GOOD GOVERNANCE IN CONDITIONS OF GLOBALIZATION AND EUROPEANIZATION: PUBLIC FINANCIAL MANAGEMENT IN TURKEY FROM A POLICY TRANSFER APPROACH

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ABSTRACT

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The purpose of this thesis is to explain the process of policy change in public financial management in Turkey. It looks into the interaction between endogenous and exogenous factors affecting the evolution of policy principles and programmes and uses a policy transfer approach. The author compares two periods: the adjustment-oriented (1980-1999) and accession-oriented (1999 onwards) reform eras. Considering the IFIs and the EU as proxies for globalization and Europeanization, the thesis also examines the impact of these institutions on the evolution of the good governance agenda to draw generalizable conclusions regarding the relationship between globalization and Europeanization.

The main findings of the study are: first, accession-oriented reform enabled the policy transfer process and resulted in structural changes in public financial management in line with good governance principles. Although conditionality had been more coercive under adjustment-oriented reform, change had remained limited due to the ability of endogenous actors to dominate the scope and pace of change.

Secondly, although economic crises triggered reform initiatives in both periods, the crucial factors accounting for transformative policy change in the second period were a) the consolidation of a reformist advocacy coalition, b) the strengthening of civil society and market forces *vis-à-vis* the state and c) the emergence of the EU as an anchor for change. Finally, the thesis demonstrates that the good governance agenda is an area of ideational and empirical policy convergence between globalization and Europeanization. In that sense, Europeanization facilitates globalization rather than act as an alternative to it.

Keywords: Turkey, Public Financial Management, Good Governance, Policy Transfer, Europeanization

ÖZ

KÜRESELLEŞME VE AVRUPALILAŞMA ETKİSİNDE İYİ YÖNETİŞİM: POLİTİKA TRANSFERİ AÇISINDAN TÜRKİYE'DE KAMU MALİ YÖNETİMİ

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Bu tezin amacı, Türkiye'de kamu mali yönetiminde politika değişikliği sürecini incelemektir. Politika transferi yaklaşımı açısından, politika ilkeleri ve programlarının gelişimini etkileyen iç ve dış faktörler arasındaki etkileşim ele alınmaktadır. Bu araştırma, uyum odaklı (1980-1999) ve katılım odaklı (1999 sonrası) olmak üzere iki dönemin karşılaştırılması yoluyla yapılmaktadır. Bu çalışmada ayrıca, Uluslararası Finans Kuruluşları ve Avrupa Birliği'ni küreselleşme ve Avrupalılaşmanın temsilcileri olarak değerlendirmek ve bu kuruluşların iyi yönetişim gündeminin gelişimine etkilerini incelemek yoluyla söz konusu iki süreç arasındaki ilişki ile ilgili genellenebilir sonuçlara varmaktadır.

Çalışmanın temel bulguları şunlardır: Birincisi, katılım odaklı reform, politika transferi sürecini hızlandırmış ve iyi yönetişim ilkeleri doğrultusunda, kamu mali yönetiminde yapısal değişiklikler yapılabilmesini sağlamıştır. Uyum odaklı reform sürecince koşulluluk daha zorlayıcı olmasına rağmen, içsel unsurların değişimin kapsamı ve hızını belirleyebilmeleri sonucunda çok sınırlı ölçüde bir değişim gerçekleşmiştir.

İkinci olarak, ekonomik krizler her iki dönemde de reform girişimleri tetiklemiş olsa da a)reform yanlısı bir koalisyonunun oluşması b) sivil toplum ve piyasa güçlerinin devlet karşısında gücünü artırması c) Avrupa Birliği'nin değişim için bir çıpa olarak sürece katılması sonucunda köklü değişim ancak ikinci dönemde gerçekleşebilmiştir. Son olarak, iyi yönetişim gündeminin, küreselleşme ve Avrupalılaşma arasındaki düşünsel ve ampirik açıdan politika yakınsamanın gözlemlendiği bir alan olduğu ve bu bağlamda, Avrupalılaşmanın küreselleşmeye bir alternative olmadığı, aksine küreselleşmeyi kolaylaştıran bir süreç olduğu savunulmaktadır.

Anahtar Kelimeler: Türkiye, Kamu Mali Yönetimi, İyi Yönetişim, Politika Transferi, Avrupalılaşma

To Alex Can and Dimitris

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TABLE OF CONTENTS

LIST OF TABLES

TABLES

LIST OF FIGURES

FIGURES

LIST OF ABBREVIATIONS

AKP	Justice and Development Party
ANAP	Motherland Party
AP	Accession Partnership
BRSA	Banking Regulation and Supervision Authority
CEEC	Central and Eastern European Country
CIPFA	Chartered Institute of Public Finance and Accountancy
CSO	Civil Society Organization
DG BUDGET	Directorate General of Budget of the European Commission
DISK	Confederation of Revolutionary Employee Trade Unions
DYP	True Path Party
EAS	European Administrative Space
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
ESA	European System of Accounts
EU	European Union
GFSM	Government Finance Statistics Manual
HPC	High Planning Council
IFI	International Financial Institution
IKV	Economic Development Foundation
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
JMAP	Joint Management Action Plan
KAYA	Public Administration Assessment
MEHTAP	Research Project on Organization and Functions of the Central Government of Turkey
MNC	Multi National Company
MoF	Ministry of Finance

MoU	Memorandum of Understanding
MTFS	Medium Term Fiscal Strategy
MTP	Medium Term Program
NPAA	National Programme for the Adoption of the Acquis
NPM	New Public Management
OECD	Organization of Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PEIR	Public Expenditure and Institutional Review
PFM	Public Financial Management
PFMP	Public Financial Management Project
PFPSAL	Programmatic Financial and Public Sector Adjustment Loan
PIFC	Public Internal Financial Control
PPSDPL	Programmatic Public Sector Development Policy Loan
PUMA	Public Management Service
SAI	Supreme Audit Institution
SBA	Stand-by Arrangement
SEE	State Economic Enterprises
SGP	Stability and Growth Pact
SHAC	Special Ad Hoc Committee on Restructuring Public Financial Management and Fiscal Transparency
SHP	Social Democratic Peoples' Party
SIGMA	Support for Improvement in Governance and Management
SNA	System of National Accounts
SIGMA	Support for Improvement in Governance and Management
SPO	State Planning Organization
TCA	Turkish Court of Accounts
TISK	Turkish Confederation of Employer Trade Unions
TGNA	Turkish Grand National Assembly
TODAIE	Turkey and Middle East Public Administration Institute
TOZB	Union of Agriculture Chambers of Turkey
TURK-TRADE	Turkish Foreign Trade Association

TÜSİAD	Turkish Industrialist Businessmen Association
TÜRK-İŞ	Turkish Confederation of Trade Unions of Employees
UNDP	United Nations Development Program
UK	United Kingdom
US	United States of America
UTFT	Undersecretariat of Treasury and Foreign Trade
WB	World Bank

CHAPTER 1

INTRODUCTION

1.1. THE CHANGING ROLE OF THE STATE AND THE RISE OF GLOBALIZATION

The adventure of the nation state has reached a turning point in the early 21st century under the influence of globalization. Previously, national administrations of individual states were not exposed to competition with their counterparts in other states apart from the periods of war. This situation, however, started changing following the oil shock of 1973-1974 and which then led to the "crisis of the state" (D'orta, 2003: 5). The inability of the state to respond to new economic challenges, accompanied by the crisis of Keynesianism, meant that new ideas about the proper role of the state in economic management spread throughout the world. This was nothing new: as D'orta demonstrates, the same rethinking had occurred after the 1929 economic crisis too, triggered by the collapse of the US stock exchange (*Ibid.).* At that time, the crisis led to political conflict and then war on a global scale, forcing governments to rethink their approach to political economy and introducing a new economic architecture post-1945 centred on the necessity of state intervention.

It was after the 1970s crises in particular that the global economy surpassed the control capacities of individual states within their own boundaries, as nationally oriented systems of government were unable to cope with the plethora of challenges emanating from the expansion of economic activity and globalization. Again this was nothing fundamentally new in the sense that the state itself is a modern construction and its ability to reign over the economy was itself a relatively new phenomenon. The post-1970s period introduced an era of a rapidly changing landscape whereby market forces began to overtake the state in their power and to even replace the state in service delivery and other functions. This was a period that the nation states

political economy was dominated by liberalization policies in general and trade and fiscal liberalization in particular, with a direct impact on public finance. The implications of these policies on the latter were measures taken to contain public expenditure; loose tax polices reducing tax rates and tight expenditure policies to reduce public expenditure. As a consequence, the "minimal state" model with limited public expenditure and a taxation policy based on a smaller public budget became the widely accepted goal. Greater openness of economies, the uninterrupted flow of capital from place to place and, a new international division of labour brought in the pressure to develop common macro-economic monetary and fiscal policies (Alber and Standing, 2000: 99). This was seen as necessary to address the question of how to maintain or improve high levels of economic growth in the new context of globalization.

In practice, however, the inappropriately timed opening of the markets and liberalization resulted in an increase in fiscal deficits, inflationary pressures and a decrease in productivity. The 1980s rang alarm bells for the financial situation both in industrialized and developing countries. Industrialized countries were facing high fiscal deficits and levels of government debt, whilst developing countries were experiencing various forms of macroeconomic instability as a result of large fiscal deficits. These were also accompanied by large debts which had been incurred over a long period of time and as the developing world could make little productive use of “petro-dollars” invested in Western banks after the 1970s.

