy evolves with the ability to attract and retain firms and human capital and to gravitate to

Box 2: Permissive policy toward informal settlements

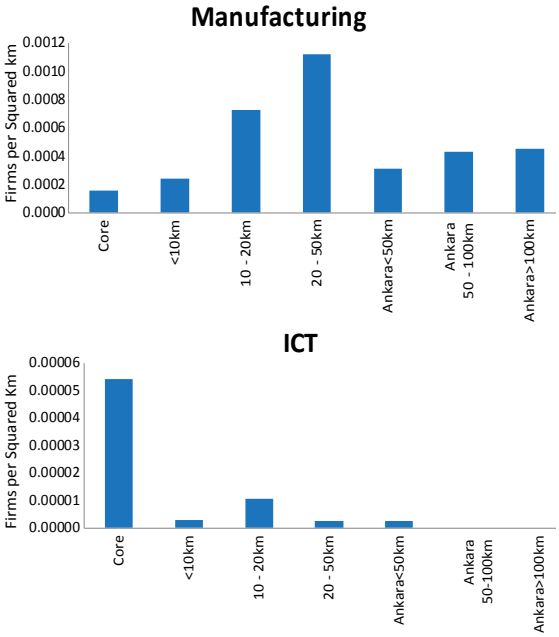
Turkey experienced a major surge of rural migrants to cities in the 1980s, rapidly expanding informal urban settlements. Many cities could not accommodate this growth, and the influx of migrants took place so quickly that these informal settlements became known as gecekondu, "houses erected overnight." Estimates of informal housing in major cities during that period range between 30 percent–60 percent of the urban housing stock. Most in-migration was concentrated in large cities along the coast (Istanbul and Izmir) and in Ankara.

During the period from 1949-1990, the government issued eight amnesties legalizing irregular residences. The prevailing attitude of the government, and tacitly accepted by the public, was the notion that all Turks have a right to some form of basic housing. The amnesties gave residents either outright legal title to the land or the temporary right to use it, removing the fear of eviction. With their tenure secure, residents of informal areas began to invest in their housing, in some cases adding rooms later rented to new migrants, and municipalities connected them to vital infrastructure services. Turkey was also fortunate that the vast majority of land where the informal settlements took shape was public. That may have foreclosed criticisms about property rights from private land owners.

higher value-added activity. The Metropolitan Municipality Law provided a critical planning framework that has a direct impact on infrastructure provision and coordination in the delivery of services. Used effectively, its provisions can help a city administration promote mobility across a metropolitan area and ensure connectivity for residents and prospective businesses. It can thus influence economic performance and city competitiveness, through a "metropolitan effect." The metropolitan regime can disproportionately attract firms and generate agglomeration economies, illustrated by the heavy concentration of firms in Turkey's metropolitan municipalities.

The metropolitan effect not only attracts and retains firms, but also promotes the sorting of economic activity across a system of cities. A snapshot of firm locations within concentric areas of Turkish cities demonstrates the consistency of Turkish city performance with economic principles (See Figure 4). As land rent values and labor costs rise, manufacturing activities begin to hollow out from a city's core and compete by operating at the city's periphery or relocating to secondary cities. New, higher value-added activities—relying more on knowhow and human capital than manufacturing space—locate close to a city core or central business district where proximity to universities, other businesses, and knowledge-generators are essential to their operations.

Figure 4: Firm location across city area: Manufacturing and ICT firm comparison

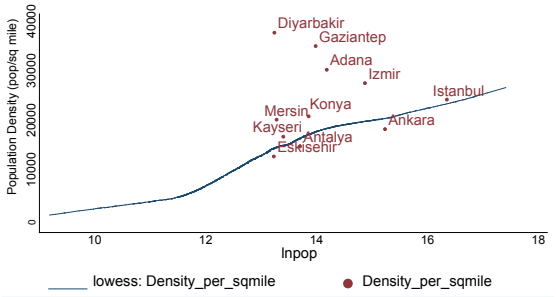


Source: TOBB and ABPRS, TurkStat, WB staff calculations.

Urban form has a determining effect on a city's economic viability and sustainability. Urban density can, in principle, yield multiple economic benefits. It can lower the cost of infrastructure provision—or, put another way, increase

the number of beneficiaries per unit cost of infrastructure. It can reduce carbon emissions by making mass-transit more feasible as an alternative to private vehicles. And it can maximize the efficiency of land use, reducing land costs per built area. That translates into lower housing costs as well as higher productivity and tax value of land assets. Cities reliant on property tax as their main source of revenue have a built-in incentive to make efficient use of their land, and they typically promote density in their development planning. Turkey's high degree of density suggests an economically efficient pattern of urbanization (See Figure 5).

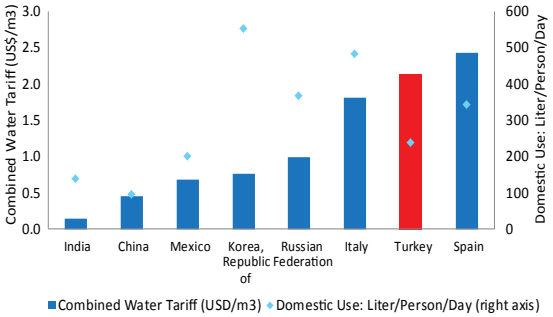
Figure 5: Turkey's cities have high density[2]



Source: Data from Demographia (2008) and Urbanization Review team calculations

Turkey's Metropolitan Municipality Law also promoted more efficient management of water and sanitation services. Faced with growing cities, Turkey needed to find an institutional model that would achieve greater scale efficiency, and it looked for a solution at the metropolitan scale. In 1981, Istanbul initiated the first successful corporatization of water and sanitation services. That helped it more effectively manage and monitor those services, particularly by removing such expenditure outlays from its municipal books and shifting them to ISKI, Istanbul's corporatized water utility. This arrangement helped ensure cost recovery in pricing water, sanitation, and wastewater treatment services and avoid cross-subsidies from other municipal revenue sources. Istanbul's successful corporatization was formally adopted within the Metropolitan Municipality Law in 1984, requiring all of Turkey's metropolitan municipalities to establish a corporatized water utility and to operate them at arm's length on the principles and practices of cost recovery. Turkey now compares very favorably with peer countries in its market pricing of water and sanitation services, as well as its cost recovery, discouraging waste and promoting water conservation. Market pricing has also helped Turkey to attract the private sector to the provision of water and sanitation services (See Figure 6).

Figure 6: Water supply service pricing and domestic consumption per capita in Turkey and comparator countries, 2011



Source: Global Water Intelligence (GWI) Market Report, vol. 12, Issue 9, September 2011

Supporting the system of cities

Connective infrastructure was a hallmark of Turkey's young system of cities, enabling the flow of goods and skills that fuel Turkey's urban economies. Starting in the early days of the Republic, connecting cities with an efficient railway system had not only the political objective of linking settlements across the country in an effort to promote national cohesion but also the motive of improving accessibility and connectivity that provided a strong economic foundation for Turkey's cities. Turkey's rail network and later its highly developed road network provided the economic backbone to support vibrant local economies, even in the interior.

Social housing and the TOKI model

The mid to late 1980s were an important period for establishing other key institutions to manage rapid urbanization, which had reached its peak. The first measure was the passage of the Housing Development and Public Partici-

2 LOWESS (Locally Weighted Scatterplot Smoothing) plotting was used to find the non-linear relationship between population and density. LOWESS enables robust locally-weighted time series and scatter plot smoothing for both equi-spaced and non-equi-spaced data. Population and density data are drawn from 1500 cities globally. For any given population level, the trend line indicates the average or expected density of the city. Cities above the trend line have densities above the international average for their population size, while cities below the line have densities below the international average.

pation Law (#2985) in 1984. This law provided one of the first formal state interventions in the housing policy arena to that point. The law recognized the urgency of responding to rapid urbanization, which was peaking, provisioning for financing of low income housing at nominal rates with long-term payback periods. The Law also called for the establishment of a Housing Agency, which came to pass in 1990 when the Housing Development Administration, otherwise known as TOKI, was established.

The entry of TOKI to the housing market was significant. Founded in 1990, it created a "wholesaling" mechanism for the large-scale supply of housing for low and middle income market segments during Turkey's most pressing period of urbanization. It was never to replace Turkey's predominantly private housing model with public provision. Instead, it was to create an enabling environment for the private sector to scale up housing supply. This was largely accomplished through TOKI's brokering role, which cut red-tape, streamlined administrative procedures into an effective one-stop-shop, facilitated the assembly of public land at a scale sufficient for large scale housing development, and mobilized housing finance. This, in turn, created investment opportunities for large contractors and real estate developers, and scaled up a traditional cooperative housing model that could not keep pace with increasing housing demand.

Increasing housing supply enabled developers to go down market. To do so, TOKI leveraged public land which factored in as a subsidy to make housing affordable to low income groups. Provisioning for low income housing was based on limited space (often around 50-80 m² units) housing, which would have been less attractive for developers to build without the state's intervention.

Expansion in housing finance also improved affordability of housing. The problem of accessing long-term mortgage finance had been a persistent problem over the first half of the 2000s. In the absence of long-term financing, many new housing developments were beyond the reach of even middle income households. This has meant that accessing long term financing for housing has been a real constraint on demand, and possibly a factor in holding back the housing supply market overall. Still in its early stages, Turkey's mortgage market has played an important role in making housing more affordable. On the demand side, mortgage-based finance was expanded, particularly over the last decade, with extended maturities that allowed it to go down-market. Shorter maturities (less than 3 years and 3-5 years) have been replaced overtime by longer ones (5-10 years and 15-20 years).

Interventions to support less fiscally equipped municipalities

Interventions at the national government level in cases of market failure have been a hallmark of Turkey's approach to support its system of cities. Beyond the government's foray into housing policy in the 1990s, basic urban services were also shored up. Municipalities, with their own resources and those from the central government, began over time to regularize informal settlements, including the provision of road infrastructure, as well as network water, sanitation, and wastewater treatment to become permanent features of the urban landscape in many cities. Iller Bank provided financing to larger cities for infrastructure network expansion as they grew, enabling many to keep pace with rapid urbanization. But there were also acknowledged gaps in service coverage, particularly among small towns and villages that generally had a very low economic base and insufficient revenue to service debt. In response, the government initiated special programs to ensure that water, sanitation, and solid waste services were adequate in these fiscally dependent areas.