In the 1990s, a number of transition economies born out of the collapse of the Eastern bloc more generally had an immense difficulty in controlling fiscal deficits and maintaining macroeconomic stability. In addition, they faced the immense challenge of making the transition from a planned economy to market structures (UN, 2001: 2). Towards the end of the 1990s, the fiscal debts of developing countries were no longer merely a domestic issue, but a matter of worldwide concern, and led to initiatives to cancel part or all of this debt in the western world. It had become obvious that the debts accumulated over decades had become unsustainable and

could not be repaid. On the other hand, the frequent recurrence of financial instability and crisis across the world over the last two decades demonstrated the risks associated with fast moving and liquid global capital markets.

Another particular characteristic of globalization has been the rise, in number and intensity, of multinational corporations (MNCs). MNCs have been especially focused on cutting costs by placing different parts of the production, marketing and distribution process in different parts of the world based on cost and efficiency considerations (Hughes, 1998: 54). Technological advancement has been crucial in this regard, as it enabled MNCs to transfer operations with low cost and enhanced efficiency. On the one hand, globalization has brought new opportunities to economies, as greater trade and investment flows lead to lower prices and more choice, larger markets and economies of scale and faster adoption of new technology. On the other hand, it has significantly increased the risks associated with the ability of capital to exploit opportunities and force states to take decisions they would otherwise reject. The state started to face obstacles in rendering its very core functions of executing public expenditure and collecting taxes. In this respect, the alleged necessity of conducting policies to minimize the state and reduce the scope of public budgets have been the main effects of globalisation on public finance structures (Eker and Şimşek, 2009: 9).

These challenges needed to be properly addressed by policy-makers so as to safeguard the legitimacy of states among the public and thus contribute to democratic stability in the long run. The traditional Weberian public administration was largely process- and rules-driven, with an emphasis on hierarchical decision making and control with the typical features of calculability, efficiency, instrumentality and legal rationality. There was a need for a more results-driven approach with an emphasis on participatory and strategic decision making and effective and efficient monitoring.

Together with the proliferating Non-Governmental Organisations (NGOs), MNCs have been instrumental in exposing the failure of governments in respecting governance principles, which will be analyzed further throughout the thesis. To sum up with the analysis of Kohler-Koch and Eising (1999), modern polities needed a multi-centre and multi-level character with surrounding networks unlike the traditional polities governed by a single centre with a hierarchical authority. In a suggested response to these challenges, a new model of public sector administration started to evolve, aiming to combine the expertise of state structures with those of the private sector and other associations. The main function of the state started to be considered as "securing the functioning of the market mechanism" (Sezen, 2001: 5). Furthermore, economic instability and crises experienced by both developed and developing countries resulted in the establishment of a "new" financial structure, framed by financial rules and tight fiscal policies. This structure was based on low public expenditure and borrowing; tight fiscal discipline was further aiming at low fiscal deficit rates (Eker and Şimşek, 2009: 9).

The inevitable impact of these changes on national governments has been the pressure to change or restructure. It is argued that some of these pressures are exerted by international capital markets (Hirst and Thompson, 1996; Peters, 1998) as well as through supranational organizations such as the European Union[1] (EU), the Organisation for Economic Co-operation and Development (OECD), the World Bank (WB), the International Monetary Fund (IMF) and the World Trade Organisation (Scharpf, 1997). Ladi (2008) defines these pressures as “exogenous factors upon policy making and policy institutions” which use the tool of conditionality within the policy transfer framework; whilst identifying the international organizations as “coercive” agents of policy transfer. She relates the

[1] The European Economic Community was established in 1957 by the Treaty of Rome. With enactment of the Single European Act, it became the “European Community”. Following the Treaty of Maastricht in 1993, it was called the “European Union”. For purposes of clarity and consistency, it will be named as the “European Union” throughout the thesis.

introduction of political conditionality[2], which can be seen as "the first international attempt to change states' domestic behaviours in peacetime period" (Uvin and Biagiotti cited in Ladi, 2008), by international organisations and increased inter-linkages between international and domestic politics. Hughes argues that the international agencies "encouraged" developing countries to follow new public management (NPM) (analyzed in chapter 3) "as an organising principle for their societies" so as to "overcome their endemic problems of development (Hughes, 1998: 223). Another reason for these pressures was change in the relationship between government and the private sector, with the latter gaining the upper hand in its relation to the former in a large part of the world after the 1980s (Peters and Pierre, 1998: 224).

1.2. ENDOGENOUS AND EXOGENOUS FACTORS FOR POLICY CHANGE

There has been a significant expansion of the literature seeking to define the scope and modes of transfer of this new model of public administration. Contributing to this literature though an approach that integrates domestic (endogenous) and external (exogenous) factors in explaining the domestic policy change forms the backbone of the present thesis. Endogenous factors of change are associated in the literature with those stemming from the domestic political and socio-economic variables that make up the state and its functions. These can thus be the historical and economic development path followed by a state, the relationship between state, market and society; bureaucracy and politics or the role of political leadership in absorbing or rejecting calls for change. According to Pollitt and Bouckaert (2004: 40–41), national factors influencing reforms are the state structure, the nature of central government, the interrelations between government and politics and the dominant administrative culture. Sezen (2011: 325) identifies the domestic factors influencing reform as historical-administrative legacies, administrative culture and traditions, institutional and constitutional context, political ideologies, party politics and economic structure.

[2] Conditionality is defined as "a mutual arrangement by which a government takes, or promises to take certain policy actions, in support of which an international financial institution or other agency

Ladi (2011) refers to five domestic mediating factors in her analysis: economic vulnerability or international or EU problems that act as pressures for EU policy change, political institutional capacity, policy legacies, agents and their policy preferences, discourse. Based on the argument that economic crises triggered public administration reform whilst the scope, pace and effectiveness of the reform has been determined by the interaction between the endogenous and exogenous factors, this thesis analyses the endogenous factors in terms of state-market-society relations[3] and the relations between executive and bureaucracy. In terms of exogenous factors, that is, the variables stemming from the external environment of the state, I refer to the processes of globalisation and Europeanization. As the main actors of these processes that embody their functions, at least up to a certain extent, I consider the international financial institutions-IFIs- namely the IMF, and the World Bank. These can thus be described as the proxies of globalisation, whilst the EU is beyond doubt the political embodiment of Europeanization.[4] To be sure, this is only partly the case as both the IFIs and the EU are complex actors that are not exclusive forces working solely in the direction that globalization and Europeanization push. However, it is also true to say that the IFIs and the EU are both the main transmitters of what the two concepts entail, the consequences they have in terms of policy-making and the linkages they are associated with at national and supranational level.

Although they are not IFIs with conditionality mechanisms, I will also refer to the OECD and occasionally to the UN as their reports and policy prescriptions are highly influential in the emergence of the good governance agenda in general and public financial management in particular. The expertises they have developed over the years make their perspective on public financial management and beyond a rich source of information, analysis and policy guidance for its member states. Over the

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will provide specified amounts of financial assistance" by Tony Killick (1998).

[3] Analysis of state-market-society relations involves relations between the state and the market, between the state and the society as well as interaction among them.

[4] This is not to suggest that the EU equals Europeanization, but rather that the EU is the most concrete expression of this process, though not the only one. I will refer to this in more detail in the next chapter.

last two decades, good governance has become an integral part of the management-oriented terminology utilized by international organizations, national authorities, politicians and opinion-makers. Although it is clear that different people refer to it for different purposes and with different interests in mind, it is nevertheless true that the term has acquired a lot of significance and is treated, particularly by international organizations, as an indicator of the degree to which national authorities are in tune with the need to provide accountable, responsive and efficient public services. It should also be emphasised that there is an ongoing debate on the success and failures of the new public management and the advantages and disadvantages of the governance approach. In order to keep the analysis focused on the impact of these approaches on the public financial management of a nation state, the former debate will not be taken up in the thesis. Ultimately, this thesis does not seek to advocate or criticise the modes of governance offered by the international organisations. Rather, the primary purpose here is to identify the similarities between their approach as well as the extent of their influence on the transformation of national policies and structures. In this way, the thesis will engage in a type of research often neglected: does governance acquire similar understanding in international organizations that engage with it? What are the consequences of this convergence for nation-states who are on the receiving end of governance-type mechanisms, suggestions and conditionality?

This research will hopefully add a crucial and often missing dimension, in the Europeanization literature by linking it not only to globalization as a process, but also by revealing its interconnections to financial management as one of the core public policy domains. In other words, the link between Europeanization and globalization in this thesis is not only conceptual but also empirical in the sense that it reveals the way public policy is influenced by those processes. Furthermore, the public administration literature focuses on political aspects, such as democratization, or civil service reform rather than on the crucially important economic and financial aspects of public administration. In this respect, the present thesis will place a neglected aspect of public administration at the centre of empirical investigation. For

the purposes of a clear focus and a detailed analysis, this thesis will concentrate on the public finance pillar of public sector management. This is particularly important in the present time, as it has become apparent that the political and economic aspects of public administration are two sides of the same coin, paying adherence to the principles of accountability and transparency so as to improve service delivery to citizens.