For small towns and villages, Ministry of Development programs, such as KÖYDES and SUKAP, filled a critical gap. KÖYDES, or the small villages water and sanitation project, spanned in its first phase over 2005-12. The aim of was to ensure broad-based access to water and sanita-

tion services across all of Turkey's settlements, particularly small villages in remote rural areas. A companion program, SUKAP, was established in 2011. Through Iller Bank, it has reached millions in only three years. It involves a 50 percent subsidy to municipalities to encourage them to borrow from Iller Bank and invest in critical infrastructure services. These programs, together with a national system that provides financing for municipalities through Iller Bank and commercial banks, have contributed to raising Turkey's access to water supply to nearly universal coverage by 2011, with access to sanitation services elevated to 91 percent.

PURSUING TURKEY'S SECOND-GENERATION URBAN AGENDA

Turkish cities today offer a range of attractive features that make many of them both livable and a pleasure to visit. They have extensive cultural heritage endowments, and many have modern award-winning museums. They generally feature clean and well-maintained streets. Solid waste collection is carried out daily in many of the larger cities. Taxi and public buses are frequently available and affordable. And there is virtually no evidence of slums of the type found in Latin America and South Asia. But they still face a host of long-term sustainability challenges, such as improving transport planning and systems, broadening the benefits of urbanization to all city residents, and safeguarding against sprawl and inefficient, uncontrolled development. Together, these key challenges make up Turkey's second-generation agenda for sustainable urban development.

Planning

With a few exceptions, Turkish cities have effectively developed without plans over the last two decades. Turkish planning legislation allows for maximum planning flexibility by provisioning for amendment plans – a feature that is very rare in planning legislation of developed countries. Many of the concerted planning efforts before the 1980s have diminished in substance and application. The impetus to be flexible is understandable during a period of rapid urbanization. However, a 2008 Council of Europe report indicates that in a single city as many as 250 amendment plans may be approved in a single year. What this means is that there is maximum uncertainty about the planned expansion of a city, how to link transport and other strategically important infrastructure to new residential and commercial needs and locations, which contributes in some instances to a mismatch of infrastructure services with development patterns – a very costly and inefficient, not to mention unsustainable, future for cities.

Turkey's development planning and implementation programs do not sufficiently emphasize public consultation. Turkey's rapid urbanization was, metaphorically, the tide that lifted all boats in economic terms, improving the lives of urban residents as well as new rural migrants to cities across the board. But urbanization in Turkey, as in most other countries, also brought social dislocation and the often "un-neat" juxtaposition of urban and rural cultures in a city setting that have yet to fully meld into a civic culture and discourse. This phenomenon is inevitable and, managed well, can benefit all city residents through the diversity and co-mingling of different cultures and mindsets that spark creative energies, innovative ideas, and effective solutions. But this takes hard work and a dedicated commitment to public consultations to avoid the increasing criticisms of top-down interventions. Engaging community groups and developing a new social contract are important elements of the second urban development agenda for Turkey's cities.

This next development frontier for Turkey's cities is captured in the recently issued Tenth National Development Plan. Many of the critical development challenges for Turkey's cities noted here are addressed in the Plan, including creating "Livable Spaces and a Sustainable Environment." The Plan places appropriate emphasis on:

- Making structural and functional improvements to the development planning system, including spatial planning and urban design.
- Increasing value capture from the conversion of rural to urban land in development planning (and using associated revenue streams to develop social infrastructure, including the expansion of public and green areas).
- Using urban transformation to enhance city competitiveness and improving the efficiency of urban land management.
- Promoting social harmony, urban integrity, aesthetics, and culture in Turkish cities.

All these policy measures will need effective planning and monitoring of city performance and establishing monitoring systems to promote livable and sustainable cities.

Connecting people to work and services

City public transport systems are underplanned, underfinanced, and undermanaged. Because Turkey features motorization rates (cars owned per 1,000 persons) that are growing twice as fast as economic growth, the cost of doing nothing is substantial. Although this growth is in line with international trends, it is likely without concerted policy efforts to exacerbate already existing congestion costs in city transport systems. Traffic accidents already generate costs estimated at well over 3 percent of GDP. Personal vehicle transportation is also the least energy-efficient mode of transport and generates substantial demand for energy (projected to reach 2.5 to 5 times the current level by 2022). That has serious implications for Turkey as an energy import-dependent country.

Developing mass transit systems and other larger scale infrastructure for larger cities requires significant planning, a robust tax base, and larger investments linked to well integrated land use planning. In past decades, many Turkish cities relied on an entrepreneurial private sector, including taxis and *dolmus* minibuses, which are no longer adequate for a larger scale city. So, they are only now beginning to address their growing urban transport needs of planning and investing in public transit systems. Going forward, several fast growing cities will need to avoid congestion costs and other negative externalities. This reality is underscored by the fairly low capacity of Turkey's mass transit systems.