1.3. ADJUSTMENT AND ACCESSION-ORIENTED REFORMS: A TYPOLOGY

The starting point of this thesis is to differentiate types of public administration reform according to the context within which a country takes initiatives. The first is "adjustment-oriented reform", where the conditions for improvement are prescribed by the IFIs or acquired through various international and/or national policy transfer networks. The second is "accession-oriented reform", where the conditions for improvement are mainly prescribed by the EU or another entity offering membership -shared to a great extent with the IFIs and other international organizations- and supported by various regional and/or national policy transfer networks. In the former, the national administration introduces changes to its public administration institutions, processes and policies to enhance their overall function so as to adjust to the needs of the global economy. In this case, the influence of endogenous factors is higher than the exogenous ones, as they are able to determine the pace and direction of change to an extent which is highly independent of international institutions and their prescriptions. In the latter, the national administration introduces changes to its public administration institutions, processes and policies with the aim of complying with the requirements of the international or regional organisation that it desires to join. Its goal is therefore a lot more concrete than in the first case, which aims at development in the broader sense of the term. That is to say, good governance principles are more codified and more structurally monitored during the EU enlargement process. Furthermore, exogenous factors are more influential than the endogenous ones in the second case because the country in question is obliged to

comply with a concrete set of requirements specified and prescribed by particular international institutions. Moreover, these institutions have the power (legislative and/or political) to make the state in question comply with their requirements based on the principle of conditionality and the need to pass through a series of assessments in order to comply with all requirements and eventually accede to the organization in question. What is common in both types of public administration reform is that national authorities seek to address the reform requirements by making use of policy transfer opportunities available at the national or international level. The overall framework of principles and values that determine these requirements ever since the 1980s has been framed good governance.

1.4. APPLYING THE PUBLIC ADMINISTRATION REFORM TYPOLOGY: THE TURKISH CASE

Conducting a case study on Turkey with regard to change in the domain of public financial management (PFM), this thesis seeks to base its analysis at two levels: (1) interaction between the domestic and external factors (2) interaction among the external factors. Whilst the first level will provide us the causes of change in public financial management policies and structure in the Turkish public administration, the second level will enable us to exemplify the relationship between the IFIs and the EU in shaping the "good governance" framework, which would also give us clues regarding the direction of relations between Europeanization and globalization.

Some authors such as Kubicek (2001: 38) argue that in Turkey "if change was to come, it would be either come 'from outside' or 'from above'. Güler (cited in Sobacı, 2009) argue that the reforms initiated within the framework of public administration reform in the 2000s originate from abroad. Likewise, Sezen (2011) asserts that the financial reforms have been introduced entirely by international actors. She asserts that Turkey's experience regarding the impact of international versus domestic factors on carrying out reforms suggests "the certain supremacy of the former" where the international dynamics are "deeply proactive, initiating and compelling" and the

domestic dynamics are “mainly supportive or reactive” (Sezen, 2011). The thesis seeks to assert that the reasons and ways for change in the Turkish public administration are more complicated than it may seem. Public financial management reform should be analysed by determining primarily the endogenous and exogenous factors; secondly by examining the interactions between these factors as well as among the webs of policy transfer within these factors themselves; and lastly the type of public administration reform in the period analyzed.

As reflected in Table 1 below, Turkey has experienced a number of public administration initiatives ever since its foundation in 1923. These initiatives have been mainly triggered by economic or political crises. As indicated by Halil Inalcık (1995: 135) “the most radical decision to reforms was almost always made in time of crisis”. The political economy perspective of the government in power at the time of the reform also influenced the scope of the reform. Up until the 1980s, when the state followed protectionist economic policies, public administration reform was limited to the revision of personnel regimes and economic development, which gave rise to the preparation of the five-year development plans addressing central and local levels as well as in the State Economic Enterprises with the aim of ensuring neutrality, equality, and quality of public services. As of 1980, which will be the starting year of this analysis, the public administration reform started to entail a regional dimension, as well as central and local as a result of the shift towards a non-protectionist state in a liberal economy. The reform priorities were neutrality, reorganisation of the institutions, effective and efficient public financial management, reducing red tape, increasing local revenues, and reducing the number of civil servants. Therefore, the author names this era as the “period of reorganisation”. The period of reorganisation entailed adjustment oriented public administration reform initiatives based on a cherry picking exercise of the governments among the priorities determined by the Turkish bureaucrats and the IFIs. The public administration reform after the 1999 was a more comprehensive one with a focus on central, local and regional levels for enhancing relations between these levels, e-government, right to establishment, ombudsman and mainly public financial management and control. Thus, it is named

as the “period of restructuring” as a result of accession-oriented reform, where the priorities and deadlines are provided to the country in question by the EU accession process in a structured manner.

Table 1. Overview of Public Administration Reform in Turkey

PERIOD OF ANALYSIS	**Mode of Public Administration Reform**	**Endogenous Factors for Change**	**Exogenous Factors for Change**	**Proxies for Change**
1980-1999 Reorganisation	Adjustment Oriented	Economic and political crises Shift from a "import-substitution" regime to liberal market economy Encounter with neo-liberal policies and the Washington consensus	Globalization European Integration	IMF World Bank OECD EU
1999 onwards Restructuring	Accession Oriented	Major economic crises Reformist political drive Encounter with the post-Washington Consensus and regulatory neo-liberalism	Globalization Europeanization	IMF World Bank OECD EU

The 1980s was a turning point for the Turkish state as well as for the IFIs and the EU. Turkey adopted the 24 January 1980 Stability Programme supported by the IMF aiming at switching its economic policy from "import substituting industrialization" to "export-led growth strategy", which brought about the introduction of liberalization in financial markets and more emphasis on foreign trade as a means of economic development. Following the oil crises, devaluation of dollar and the collapse of the Bretton Woods system, there was a significant increase in the number of countries experiencing problems with the balance of payments. With the intention of finding sustainable solutions to these economies, the World Bank and the IMF revised their modes of operation. They required the borrowing countries to adopt and implement structural adjustment programmes to be determined within the framework of the stand-by arrangements.[5] These arrangements eventually provided the IFIs with a “closer scrutiny” role, officially adopted with the IMF decision of 25 March 1985. The EU, on the other hand, was preoccupied with deepening of the EU integration whilst envisaging widening by means of enlargement. At a global level, the Washington Consensus, which was based on the liberalization of key sectors of the economy (Williamson, 1990) was guiding the policy advice of the IFIs. In line with the Washington Consensus, the involvement of the State in economic and social development was to be reduced, and government was to operate according to market-like mechanisms wherever possible.

The key elements that make 1999 a turning point for the reform initiatives in Turkey are two-folds. Following the economic crises in February 1999 and the devastating earthquake on 17 August -with significant social, economic and financial shortcomings- that Turkey experienced, Turkey submitted a Letter of Intent to the IMF on 9 December 1999 for the first time with detailed structural adjustment

[5] The manner in which the IFIs interevened in the crisis through the Structural Adjustment Programmes is subject to different interpretations. It has been argued, for instance, that these programmes were a form of neo-imperialism seeking to control the economic future and resources of these countries. This important debate is beyond the scope of this thesis.

commitments including those on public fiscal management.[6] In the following days, the Helsinki EU Council on 10-11 December 1999 granted Turkey the candidacy status for EU membership (European Council, 1999). On 22 December 1999 Turkey initiated a disinflation and fiscal adjustment program supported by a Standby arrangement with the International Monetary Fund. From a global perspective, the late 1990s corresponded to the period of post-Washington Consensus (Gore 2000) and regulatory neo-liberalism, which brought in substantial change in terms of the policy approach of the IFIs. The previous stance was revised in the sense that sound governance and strong regulatory arrangements were now seen as a crucial factor in promoting balanced growth. The post-Washington consensus, though still operating within the liberal paradigm, offered more of a role to states and national administrations when assessing policy reform and called for comprehensive institutional reforms.

1.5. AN OUTLINE OF THE THESIS

The **second chapter** discusses the nuts and bolts of the thesis, which are research outline, methodology and theoretical framework. The first section -research outline- sets out the research design adopted and the questions that stem from it. This is important so as to clarify the aim of the thesis as well as the way in which it sets out to achieve its key research objective. Parallel to the research questions and the sub-questions, I elaborate on the key variables that this thesis concentrates on. I then move on to discuss in some detail the choice of this case, the case study approach used here and analyze its advantages and drawbacks in social science research. The next section elaborates on the pros and cons of process tracing, the research method utilized in this study. This chapter concludes by explaining the theoretical framework adopted for the purposes of this thesis, which is the "policy transfer approach" advocated by Dolowitz and Marsh (1996) and structured by Evans and Davies (1999) as administrative reform in Turkey is a very relevant example of policy transfer (Sezen, 2011). I review the literature on the theory and how policy transfer actually

[6] www.imf.org/external/np/loi/**1999**/120999.HTM retrieved on 9 February 2012.

occurs, discuss its evolution through time and relate my research question and hypothesis to it.

The **third chapter** focuses on the relationship between the processes of Globalization and Europeanization, their interaction during the evolution of the concept of good governance, and how good governance relates to the public financial management and control. Doing so, I start by introducing the processes of globalization and Europeanization. This is necessary so as to establish the context, within which the case study of Turkish public financial management will subsequently be located. Moreover, the analytical discussion of these processes stresses the significance of policy transfer processes and policy networks as they are both embedded in those networks and operate through them. Then I analyse the relationship between globalization and Europeanization with respect to their treatment in the literature, the pitfalls in their diverse use and the relationship of one to the other. I continue with the roots of the good governance agenda as one of the domains where both interaction between the proxies of these processes, namely the IFIs and EU, and eventual convergence between the processes themselves can be seen. Therefore, I look into the evolution of new public management as an alternative to the old public administration school, which is closely related to the emergence of the "good governance" concept. I then compare this with the new public management. Then, the study explores what good governance means for both the IFIs and the EU, and compares the extent to which the IFIs and the EU see eye to eye in the way they understand and apply the concept. Finally, I explore how the good governance agenda was reflected in the policy area of public financial management and control and identify the means for policy transfer and convergence between the processes of globalization and Europeanization in this domain.