Turkey's cities will need to link transport planning, especially for bus lines and other public transport, with land use planning. Despite the legal requirements, urban transport planning is not fulfilling the intended objectives. In most cities, meaningful integration between land-use planning and transport planning is not taking place. While both are required by law, they are usually prepared at different times with neither legal requirements nor institutional arrangements to ensure their mutual consistency. For example, both the third bridge and the third airport projects in Istanbul are being developed as transport projects, but they are not included in the land-use development plan. At the municipality level the functions of the UKOME (City level Transport Coordination Center) do not extend to the coordination between transport policy and land use, which is under the responsibility of the city architecture department or equivalent. This suggests the need for new mechanisms for planning as well as organizational arrangements at the municipality level, including changes to the legal and regulatory framework.

Turkey's cities should also forge links between job and housing markets, especially for low-income households, whose transport costs can be a big part of their income. Urban transport is integral and essential in any urban development strategy. Indeed, it should be the backbone of the city's planning framework. It is vital in connecting housing markets with labor

markets and ensuring that low income households can affordably reach job opportunities, while contributing to the competitiveness of a city's firms. Successful cities start their planning process from setting a long-term vision and goals for city development, recognizing the interactions among multiple and often competing policy objectives. They then address each problem—such as road network development, traffic management, and public transport performance—in a coordinated manner. Urban transport strategy in the best managed cities:

- is well integrated with other aspects of the city development strategy, such as land-use plans, environment policies, and economic development strategy;
- has the planning process coincide with the budgetary process, constraining fiscal and administrative resources to the available investment plans.

Turkey should overhaul the urban transport planning system with new standards, tools, and performance indicators. Turkey needs desperately to overhaul its urban transport planning system with new standards, tools, and indicators for monitoring performance. Currently, many Turkish cities operate without a functional transport masterplan. Planning often is not integrated with land use planning, with the aims of connecting housing and job markets and allowing a city's transport system to serve as the backbone for land use planning. A major reason for this deficiency is the generally inadequate institutional setup in most Turkish cities. The city level UKOME enjoys no executive functions, financial management controls, or mechanisms and tools to effectively plan, deliver and operate effective urban transport systems. Compare that with the water sector, where water utilities were spun off from municipalities and corporatized some 30 years ago, accountable for cost recovery in their operations.

Turkey should create a national framework for sustainable urban mobility systems for people (not cars). Weak links between national policies and local practices underscore the deficiencies in the planning, financing and sustainable provision of urban transport services. Many cities have opted for higher cost "showcase" transport systems that do not have the ridership to justify such an outlay of financial resources, while others have under designed systems. Appropriately scaled and cost-effective urban transport systems should follow guidelines for capital investment planning. A shift in focus to providing mobility for people rather than automobiles would help Turkish cities to keep pace with latest urban transport policy trends, emphasizing options that promote pedestrianization and other public transit options over attempts to accommodate more personal vehicles.

The national government essentially "holds the ring," setting general conditions for local autonomy and initiative. These conditions are universally acknowledged, though not always well performed. More controversial are national measures that go further and mold the policies pursued locally.

- *Research and technical assistance for urban transport* can be managed at the national level because of the economies of scale and scope in the collection and dissemination of information on best technological and commercial practice.
- *Formula-based counterpart funding for capital investments* can help where local borrowing capability is weak. The danger is that it can distort the choices local authorities make by changing the relative costs of different policy interventions.

- *Special financial assistance from the central government* can encourage the take-up of technical innovations. Other assistance can simply be an injection of "emergency" support for vehicle replacement as fleets deteriorate. But this can encourage the municipality to rely on such occasional support in place of proper vehicle replacement programs and should be avoided unless critical to operations.

Financing

Traditional approaches to taxation and revenue-raising strategies advocate marginal taxation. That means taxing at the margin to raise revenues for the delivery of desired services in a particular locality. But planning and investment decisions in the context of rapid urbanization often need to be made in anticipation of newcomers to the city. In most cases, this means that an increasing share of the tax base has yet to materialize. A municipality's ability to access long-term finance and use other debt and land equity instruments can bridge this gap, while pursuing intergenerational equity in infrastructure finance.

Today's very robust fiscal transfers are likely to decline in relative terms as national economic growth tapers off, making city financing a critical challenge in the years ahead. Municipal revenues and expenditures are both growing steadily, if just keeping pace with inflation. A steady current balance at about 22–30 percent of total revenues indicates a healthy control over current expenditures and appears to be a good cushion for financing investments and securing debt. This contributed in 2011 to a gradual accumulation of cash reserves (about TRL11bn), concentrated in the special provincial administrations) (TRL6.6bn) and the towns and borough municipalities (TRL2.1bn). But over the past five years, the current balances have moved very differently: metropolitan municipalities have steady and robust current balances, while the nonmetropolitan municipalities and the towns have small positive current balances. These cash balances and current balances would drop if the local entities were to pay their overdue liabilities for taxes and loan arrears owed to the Treasury and for social security payments.