The **fourth and fifth chapters** constitute the empirical part of the thesis. They will comprise of the case study of the impact of the good governance agenda and the way it evolved around the processes of globalization and Europeanization on the Turkish public finance policy and structures. The chapters are divided in line with the periods

of analysis, which are adjustment-oriented reform from 1980 to 1999 and accession-oriented reform from 1999 onwards. The **fourth chapter** explores the evolution of the Turkish public administration, considering that public financial management was not an explicit part of the reform agenda up until the 1980s. The Stability Programme of 1980, however, was different from the previous stability programmes as it entailed-for the first time- the long term goal of economic development through structural reforms. However, these structural reforms failed to address long-term measures for the restructuring of the Turkish public financial management and control as a means of ensuring sustainable economic growth and political stability. The public administrative reform and stabilization efforts were often triggered by economic and political crises; and were set aside once the immediate consequences of the crises faded away. This chapter will seek to identify what kind and to what extent of policy transfer was involved; why the reform agenda did not entail long term public finance related structural reforms, by looking into the historical development of the reform initiatives, the analysis of the PFM situation from a good governance perspective and the interaction between and within the endogenous and exogenous factors; and how they failed to push forward such initiatives.

The **fifth chapter** will analyse the public finance reform initiatives from 1999, which was another milestone for Turkey as explained above. Once again, economic crisis triggered public administration reform entailing structural changes. This time, however, the structural reform addressed long-term measures on public financial management and control. The thesis will explore the reasons behind this crucial change by again looking into the historical development of the reform initiatives, the analysis of the PFM situation from a good governance perspective and the interaction between and within the endogenous and exogenous factors; and how these factors pushed forward these initiatives. How have the endogenous factors evolved over time? Why did the eventual change happen in this period and not earlier? What was the level of involvement of the IFIs and the EU in the adoption of the Turkish Public Financial Management Law and the Turkish Court of Accounts Law; in other words, to what extent were these organizations involved in as crucial a policy change as the

revision of the budget system and audit structures? These are the key legislative initiatives bringing in fiscal decentralisation and considerable alignment with the international standards and EU practices in terms of expenditure management, control and budgeting. Due to the focus on the Turkish case study and the country's accession process, I will devote extra attention to the EU enlargement process as a means of Europeanization and the conditionality mechanisms attached to it. This will enable us to see how the European Union Enlargement Process affects the public finance policies and structures in candidate countries? How does the EU conditionality work in this respect? Can we talk about the expansion of the European Administrative Space to the candidate countries? In this chapter, I will also analyse the interaction between the IFIs and the EU on promoting good governance in the case of accession-oriented reform. Does the latter lead to convergence between their modes of operation?

Finally, I will summarize the main arguments illustrated in the course of the thesis. I will seek to derive conclusions and make projections based on these conclusions. Can we distinguish the salience of endogenous and exogenous factors for change on the basis of the type of public administration reform? How do these factors interact between and within themselves? How did the policy transfer networks operate in the Turkish public financial management reform? How was the relation between globalization and Europeanization in a given policy domain? Did the requirements of the IFIs and the EU complement each other?

CHAPTER 2

RESEARCH OUTLINE, METHODOLOGY AND THEORETICAL FRAMEWORK

2.1. RESEARCH OUTLINE, QUESTIONS AND VARIABLES

2.1.1. RESEARCH DESIGN

The starting point of this thesis is the exploration of changes introduced in Turkish public financial management since the 1980s. In particular, I am interested in the process as well as the outcome of financial management reform in the public sector and wish to understand and explore the key forces driving the process of the reform undertaken in this crucial sector of public policy. The thesis aims at doing do so in a manner that will go beyond describing reforms and to embed the analysis in the wider political and economic context within which reform has been delayed or undertaken. Therefore, the thesis combines the exploration of a particular case study (including its ramifications for other policy sectors and public financial management in other countries) with the comparative method when it comes to looking at the twin set of factors, endogenous and exogenous, responsible for reform in two different periods.

The thesis has a clear starting point in terms of its objective, which is to explain and analyze public financial management reform. It does so not in any abstract sense, but by focusing on the period since 1980, which is the period coinciding with the start and subsequent embedding of economic liberalization in Turkey which opened up and then consolidated major changes in the perception, understanding and operationalization of public financial management. What the thesis focuses on is the very process of change in public financial management. It does not analyse the effectiveness of the legal and institutional framework that has gone through a

transformation. In other words, it is mainly concerned with the change and the interaction of the factors paving the way for change, but not with the actual impact of this change.

The core hypothesis of this thesis is that the relative salience of endogenous and/or exogenous factors depends on the type of reform undertaken by a particular country. A complementary hypothesis is that the IFIs and the EU share the key elements of good governance and promote it in various ways. They use good governance, both as an objective of and as a condition for offering assistance (Santiso, 2001: 3). Assistance aims at development and adjustment to the global economy in the case of the IFIs and at either development or accession in the case of the EU, whilst this thesis focuses on the latter regarding the EU conditionality. Grabbe (1999: 4) differentiates IFI from EU conditionality for accession by stating that the former "links perceived benefits to the fulfilment of certain conditions; in the case of IMF and World Bank finance, conditionality is primarily linked to the implementation of specific economic policies, such as structural adjustment, and the main benefit is finance" whilst the latter demands (mainly in the case of enlargement to Central and East European Countries) "not just a set of conditions to receive defined benefits, but an evolving process that is highly politicised" (Grabbe, 1999: 5). The current debt crisis in the Eurozone suggests that finance-led conditionality of a similar type to the IMF is now offered by the EU too, namely for Eurozone states in need of financial assistance. The extent to which development changes enlargement-focused conditionality is, however, unclear.

2.1.1.1. Public Finance as a Policy Domain

Public finance is the discipline through which governments carry out their functions in terms of spending, regulatory programs and taxation. In line with the new role of the state –acquired in response to global challenges- as intermediary between external and domestic policy preferences, public finance is closely linked to the policy priorities pursued by governments and to their relationship with markets and

civil society (Kaul and Conceiçao, 2006: 27). Accordingly, the tasks of public finance are "maintaining fiscal discipline, managing cross-border externalities, using global markets to strengthen risk management, and knowing the limits to cooperation behind national borders" (*Ibid*.). In Stiglitz's words, states in a globalizing world need to take into account the outside world whilst formulating their fiscal policies and take "global collective action" in addressing the fiscal challenges (Stiglitz, Prologue in Kaul and Conceiçao, 2006).

Public financial management is defined by The Chartered Institute of Public Finance and Accountancy (CIPFA, 2010: 5) as "*the system by which financial management resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals*". Resource generation, resource allocation and expenditure management (resource utilization) are the main pillars of public financial management. Public finance is therefore a key component of public governance and can be used as a reliable policy area to understand the modern functions of governance and the extent to which it differs from previous methods. Furthermore, public financial management has been instrumental in research on public performance and is considered a concrete measure of "good government" since it offers analytical tools, measurement strategies, observable management practices and conceptual frameworks to carry out an analysis on policy change (Keiko *et al*, 2011: 117).

Taxation as the primary means of public resource generation is a policy area that has been largely immune to EU integration. It remains under the national sovereignty jurisdiction of Member States with a relatively low level of cross-national harmonization. As a result of this fact and due to the limitations of indicators to analyse the impact of the EU on this domain, this thesis will focus on resource allocation and resource utilization, in other words, budgetary process and public expenditure management with a focus on the key concerns of the PFM, namely accounting and financial reporting, auditing, fiscal policymaking, cost analysis and cash management. Procurement is also an important element for increasing the

efficiency of public expenditure. Good practices on public procurement have been developed internationally by the United Nations Commission on International Trade Law (UNCITRAL), the European Union (EU) and the World Trade Organization (WTO). As the main international actors in this domain are not identical with those in public financial management, this thesis will not analyse the public procurement related issues in detail due to methodological and content-related concerns. The fact that the "public management reforms in 1990s concentrated heavily on financial management and budget systems" (Keating, 2001: 209) already provides us with a broad number of policy options and examples, which will permit a limited but focused analysis.

In the world of today, key elements for ensuring macroeconomic stability are increasing budgetary transparency, strengthening budget procedures, integrating accrual and cash accounting and removing extra-budgetary funds undermining budgetary constraints. Budget has a central role to play both as a key mechanism of accountability through which the governments inform the citizens about how the public resources will be raised and used; and as a means to resolve common pool problems among the politicians through pre-determined ceilings and allocations (Atiyas and Emil, 2005: 6). Thus, public finance is at the centre of reform calls by the OECD, and it is increasingly assuming a prominent position in the reform agenda of all countries. State capacity [including public financial management] is a critical variable for benefiting from a globalizing world economy (Öniş and Bakır, 2007:148). In the EU context, sound financial management is a permanent requirement both for candidacy and membership. Public financial management constitutes the core of the structural reforms that the IMF and the World Bank requests the borrowing countries to comply with. Its political importance, therefore, makes it a very interesting case to study in some detail.

2.1.1.2. Turkey as a Case Study

The thesis focuses on a particular case study, Turkey. Having signed 19 stand-by arrangements[7] (SBA) with the IMF from 1 January 1961 until 10 May 2008, being one of the most significant beneficiaries of World Bank loans as well as being a founding member of the OECD with a perspective of EU accession, Turkey perfectly fits the requirements of a case study to conduct the above-mentioned analysis. Especially, the IMF and the World Bank have had substantial influence on Turkey's economic and political policies, whilst the EU has not only influenced but also stimulated change in Turkish social, political and economic life (Müftüler, 1992). Furthermore, the IMF and the EU have been "double external anchors" (Öniş and Bakır, 2007) for transformation in Turkey (in the 2000s) by accelerating the momentum of the reform process (See Ülgen, 2006; Çarkoğlu and Rubin, 2005). In other words, the EU brought in an impetus for change as an "external agent for change" and "a key motivating factor favouring modernization" (Sözen and Shaw, 2003: 109).

Secondly, public financial management as the sub-field of public administration has had an exceptional importance in Turkish social, political and economic life, since a malfunctioning system of accountability in public finances lies at the core of Turkey's successive economic crises that have wiped away vast sums of savings for households and businesses leading to crisis and instability. Therefore, a sound system of public financial management is a precondition for Turkish economic stability, which can then be accompanied by political stability and social progress. It should be mentioned that it would not be correct to assume that economic stability is a

[7] The IMF stand-by arrangement is a "lending facility established in 1952 through which a member country can use IMF financing up to a specified amount to overcome short-term or cyclical balance of payments difficulties. Instalments are normally phased on a quarterly basis, with their release conditional upon the member's meeting performance criteria, such as monetary and budgetary targets. These criteria allow both the member and the IMF to assess the member's progress in policy implementation and may signal the need for further corrective policies" (External Debt Statistics: Guide for Compilers and Users, http://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm retrieved on 29 September 2012).

guarantee for the social or the political well-being under all circumstances, for all countries and in all contexts. However, it is generally accepted, and this thesis accepts too, that economic development is a precondition for the formation of conditions that can allow the social and political scene to progress. In other words, public financial management plays a fundamental role in the country's social, political and economic life that goes beyond a merely technocratic and specialized field of public policy. It is for all the above reasons that considering such a field only as "technical" and therefore non-political is inaccurate.

Thirdly and unlike the former candidates (CEECs) and the acceding country (Croatia) the current candidate countries of Serbia, Montenegro and the Former Yugoslav Republic of Macedonia (excluding Iceland), Turkey has a long-lasting public administration culture stemming from its Ottoman past. That culture has not undergone many and complex transformations other candidate states have experienced. The CEECs were obliged and prepared to restructure most of their public administrations significantly in the aftermath of their communist past. Once the communist regimes fell apart, one of the most difficult reforms to be achieved was the transition of public administration to EU requirements. This was a major challenge, for the simple reason that the authoritarian regimes were run on the basis of executive orders rather than public accountability. It is this obstacle, which makes it extremely hard for authoritarian states to reform themselves and which contributed to their collapse at the end of the 1980s. In fact, the Gorbachev example shows how, when and if reforms are initiated in closed regimes, it becomes very difficult to control the process and gradually open up those systems. However, the CEECs have had the advantage or the "luxury" to transform their public administration starting in essence from point zero and being able to begin the process of restructuring without historical and institutional legacies obstructing the process of change. In other words, they could afford to open a new path of public policy and avoid the path-dependent complications in policy reform that the literature acknowledges often with regard to older democracies. The endogenous factors, in other words, were not highly mobilized and could be swept away fairly easily as the goal of EU accession and the

need for improvement and progress made their influence redundant after the end of communism. On the other hand, the Turkish public administration was more familiar with the process of *acquis* alignment than the CEEEs due to the Customs Union between the EU and Turkey, which was concluded in 1995 (Göksel, 2001: 201; Sezen, 2011: 337). Therefore, one can argue that transformations in their public administration were less painful than in Turkey, where the resistance of Turkey's bureaucratic/state elites to change is more significant. This is down to a decade-long public administration ethos which has proven very resistant to change, largely based on the political, institutional and administrative legacies of a country distinguished by a large and highly influential state structure.

On the other hand, until the 1980s Turkey did not have an economic strategy in compliance with the free-market approach of the European Union (Kahraman, 2000: 3). Its protectionist economic policy was modified in the 1980s following the IMF intervention (*Ibid*: 4), only a decade before a similar process was initiated in Central and Eastern Europe. It can even be argued that "the liberalization process of the Turkish economy and the accompanying political and ideological spheres were mostly designed, defined and imposed by [the] international organisations" (Cizre and Yeldan: 2005). Öniş and Bakır (2007: 149) indicate that the EU, IMF and World Bank have been main external actors pushing for institutional reforms in economic governance. After the Helsinki Summit of 1999, the EU has become the leading organization in Turkey's liberalization process and an important player in the reform processes (Özoğlu Poçan, 2005; Ataç and Grünewald, 2008). Ever since then, Turkey-EU relations started being conducive to strengthening domestic reforms (Rumelili, 2004; Tekin 2005). Uğur argues that the legislative changes brought in by consecutive Turkish governments in the 1990s "were …related to pressures from the EU" (Uğur, 2001: 233). Furthermore, a number of projects have been introduced in co-operation with the International Monetary Fund, the World Bank and in the framework of the convergence programme with the European Union *acquis* to make public expenditure more transparent and directed towards clear policy objectives (Gönenç, Leibfritz and Yılmaz, 2005: 38).

Moreover, Turkish political and economic history has developed around the aim of "catch[ing] up with or adapt[ing] to developments" in Europe (Müftüler, 1992: 68). The Turkish Republic was founded in 1923 on the project of "Westernization" and modernization, which is being transformed into the project of Europeanization in the aftermath of the Helsinki EU Summit (Eralp, 2005: 8). The Turkish Foreign Ministry indicates that Turkeys Vision for the 21st century is to achieve integration with the West.[8] The then Deputy Undersecretary of the Prime Ministry, M. Emin Zararsız stated that

> The European Union [was] one of the important driving factors of restructuring efforts in the Turkish public administration. With the start of the EU membership negotiation process, Turkey need[ed] to harmonize its legislation with the EU *acquis communautaire*. Since this process require[d] the definition of common and differing structures and regulations and the planning of implementation, reform efforts must continue, but with an increased momentum (OECD SIGMA Update, 2005).

This argument finds evidence in the significant policy changes and public administration reforms that have taken place since 1999. One of the most significant steps in that direction was the declaration of the Turkish government in 2004 that it accepted European governance as a model for restructuring the Turkish state. (Özoğlu-Poçan, 2005: 114), where the concept of "European governance" is explained on the official website of the European Commission as "… the rules, processes and behaviour that affect the way in which powers are exercised at European level, particularly as regards openness, participation, accountability, effectiveness and coherence". Likewise, the Eighth (2001-2005) and the Ninth (2007-2013) Development Plans indicate that "the public administration system will be restructured in the framework of a good governance approach" around the principles of "transparency and accountability" (SPO, 2000: 191; SPO, 2006a: 108). The presence of such an already existing policy priority facilitates the analysis of the impact of this transformation on public finance policy and institutional structures.

[8] http://www.mfa.gov.tr/default.en.mfa retrieved on 17.04.2012.

Furthermore, and to add a very important academic and scientific dimension to the above analysis, the large population of Turkey inevitably brings in a larger state apparatus that provides the researchers with a broader possibility of analysis. Combined with the earlier phase of state-led development, Turkey retains until today a very wide state apparatus with considerable authority over a formidable number of policy areas. The scope of Turkish public administration is such that research opportunities are numerous and can provide a lot of ground for fruitful analyses, which can then feed into policy making and make a practical, as well as academic difference.

Last but not least, Turkey has gone through significant public administration transformation in the last two decades. This provides researchers with the opportunity to analyse a process which has already come to a level of maturity, being not too old to find primary research material and conduct interviews and yet not too recent to have difficulty in reaching conclusions due to a lack of data.

2.1.2. RESEARCH QUESTIONS AND KEY VARIABLES

The main research question is: How has Turkish public financial management evolved since the 1980s? Further to the main research question follow a series of sub-research questions which are linked to the key variables of this thesis. To start with, the thesis asks: How influential was the good governance agenda in evolution of the public financial management in Turkey? Which factors enabled the transfer of good governance principles and led to domestic policy change in the field public finance in Turkey? Did they act in isolation or was there a policy transfer from and/or interaction with the external actors? Based on the main hypothesis that the relative salience of endogenous and/or exogenous factors depends on the type of reform undertaken by particular country and in connection with the preliminary research questions, the following questions will need to be asked in explaining the difference between “adjustment oriented reform” and “accession oriented reform”: how have domestic factors influenced the reform initiatives? How do the IFIs and the

EU interact in promoting/supporting good governance? Does this process lead to a form of convergence between their modes of operation, or do they maintain operational autonomy despite ideological similarities?

Although the thesis benefits from the case study design (discussed in more detail below), it will also seek to (at least partly) draw from the strengths of the comparative method in the chapter that analyzes and compares directly the endogenous and exogenous factors that led to change in public financial management. Drawing on this comparison and seeking to benefit from it results from the fact that it is through the direct comparison of these factors that one can gain a full, comprehensive understanding as to the "whys and hows" of transformation in public financial management.

Within this framework, the policy transfer approach will help us to identify the independent, dependent and mediating variables. The mediating variables will serve as the *explanan* (the explaining factors) for the domestic public finance policy change in Turkey, which is the *explanandum* (what is to be explained) of the thesis. These variables will facilitate the analysis of domestic policy change in the empirical case study. The independent variable of this thesis will be *good governance as defined by the international organizations,* whilst the dependent variable will be *domestic policy change in public finance.* The mediating variables will be *e*ndogenous and exogenous factors for reform.

Endogenous factors will be analysed in the form of relations between state, market and society, executive and bureaucracy. The logic behind this division is that markets and states are in an "interactive partnership" (Stiglitz 1998 cited in Kaul and Conceiçao, 2006: 5), producing and financing various components of public policy outcomes in cooperation and in competition from the 2000s and onwards. Furthermore, civil society is also assuming an increasingly more active part in shaping public policies. In analysing state-society relations, we will refer to the

categories created by Jeffrey Checkel. Although the thesis does not use a constructivist framework of analysis, this particular aspect of analysis offered by Checkel seems to be very useful. According to Checkel (1999b: 88-90), there are four diffusion mechanisms through which norms are socialised depending on the domestic structure. In the "liberal structure", political elites are highly restrained by the pressure exercised by domestic individuals or groups within the policy-making process. In this case, "it is irrelevant whether [political] elites learn from norms." In the "state-above-society" structure, the state is free from domestic pressures and at the same time "exercises considerable control over society". In this context, political elites need to learn the norms if they are to be enforced. The third mechanism is the "corporatist structure", in which political elites enjoy a "greater role in bringing about normative change than in the liberal case; however, this does not mean they impose their preferences" on society. This structure is characterised by "the policy networks connecting state and society; with the latter still accorded an important role in decision making." Empowerment in the corporatist mechanism operates in a two-step process, which starts with "societal pressure," and continues with the "political elite learning the norms". In the "statist" structure, political elites' learning fulfils a "dominant role in the process" of norm diffusion; this is so, because "societal penetration of the state and the organization of social interests are weaker than that in the liberal or corporative" systems. Therefore, in the statist structure the "probability that pressure from below will empower norms is reduced."