The local administration sector is heavily reliant on transfers, including shared tax revenues and government aid and donations. Central government fiscal transfers and donations stood at 45.5 percent and 16.5 percent respectively in 2011. The bulk of government aid and donations are for SPAs, not municipalities. Enterprise and property gains (land sales) dominate the municipalities' own-source revenues (21.9 percent in 2011). In contrast, tax and fee revenues are very small, at about 11 percent of total revenues, low by international comparison. The share of transfer revenue is also increasing, driven by the growing economy and growing national tax revenues sources of the divisible pool.

Horizontal imbalances dominate the revenue picture. Behind the aggregate and comparable total revenue figures are horizontal imbalances in municipal revenues across regions and by size of local administration. As expected, local revenues are concentrated in the large metropolitan municipalities and in the western regions of Turkey, where the tax base is robust. Four regions collect more than two-thirds of municipal revenues, while the other eight share less than a third. There is a 27-fold difference between the largest and the smallest regional share of municipal revenue. The population, the local economic situation, and particularly the presence of large companies strongly influence municipal revenues. Disparities in municipal revenues and expenditures are substantial and growing.

The very low current balance of the nonmetropolitan municipalities and towns is a matter of concern. It leaves very limited fiscal space for financing development directly or for debt repayment. The low current balances suggest low fiscal capacity and likely constrain the capital investment capacity of the secondary cities. These shortcomings could be addressed in three ways: by expanding local revenue bases and improving collection at these municipalities with incentives; by providing specific targeted development grants to these entities; and possibly by slightly modifying the intergovernmental transfer formula (changing the allocation shares, improving equalization, or introducing a local revenue mobilization incentive). Before designing and introducing any such changes, it would be advisable to conduct an in-depth analysis of the accounting, bookkeeping and budgeting practices of local governments.

Turkey should aim to capture the land dividend when providing public goods. Property taxes are not keeping pace with land prices, and revenue collection is weak. Local own-source revenue overall, not necessarily weak, relies heavily on enterprise and property revenues rather than direct taxes to cover service provision. The property tax, the best proxy of local wealth, should be assessed at levels commensurate with the degree and quality of service provision that local residents desire and expect.

The Turkish subnational finance system has big gaps in incentives and in coordination:

- Metropolitan municipalities, as the largest local entities, do not have buoyant own-source tax revenues (such as property taxes) and thus have no effective power over what is typically the most important source of local revenues. So, they must rely on collecting own revenues from enterprises, economic activities, and land and building leases and sales that should complement but not be a main source of revenue;
- There may thus be a gap in incentives for local revenue mobilization. Municipalities within metropolitan districts (towns and boroughs) have property tax collection assigned to them within the metropolitan jurisdictions, but they may lack motivation to boost these revenues, because of the narrow scope in their service responsibilities. Solid waste collection and some interior road resurfacing are their exclusive service responsibilities, though they have the option, but not the mandated responsibility, for other services.

Turkey's property tax revenues are lower than in OECD and some EU comparators. Property taxes amount to 0.2 percent of GDP, less than one-fifth the OECD average (1.1 percent). This is in part due to national legislation that sets the property tax rates at 0.1 percent for land and residential buildings, 0.2 percent for other buildings, and 0.3 percent for empty lots. Metropolitan districts (towns) can levy twice those rates, but even those are much lower than the OECD and EU averages of around 1 percent of the assessed property value. Turkey's base property tax rates are at the lower end even of the developing countries' average (0.3 percent), with only double rates for empty lots being higher than the tax rates in other developing countries. So, further increases in property tax revenues are among the more promising options for local governments.

Revenues from the sale and lease of assets and development contributions by citizens or enterprises can be considered own-source capital revenues. Revenues from the sales of building sites make up 3.3 percent of the total revenues of the municipal sector. Metropolitan (42 percent of total) and metropolitan district municipalities (39 percent) raise the lion's share of these revenues from building site sales. Building site sales make up 5.7 percent of the total revenues of metropolitan district municipality revenues. But this is a one-time opportunity since municipal land is scarce. Municipalities can also benefit from land development by increasing property tax revenues from the more valuable developed land and newly constructed buildings—if the tax base is changed timely and properly.

Increasing municipal revenue collection of fees and charges, fairly and effectively, is an important objective. Fees and charges represent about 4 percent of municipal revenues, led by building construction fees (27 percent), occupation fees (15 percent), wholesale market fees (10 percent), and building user permit fees (10 percent). Within the upper and lower limits set by the central authority, municipalities determine the specific fees for different neighborhoods based on their economic and social position. But local revenue collection will need to be a concerted focus of municipalities in the coming years.

One option available for local administrations to boost own source revenues is land-based financing instruments to convert land or land-related regulatory powers into funds for infrastructure or service delivery. The three main strategies:

- Land sales or long-term leasing of land, buildings, or other infrastructure assets;
- Development impact levies or taxes, taxing direct beneficiaries of infrastructure development in specific locations by extracting some gains in land values as a result of public infrastructure development;

- Regulating and using regulatory power to generate revenues for infrastructure development.

Selling in-city land can generate exceptionally high one time revenue. This may appear simple, but it faces many challenges. Cities often fail to have updated and reliable public land inventories and thus knowledge whether the given parcel is surplus land or possibly a strategic reserve for future development. Experience is lacking in valuing and pricing land or property (what price should be used: market value? social value? price before or after development?). Expertise is lacking in managing the sale or lease transactions. Transparency is lacking in managing transactions. And there are limits on the available surplus of in-city land.

Urban transformation or redevelopment is another way to improve efficiency in land use, particularly as a city economy evolves. This strategy usually involves transforming industrial or commercial land or informally settled areas into housing and commercial development associated with a shift in the city economy from manufacturing to higher value-added services. The hollowing out of a city's manufacturing base that often occurs over 20–30 years can be transformed to much more valuable urban development. Again, there are challenges: complicated legal issues because of mixed ownership; the need for environmental cleaning and rehabilitation of the area with excessive costs in brownfield redevelopment; transactions and rehabilitation can take a long time; temporary or permanent displacement of existing tenants or residents and the need for interim financing; and difficulties in generating accurate valuation of the land before and after rehabilitation. But such practices are widespread in Turkey's larger metropolitan cities. Selling an old bus station for redevelopment generated about USD1.5 billion in revenue for Istanbul in 2007.

Careful planning of urban land expansion through conversion of rural land is another option. This should be done through prior planning and reflected in a city's long-term strategic plan. Coordination with national and regional plans, such as Turkey's Strategic Spatial Plans, would be essential. If the expansion is on general public land without encumbrances or restrictions, the costs can be free or at nominal "rowland" value. But this seldom is the case, as the land may be in the hands of small private landowners and private developers from whom it must be purchased in parcels and transformed to land suitable for development projects. The challenge and responsibility for the city is to ensure that development is consistent with the city's master plan and development plan, that it avoids urban sprawl, including new privately developed housing areas that soon demand connection to the city's road, water and sanitation systems, and that it manages well the pressures for social services, health, and education facilities to be located nearby. Important planning and tax regulatory instruments should be used in such cases to avoid creation of or reduce negative consequences of sprawl.

Land-pooling can support harmonious city development in areas largely under private ownership. A well-developed city needs substantially different land parcels and subdivisions than the land-ownership structure on original rural or agricultural land. More important, well-managed cities often need to provide green areas, set-backs, public infrastructure, and rights of way. With land pooling, the city provides planning inputs, zoning, and infrastructure development in exchange for a share of land that the private owners give up. The entire area is then consolidated into one single area for development based on planning regulations, an urban design concept, local cultural characteristics, and other considerations. The initial land owners could receive in exchange one or two plots in the designed town for own use. The surplus parcels are sold, and the revenues distributed in accord with the initial land contribution.

Taxing the gains in land-based financing is vital for three main reasons. First is to ensure consistency of private developments with the city's master plan, zoning, and strategic plans. Second is to generate public revenues for needed infrastructure development. And third is to ensure fair sharing of the development gains between the public and the private stakeholders. The taxing instruments include betterment tax or impact fees charged for capturing gains attributed to developing external infrastructure. These are one-time payments to be combined with increasing the property taxes through the long-term increase of property value as a result of the nearby public infrastructure development. Developers know, calculate, and account

for gains from major water, road development, or transport (metro-rail) well ahead of proceeding.

In sum, Turkey faces several policy options:

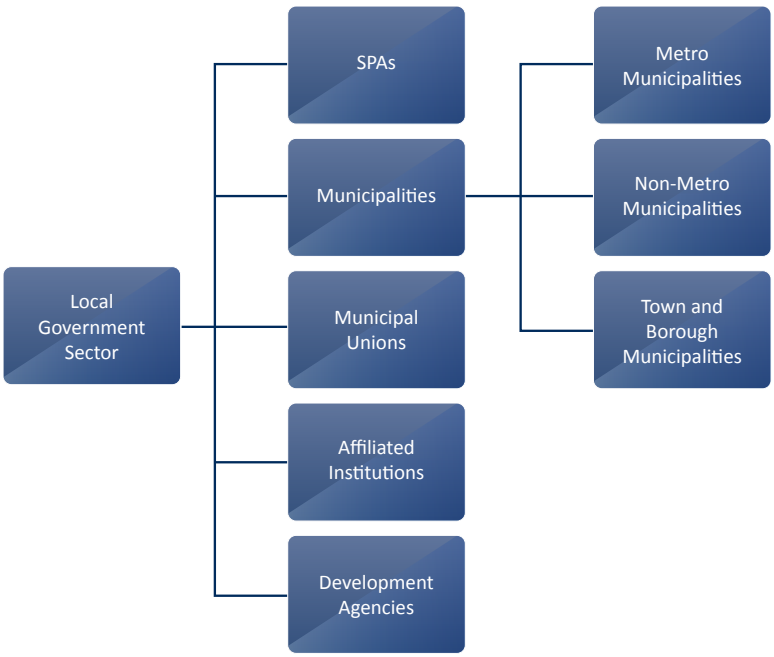
- *Reduce municipal dependence on fiscal transfers by maintaining the current share between central and local administration sectors, while providing incentives and taking policy measures to encourage improvements in own-source revenue collection.* One of the most practical measures would be to revisit the property tax base and rates, currently one-tenth of what most OECD countries assess, and provide flexibility to local administrations in setting their own. Also consider a new property valuation system—moving from quantitative to qualitative (market values) would be highly recommended. Review the ineffective equalization transfer and consider a block grant or performance grant for localities with a small economic base.
- *Review the equalization transfer mechanism and improve equalization effects.* One option would be a block grant or performance grant system (conditional or unconditional) to localities with a low economic base. Many of them, such as Van, have fully exploited their property tax, recording the highest yields among Turkish administrations, but they still appear to have inadequate resources to deliver their mandated services.
- *Resolve mounting arrears and enhance finances, particularly for smaller municipalities.* Further review and study in more depth the financial distress and sustainability risks that small municipalities as a segment of local administrations are facing. As a market segment, this cluster of municipalities needs further detailed review.
- *Harmonize subnational capital investment planning and programming across multiple administrative tiers.* Promote improved harmonization of capital investment planning and programming across multiple tiers of administration. Anecdotal evidence suggests some overlaps and possibly duplications of investment planning and implementation across different subnational administrations. A more detailed review could bear this out and potentially point to methods to better rationalize capital investment planning. At the metropolitan municipality level, in particular, multiyear capital investment planning could be improved by linking it to land-use planning within city master plans, helping to better mobilize domestic and international finance for bankable investment projects.