The starting assumption behind the analysis of the relation between the executive and bureaucracy is that agencies played a very important role in initiating or delaying progress. In the 1980s, the executive sought to promote the process of economic liberalization and saw the incumbent bureaucracy as an obstacle. As a result, an alternative bureaucratic circle was created regardless of the long-term consequences this could entail. In the 1990s, the push for policy change came from the bureaucracy. However, this appeal did not secure political ownership at the executive level. It is thus important to trace the process of reform in the Turkish public

financial management and explore the role of political and administrative agencies in great detail.

Exogenous factors for policy change will be globalization and Europeanization, which will be analysed through their proxies identified for the purpose of this thesis. Hence, the exogenous actors will be the IMF, WB, OECD and the EU. In the 1980s and 1990s, the IMF and the World Bank were dominant external factors influencing the reform initiatives due to the urgent need of the country to secure loans for adjustment of the national economy to global financial markets; whereas the EU was "the most influential actor in reforms during the 2000s" (Sezen, 2011: 336; Ataç and Grünewald, 2008).

2.1.3. THE CASE STUDY APPROACH: ADVANTAGES AND DRAWBACKS

The possible methods of conducting the research varied from survey-based approaches to historical investigations and case study research. On the one hand, the questions asked in this thesis do not necessitate a "control over behavioural events" (Yin, 1994: 1) and therefore exclude the survey approach as a suitable method. Furthermore, the historical method is best suited to research that seeks to look into political phenomena long past, when the relevant actors are not alive anymore and therefore the research has to rely solely on existent documentation. The chronological focus of this thesis necessitates the exploration of events and decisions often taken a long time ago; at the same time, it is also interested in the evolution of the process of decision-making and therefore relies on contemporary phenomena as well. Furthermore, it also utilises a wider set of exploratory tools beyond historical documentation and primary and secondary literature, such as elite interviewing. An explanatory case study approach, therefore, and contrary to surveys or experiments, is best suited to the requirements of such a task as it concerns itself with the "how" and "why" research questions about "contemporary set of events over which the investigator has little or no control" (Yin, 1994: 9). Indeed, the main questions that preoccupy us are, on the one hand, the precise nature of the development of public

financial management and on the other to account for the co-existence of continuity and change in the policy paradigms dominating Turkish political economy.

Case study methods have been criticised on different grounds. A first drawback of this method is that they cannot be generalised to other cases (Van Evera, 1997: 53), therefore limiting the usefulness of the approach. It has also been suggested that researchers may often suffer from selection bias and not conduct their work with the level of objectivity and rigour required (Yin, 1994: 10). Nevertheless, such drawbacks are more than compensated by the case study advantages. Firstly, case studies provide evidence on the theory being tested from a wide variety of sources (Burton, 2000: 225), which allows for rich and detailed accounts to enhance knowledge on a particular subject. Also, the importance of case studies lies in their ability to test theoretical propositions in a vigorous manner; their primary goal is to make analytical, as opposed to statistical, generalisations. The findings derived from case studies can indeed be generalised to theoretical propositions (Yin, 1994: 10). In addition, case studies allow for a detailed exploration of the relationship between the dependent and independent variable of their study and how they relate to the original hypothesis. If the hypothesis put forward is verified, the researcher can detail the construction and exploration of the hypothesis so as to test his/her explanations. This is significantly harder to achieve when analysing more than one case (Van Evera, 1997: 53).

Overall, case study approaches have a lot to offer when the purpose of the research is an explanatory one aiming at providing causal explanations. Such an analysis enhances the ability to discern crucial explanatory variables whilst at the same time drawing attention to the unique character of the socio-economic, political and historical variables underpinning each case study.

Case studies have often been associated and indeed identified with qualitative research (Burton, 2000: 217). However, this is not to say that a case study

methodological approach need only entail qualitative evidence; indeed, it has been argued that a purely quantitative approach can fit well into a case study method (Yin, 1994: 14). Qualitative approaches have often been criticised for lacking the precision and scientific-like quality of quantitative analyses (Berg, 1989: 2; Harrison, 2001: 14). The drawback of a quantitative approach is, like in many similar cases, the inability to quantify key variables and place them in a statistically informed matrix that can produce useful results. This is not to deny the salience of quantitative analyses in the study of political phenomena that manages to overcome the individualist ontology of rational-choice explanations (Blyth, 2002: 308). However, the nature of this study presupposes a qualitative approach whereby the motivation, behaviour and attitudes of key actors as part of a larger institutional framework will shed important light to policy outcomes. A qualitative approach is best suited insofar as it combines evidence from a plurality of sources that both increase factual knowledge and underline the complexity of human behaviour in the construction of political patterns.

2.1.4. THE RESEARCH METHODOLOGY: PROCESS TRACING

Although it is quite difficult to employ analytical indicators to measure administrative change, as argued by Olsen, the issue is too important to be ignored (Olsen, 2006: 507). A self-explanatory example would be the postponement of the accession of Bulgaria and Romania to the EU for three years due to failure to improve of the administrative capacity and reinforce their fight against corruption (Gabanyi cited in Börzel, 2008: 24). This study will not seek to measure the extent of administrative change and/or convergence through quantitative indicators, but will rather seek to analyze the very existence of administrative convergence in a particular case and the interaction of endogenous and exogenous factors in stimulating this change.

The role of endogenous and exogenous factors in influencing the direction as well as the content of reform in Turkey will be explored through process tracing that relies

on triangulation: primary reports and documentations stemming from those sources, secondary material that relates directly to policy positions, reports and statements of the Turkish as well as the IFI and the EU officials, and thirdly elite interviews with key policy actors from the Turkish administration and from those institutions. The interviews are a key component of the thesis since they will add up to other research components and offer an insider's account as to the thought processes, motives and intentions of policy- and decision-makers. However, use of descriptive statistical evidence has also been made, so as to verify some of the data derived from interviews, as well as to highlight the beneficial character that a measured use of statistics can have on a study focusing in what is in essence a politically and socially constructed reality. Theoretical framework of policy transfer approach, which is rarely used in the literature on Turkey, will enable us to carry out this analysis. Analyzing the evolution of the Turkish public financial management system through a policy transfer approach and using the policy tracing methodology, this thesis seeks to contribute to the literature as there does not seem to be a study combining policy transfer approach with process tracing.

The analysis is made on the basis of a comparison between two periods, 1980-1999 and 1999 onwards. The 1980-1999 period can be characterized as the years of *ad hoc* and short-term measures to find solutions to economic and political deficiencies. The second period reflects the years that long-term structural measures, which would have more sustainable outcomes, were taken in the domain of public finance. The method of policy tracing will enable us to see which actors (domestic, European or global) were more influential in these periods.

Although some of the key reports on public financial management in Turkey were issued in 2000 and 2001, which fall under the second period, their findings are mainly reflected in the analysis of the first period to show what was needed and was still pending. As a means of comparison, Development Plans, National Programmes for the Adoption of the Acquis, Pre-Accession Economic Programme prepared by the Turkish authorities, the EU Accession Partnership (AP) Documents, Annual

Progress Reports, Screening Report for chapter 32, the World Bank Public Expenditure and Financial Accountability and Annual Reports, the IMF Reports and the Letter of Intents, the OECD Support for Improvement in Governance and Management (SIGMA) baselines and annual assessment reports will be used.

Elite interviewing was undertaken based on a semi-structured format. The great advantage of elite interviews is that they facilitated a greater insight to the periods concerned. They have also been particularly helpful in providing a rich variety of perspectives (Johnson, Joslyn and Reynolds, 1995: 265). The problems regarding interviewing and especially elite interviewing vary from the accessibility of respondents to a refusal to answer certain questions and the danger of subjectivity and "leading" the interviewee to certain answers (*op. cit:* 262-275). With regard to access, very few problems have been encountered as most of the interviewees in the original list have accepted to be interviewed. They have often required anonymity and enabled the present research piece to a great extent by often providing complementary written material.

Frequently used over recent years by many scholars, process tracing has acquired a high degree of popularity among research methodologies in social sciences. This has been mostly due to the turn towards identifying causal mechanisms in the social sciences (Elster, 1998) and the ability of this type of methodological enquiry to contribute to that. Below we briefly review its origins and evolution before outlining its essential tools of analysis and the way it is utilized in the present study, before concluding with an application of it in Turkey.

In the social sciences, process tracing can be traced back to the late 1970s. At the time, the term was used to "describe the use of evidence from within case studies to make inferences about historical explanations" (George, 1979). Undoubtedly, process tracing applications has evolved over time and its use has become pluralized. The core of what should be understood under process tracing, however, has remained

constant. It can be defined as examining the various intermediate steps in a process to make different sort of inferences and/or hypotheses concerning the essentials: how did that process actually take place and how we ended up with the outcome that we are interested in (Bennett and Checkel, 2012).