Coordinating policy and implementation across sectors and administrative tiers

The Turkish intergovernmental system has several tiers with complementary but also interlinking responsibilities. These tiers comprise metropolitan, non-metropolitan provincial, and town & borough municipalities, special provincial administrations, and municipal affiliated institutions (utility companies). Districts or towns or boroughs in metropolitan areas are part of the metropolitan jurisdiction as independent affiliated entities. Their functions are only partly subordinated to the metropolitan government, as for master planning and transport planning. Here, local administration denotes the entire sector and municipalities the sum of the three basic clusters as Figure 7 depicts this relationship.

Turkey's metropolitan municipality law is a global best practice in organizing service provision and management at a broad metropolitan scale. Most countries, including many developed ones, have not put in place such an administrative regime. In international practice, such a system, where a second level of government is added to improve service provision at the local level, is known as a two-tier system. The upper tier covers the region (metropolitan area) to take advantage of economies of scale and to properly mitigate negative side-effects that impact a wider area (such as air pollution). The lower tiers are responsible for local services, with limited economies of scale effects and regional side-effects (such as street lighting and local parks). Upper-tier governments should be responsible for "services that provide region-wide benefits, generate externalities, entail some redistribution, and display economies of scale," while lower tier governments should be responsible for services that "provide local benefits". Metropolitan municipalities in Turkey mirror international practices in the functions they are responsible for.

Figure 7. Turkey's local administration structure



Interagency coordination takes on increasing prominence in countries transitioning through decentralization. Not only will changes in functions take place with decentralization, important capacity issues arise that may require transitional arrangements to ensure a smooth transfer of responsibility. Understanding the different modes of interagency coordination thus becomes essential, particularly during the transitional period. Interagency coordination generally takes on three different forms:

- **Vertical coordination**—between different administrative levels, usually in a hierarchical ordering, as with a national ministry and a local authority.
- **Horizontal coordination**—between institutions/agencies/departments/units from the same administrative level, as between two ministries, between two units within a ministry, between two municipalities, or between two departments in a municipality.
- **Diagonal coordination**—with actors external to the public administration, as with the private sector, NGOs, universities, and think tanks.

Vertical interagency coordination requires a clear delineation of responsibilities between different tiers of government. It is important to know what agency is responsible for policy-making in different policy spheres, which is responsible for enforcement, which is mandated to deliver different services, and how communication can be improved to ensure timely and efficient responses to challenges that arise. Many OECD countries have interagency coordination systems that are not organized in a top-down, hierarchical order, but are conceived as an integrated public support mechanism, which continually evolves in response to changing needs and challenges. As such, lower and upper levels of government are expected to work together to provide key public services, and they assign responsibilities and tasks according to competency, capacity, and effectiveness.

At provincial and local levels, vertical coordination is ensured along sectoral lines, with individual ministries represented in provincial governments. The fact that the central government executive has representatives at the local level allows central government decisions to more easily find their way at the local level. Such a mechanism is also important because local administrations are not responsible for key functions, such as education and health care, so these coordination mechanisms serve an important purpose.

Horizontal interagency coordination ideally enables more coherent and streamlined policies, more efficient service provision, and bet-

ter social outcomes. At the national level, horizontal coordination can involve joint-work of two or more ministries on certain, regulations, or standards. It can involve joint work and coordination between a policymaking agency (Ministry of Environment and Urbanization) and a development agency (Housing Development Administration)—or between a policymaking entity (e.g. Ministry of Development) and an investment entity (Iller Bank). At the local level, it can involve coordination through a joint service council among individual municipalities in close proximity to achieve economies of scale in service provision. It could involve coordination in trying to mitigate negative externalities of urban development, such as pollution, congestion, or poverty). For example, the Washington DC metro system is managed, financed, and expanded with contributions and inputs from different government tiers: the federal US government, the District of Columbia and the states of Maryland and Virginia, individual counties and municipalities that are serviced by the metro, and the private sector. Policymakers in the Washington metropolitan area recognized the need for a metropolitan transit system that spanned several jurisdictions to promote the competitiveness of the city-region. Improved mobility and access to job opportunities for residents living across the metropolitan area helped break down the collective action dilemma even for policymakers with quite different political views and affiliations.

Diagonal coordination seeks to make the most effective use of public funds by leveraging private participation and citizen engagement. It starts from the premise that the public sector is not always best equipped or financed to provide directly all of the services it is mandated to deliver. It creates the opportunity to mobilize and attract private capital. It enhances fiscal space for local governments, shifting resources to public goods and social services that the market does not necessarily respond to. And it shifts commercial risk to a private provider. Most market-based economies engage the private sector in public service provision, and there is broad experience of both successes and failure. Turkey's public sector institutions have extensive experience of working with the private sector, from water and sewage provision to solid waste management, and public transport.

Depending on the required coordination, different mechanisms can be established. Continual interactions may require coordinated work units (joint agencies or commissions), staffed specifically to help coordinate and communicate across agencies where policy depends on effective joint action. Temporary interactions may be better served by less informal arrangements, such as steering committees or working groups, where policymakers and technical staff from established units convene to solve common problems jointly. Globally, different coordination mechanisms have been created to help solve a variety of policy and institutional challenges, and Turkey already has experience in the field.

Strategic plans for regions, provinces, and local governments can improve coordination. The Higher Committee on Regional Development is one example of a formal structure intended to promote central government coordination in Turkey. Headed and formed by the Prime Minister, the Committee includes the Minister of Development as well as other ministers that may have a say in the topics discussed. Not a self-standing body, it meets periodically to discuss issues that cut across sectors. For example, to better coordinate policies and public investments, representatives from agriculture, industry, tourism, transportation, and spatial development may be brought together. One of the Committee's key functions is to ensure coordination and coherence between economic development planning (for which the Ministry of Development is responsible) and spatial development (for which the Ministry of Environment and Urbanism (MOEU) is responsible). Such a coordinated framework can ensure the links between these two vital dimensions of regional development.

Several key actors in spatial planning need to be actively engaged. MOEU and MOD, two critical players, are far from being the only players. The Ministry of Transport, Maritime Affairs and Communications (MOTMC), for instance, is taking a more active role in promoting sound urban transport policy and investments at the local level. This could be effectively achieved by developing more detailed guidelines and standards, as well as providing a platform for local administrations to share experience and learn

from one another, and from international good practice. Today, MOTMC's oversight role does not come into the picture until a metropolitan municipality contemplates investing in light rail or metro mass-transit systems.

Infrastructure is one of the most powerful tools for guiding city growth. New city growth often follows existing infrastructure. Even if master development plans and implementation master plans aim to set the tone for peri-urban expansion, new developments tend to follow the easiest point of entry. So, many new developments sprout up along existing roads, both due to easy access to the rest of the city and because water, sewage, and electricity are usually close by. Naturally, new residents will want to settle where land is cheaper, and where transport costs and service costs can be lower. Ring roads often serve as unofficial growth boundaries to control the outward expansion of the city. But such investments are usually large in scale, outside city administrative boundaries, and crossing several jurisdictions. So, a central government agency (MOTMC) is often needed to coordinate and fund the works.

One of the biggest challenges to urban development in Turkey is the lack of a well-designed system of data collection and monitoring of urban indicators. Examples include urban planning data (monitoring of green space area per city), energy efficiency data, and urban transport data (monitoring transport networks and modal share). Moreover, different agencies collect data independently, often using their own methodologies, and prepare their strategies, policies, and plans based on those data. When different agencies measure the same phenomenon in different ways, this may lead to different outcomes, and policies can be formulated in contradictory ways. It is therefore critical to have an information platform for collecting, managing, and analyzing urban data to provide an overview of the performance of cities within the system. KENTGES, Turkey's Urban Development Strategy, provides a basis for systematically monitoring urban development indicators and for analyzing and formulating policy.

Reliable data would enable the development of monitorable performance indicators. According to Law 5018/2003 on Public Fiscal Administration and Control, public institutions have to prepare strategic plans that include measurable objectives, and they have to measure their own performance according to predetermined indicators. Moreover, the Ministry of Finance is authorized to determine "the compatibility of administrations' budgets with the performance indicators stated in the strategic plans." These measures encourage the development of programmatic budgets, but in practice they can be a challenge to implement without proper information systems and common standards for monitoring. Many local authorities simply include a list of indicators in their strategic plans, but more often than not these indicators come without a baseline that would allow proper monitoring. A well-developed urban data platform could help establish baselines, enable cities to adopt performance indicators for improvement, and benchmark against good performers both within country and internationally.

Turkey's urbanization experience offers many important lessons for developing countries in the incipient and intermediate phases of urbanization. It has not only come through a very challenging period of massive demographic change, but has been able to leverage this into important economic and social gains. As it proceeds in the years ahead, its second generation urban agenda will need to ensure that the benefits of urbanization are not outweighed by the costs. This will require a broad-based policy agenda to promote sustainable cities, linking national and local government efforts that can build upon Turkey's successes of the past.