By use of that definition, it is important to add that exogenous and endogenous variables (or factors) can and ought to be added, especially in case study research. These are complementary variables (next to the dependent and independent variables respectively) which are brought into the model (endogenous) as they help shed extra light on the case, as well as those which are set aside from the model but which are identified and are very helpful in fully grasping the essence of what is going on in the particular case (exogenous). It is down to the actual process of tracing events and their sequence that will determine the relevant salience of both endogenous and exogenous factors in determining policy outcomes. This then makes process tracing directly applicable to the present case study, and provides the methodological platform upon which the research takes place. That is because, in the words of Bennet and Checkel, "process tracing examines the deductive observable implications of hypothesized causal mechanisms within a case to test whether these might in fact explain the case, or it inductively uses evidence from within a case to develop hypotheses that might explain the case". By use of hypotheses formulation and close empirical observation, policy report analyses and personal interviews with decision-makers, I trace the process of public financial management evolution and use this methodological technique to identify the actors and mechanisms responsible for its development over recent decades.

The actual technique of process tracing can occur both inductively (similar to the detective tracing back his/her case one step at a time in search of reliable evidence) or deductively (in case more comprehensive information is already available and prior documentation of events is at hand) (Bennett and Checkel 2012). For the purposes of this study, the deductive logic accompanied by hypotheses based on

events that have already occurred (such as Turkey's transition to NPM techniques and economic liberalization policies) is most appropriate.

Göksel (2011) employs the technique in her analysis of social policy change in Turkey. It is revealed that a large plurality of domestic and external actors prove to be important in pushing social policy towards a particular direction. These actors are numerous and encompass not only the "usual suspects" (government ministers and bureaucrats) but also employers' organizations and business associations. Moreover, these actors are empowered in an asymmetrical/disproportionate way in affecting social policy compared to another set of domestic actors, such as trade unions, women's organizations and NGOs. Additionally, international actors such as the IMF, the World Bank and the EU are very visible too. Their interaction with domestic actors reveals the key mechanisms responsible behind domestic policy change in the Turkish context by allowing for credible testing of rival hypotheses. It is on such premises that the current study is also constructed.

2.2. THEORETICAL FRAMEWORK: THE POLICY TRANSFER APPROACH

2.2.1. EVOLUTION OF THE POLICY TRANSFER APPROACH: A CATALYST FOR PUBLIC POLICY CHANGE

One of the best ways to assess the interaction between globalization, Europeanization and domestic politics is to examine national public policies and how they change over time. Policy change has always been one of the central themes of public policy analysis. The policy networks approach has been one of the most successful tools for analysing change because it turns the lens towards the interaction of all important agents within a given political system (Marsh and Rhodes, 1992). In particular, approaches such as the "epistemic communities" (Haas, 1992), the "advocacy coalitions" framework (Sabatier and Jenkins-Smith, 1997) and the "policy transfer network" (Evans and Davies, 1999) have proven to be very useful for understanding

exogenous pressures, because they investigate processes of learning and transfer which are at the heart of policy change and the way it is influenced by exogenous factors such as globalization and Europeanization (Ladi, 2005). Both "advocacy coalitions" (Sabatier and Jenkins-Smith, 1997) and "epistemic communities" (Haas, 1989) approaches emphasize the role of ideas and learning as central factors in policy change. Seeking to link the policy network approach to the notion of epistemic communities and to the concept of policy transfer, Evans and Davies (1997) propose the policy transfer network. The policy transfer network focuses on the knowledge resources of the agents. Being *ad hoc* by nature, a policy transfer network refers to a process of policy change via policy transfer (Evans and Davies, 1997: 15-17). It is interested in the diffusion of policies, institutions and ideas.

Although lesson drawing existed already in 315 BC, almost from the dawn of civilization, in the form of exchange of positive and negative experiences in the development of great city states (Dolowitz and Marsh, 2000; Evans and Cerny, 2004), the policy transfer approach as a theory evolved gradually as part of the comparative politics literature in the 20th century. Before the start of the World War II in 1939, comparative studies were preoccupied with a state-centred and overly descriptive analysis. As of 1940, scholars started to take into consideration the interaction between civil society and the state. By the 1960s, the key focus had shifted towards comparative policy analysis. As a sub-field of comparative policy analysis, some scholars (i.e. Walker) started to analyse a process termed policy diffusion. These studies were mainly concerned with explaining diffusion with variables of timing, geographic propinquity and resource similarities (Walker cited in Dolowitz and Marsh, 1996). Some scholars such as Clark (1985: 65) in the 1980s criticised diffusion studies for focusing not on the substance of new policies, but on the process itself. As a consequence of these criticisms, comparative policy analysts began studying lesson drawing and policy convergence which serves the purpose of reform transfer. Later on, the reform transfer literature was enriched with various aspects of and definitions for policy transfer, including from the International Relations discipline, such as "bandwagoning" (Ikenberry, 1990), "lesson drawing"

(Rose, 1991), “emulation and harmonization” (Bennett, 1991), “ “policy diffusion” (Majone, 1991), “policy learning” (Haas, 1992), “policy convergence” (Dolowitz and Marsh, 1996), “sytematically pinching ideas” (Stone, 1999), “diffusion” (Dolowitz ve Marsh, 2000), “policy isomorphism” (Radaelli, 2000), “policy shopping and penetration” (Stone, 2001), “acquiring experience without experiencing” (Kutlu, 2003), “learning” (Common, 2004).

Dolowitz and Marsh (1996: 344) analyses how policy transfer is exerted upon governments by other governments, international organizations and transnational companies. The proponent of lesson drawing, Richard Rose (1991: 3) observes that

> Every country has problems, and each thinks that its problems are unique... However, problems that are unique to one country... are abnormal... confronted with a common problem, policy makers in cities, regional governments and nations can learn how their counterparts elsewhere responded.

According to Dolowitz and Marsh (1996), “lesson-drawing” is crucial in understanding the transfer of experiences at intra or trans-national levels. However, it should rather be seen as a sub-type of transfer as it exclusively focuses on voluntary transfer and neglects coercive transfer, which will be defined in the following section. Walker’s analysis of “policy diffusion” is also limited in the sense that it sees policy transfer as an “agentless process” (*Ibid*.). On the contrary to what was asserted by this line of thinking, the role of agents is very significant in the process of policy transfer. Dolowitz and Marsh (1996) also criticize the “policy convergence” assertion of Bennett on the grounds that it narrowly focuses on the general pattern of convergence between the policies adopted by nations, without taking into account the actors inside or outside government.

Radaelli (2000b) regards policy transfer as a conceptual framework and seeks to explore the connection between policy transfer, policy diffusion and isomorphism (a concept used for showing the tendency of organizations to become alike). Doing so,

he concludes that "European institutions promote policy transfer by catalyzing isomorphic processes" and identifies the main mechanisms for reform transfer within the European Union as "enforcement", "normative pressure" and "mimetism" (Ibid.). Within the enlargement framework, accession negotiations supported by financial and technical assistance, provision of advice and the twinning of administrative staff, serve as the media for policy transfer.

Considering globalization and seeing it as a structural process external to the process of policy transfer, Evans and Davies (1999: 371) argue that it facilitates policy transfer by increasing opportunity structures for policy transfer. For instance, the proliferation of advanced communication technologies operates as an opportunity structure in this regard. Likewise, Dolowitz (2000:1) explains the increase of the occurrences of policy transfer with the increasing impact of the global forces on individual states and enhanced communication between policy-makers thanks to technological advancements. Simultaneously, however, policy transfer facilitates processes of globalization by creating further opportunity structures and acting at the transnational level mentioned above. An example here could be the EU economic development programmes (*Ibid.).*

Among various definitions reflected above, the most commonly used one is provided by Dolowitz and Marsh (1996) as they define policy transfer as "a process in which knowledge about policies, administrative arrangements, institutions and ideas in one political system (past or present) is used in the development of policies, administrative arrangements, institutions and ideas in another political system. Dolowitz and Marsh (2000: 8) establish their framework of analysis of policy transfer around the following questions:

1. Why do actors engage in policy transfer?
2. Who are the key actors involved in policy transfer process?
3. What is transferred?
4. From where are lessons drawn?
5. What are the different degrees of transfer?
6. What restricts or facilitates the policy transfer process?

7. How is the process of policy transfer related to policy "success" or policy "failure"?

2.2.2. HOW AND WHY DOES POLICY TRANSFER OCCUR?

2.2.2.1. The Actors and Scope of Policy Transfer

Policy makers in countries, which are exposed to similar pressures in an environment with ever-expanding sources of information available to them, will eventually look at other political systems for knowledge and ideas about their institutions, policies and programs. As a result, "policy goals, policy content, policy instruments, policy programs, institutions, ideologies, ideas and attitudes, and negative lessons" constitute the content of policy transfer (*Dolowitz and Marsh, 2000:* 12). These can either be transferred completely or partially (Dolowitz and Marsh, 1998: 48).

As shown in figure 1, Dolowitz and Marsh (1996) identifies the actors involved in policy transfer as elected officials, political parties, civil servants, civil society organizations, pressure groups, policy experts/ entrepreneurs, transnational corporations, think tanks, international organisations, civil society organisations and consultants.

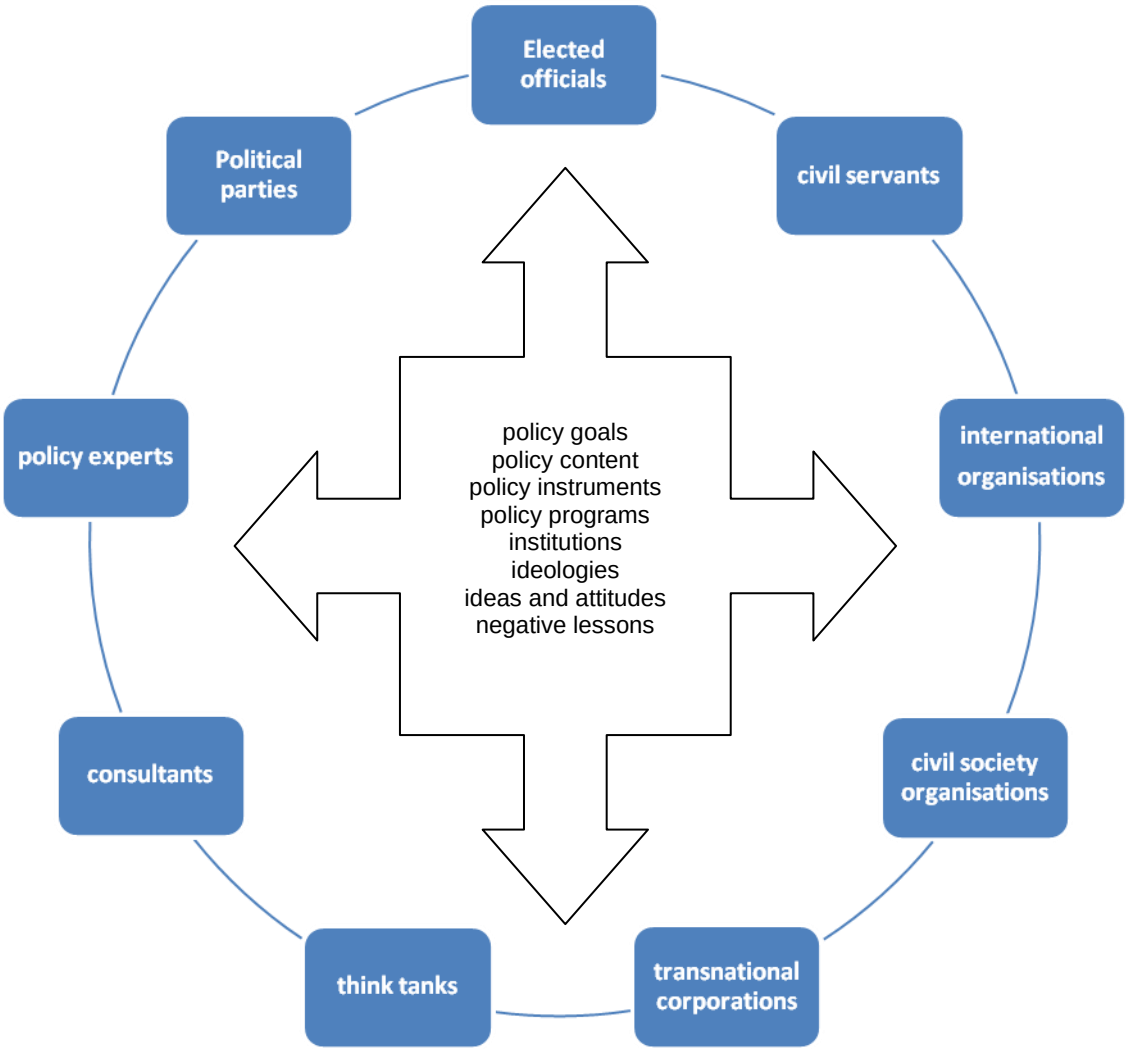

Figure 1 Actors of Policy Transfer (adapted from Dolowitz and Marsh, 1996)

Stone (2004: 556–557) categorizes the main transfer agents as international organizations (the OECD, UN, WTO, IMF and the World Bank), non-state actors (NGOs, think-tanks, consultancy firms and research institutes), transnational think-tanks (Freedom House and the Open Society Institutes) and international foundations. The most frequent examples of policy transfer can be seen in the areas of public policy, political development and democratization. Regarding the area of public policy, transfer of welfare policies and programs from the United States to Britain in the 1990s could be a good example. In the field of political development, the IFIs' neo-liberal prescriptions, which entailed cuts in the public expenditure and

increased use of the market, in the 1980s constituted the most frequent form of policy transfer from the supranational to national level. The EU has also promoted a neo-liberal agenda as well as the global institutions (Geddes, 2005:370). The most frequent example for transfer in the domain of democratization has been seen in the constitution-building exercises. The Spanish constitution was widely modelled on the German one (Aparicio and Hayword cited in Dolowitz, 2000), which was originally developed on the basis of the U.S. constitution. Further, the Spanish constitution set an example to the Hungarian constitution (Agh cited in Dolowitz, 2000).

Furthermore, projects funded by the donors as well as the training programmes, seminars organised under these projects are also significant channels for policy transfer (Sezen, 2011: 336). Sezen (2011) identifies the academic publications and the attendance of civil servants to training or meetings abroad as other means of policy transfer.

Bringing in elements from the structure and agency approach to policy transfer analysis, Evans and Davies (1999) introduce three dimensions through which policy transfer occurs; the first comprises the global, international and transnational levels, the second is the macro-level and the third is the inter-organisational level. Taking these dimensions into account and for the purpose of limiting the scope of this thesis and ensuring a focused perspective, this study will focus on the policy transfer networks developed and nurtured among the most influential actors involved in the process of policy formulation in the area of public financial management. These are the elected officials, political parties, civil servants, civil society organizations, pressure groups, think tanks, civil society organisations and international organisations. In this particular case study, the role of politicians, bureaucrats and international organizations is very crucial. Kutlu (2003: 92) considers the role of the bureaucrats a *sine qua non* for successful determination and implementation of policy reform. Moreover, international organisations in general and IFIs in particular, are promoting the spread of ideas, programs and institutions at a global scale; directly by influencing the national policy makers through their policies and loan

conditions or indirectly through their conferences and reports (Dolowitz and Marsh, 2000:11). Policy makers tend to be willing to transfer "best practices" or "ready-made policy options" from the international organizations as they would neither have the technical experience nor the time for trying out a completely new policy at the high risk of losing popular support (Haktankaçmaz, 2010).

The role played by governments, officials, civil society organisations, think tanks and pressure groups and their impact on policy change will be analysed under the endogenous factors, namely the relations between state, society and market and between executives and bureaucrats in chapters 4 and 5. Likewise, the role played by the IFIs and the EU and their impact on policy change will be discussed under the exogenous factors in those chapters.

2.2.2.2. The Types and Degrees of Policy Transfer

Dolowitz and Marsh (1996: 344) identify two types of policy transfer: "voluntary" and "coercive", where the latter is further divided into "direct" and "indirect" policy transfer Voluntary policy transfer occurs as a result of free choices of political actors; whilst coercive policy transfer involves an external factor pushing for a particular policy change. Coercive policy transfer can either occur under the explicit influence of "direct" or "indirect push" factors. The open request of one government to another to adopt a policy and the conditionality exerted on a government by an international organisation are typical examples of direct coercive policy transfer (Dolowitz and Marsh, 1996: 347). The first type of direct coercive transfer has been observed in the colonization period (Evans, 2004: 12), in the Eastern and Central European countries in the form of transfer of the Communist ideology and the Soviet Model at the beginning of the century (Stone, 1999: 55). Indirect coercive policy transfer may occur in different ways. Some research (see for instance Hoberg 1991) has shown that it has occurred as a result of externalities created by environmental pollution and it involved neighbouring states. Moreover, economic pressures exerted by the world economy and the policy choices it sometimes leads to has also been

identified as a relevant factor. Other crucial factors at work are technology (Bennett, 1991) and the emergence of an international consensus on a given policy (Dolowitz and Marsh, 1996). Jones and Newburn (2001 cited in Haktankaçmaz, 2009: 186) assert that in the case of an indirect coercive policy transfer, the process is based on negotiation in which the country in question still has the liberty to refrain from indulging in policy transfer to a certain extent.

Coercive policy transfer can also occur as a result of conditionality (Dolowitz, 2000: 1) since one of the goals of conditionality is to alter the target actors' preferences over strategies and outcomes in formulating domestic reforms (Börzel *et al*, 2008: 4). Dolowitz (2000) presents the IMF conditionality as an example, according to which a loan is approved provided that a recipient country pursues particular policy adjustments such as administrative reform, privatization, and liberalization of markets for enhancing competition. Stone (2004: 560) asserts the loan conditions that include radical changes in economic policies, or agreements such as the General Agreement on Trade and Services of the World Trade Organization, which represents "an international regime for member states to trade away their tariffs", should be considered as coercive policy transfer through international organizations.

Evans and Davies (1998) developed a sequence of phases for voluntary and coercive policy transfer as reflected in *figures 2 and 3*. These are recognition; search; contact; emergence of information feeder network; cognition; reception and emergence of a transfer network; elite and cognitive mobilisation; interaction; evaluation; decision; and implementation. The first phase refers to the *recognition* of the existence of a problem in a particular policy area, which requires action to bring about change. As the decision is taken by politicians or bureaucrats, it constitutes the emergence of a policy transfer network (Ladi, 1999: 12). If the key agents are not satisfied with the existing options for change, the next step is to *search* for new ideas. The main difference between voluntary and coercive transfer occurs in these first two stages as the agents who seek to impose the transfer in the latter play a very active role as opposed to the former. Next phase is *contacting* the knowledge resources and

knowledge elites (Stone, 1996: 14-16), as a result of which the *information feeder network* emerges. The eventual outcome of contacting the information feeder network is *cognition, reception and emergence of the policy transfer network, elite and cognitive mobilisation* (Evans and Davies, 1998: 18-26). Then, the *interaction* starts between the agents of transfer. Afterwards, the *evaluation* process starts and the key agents decide on the objects, degree and prerequisites of the transfer (Evans and Davies, 1998: 21). Based on the evaluation, the final *decision* is taken. Finally, the *implementation* of the adopted policies or programmes takes place (Evans and Davies, 1998: 21-22).

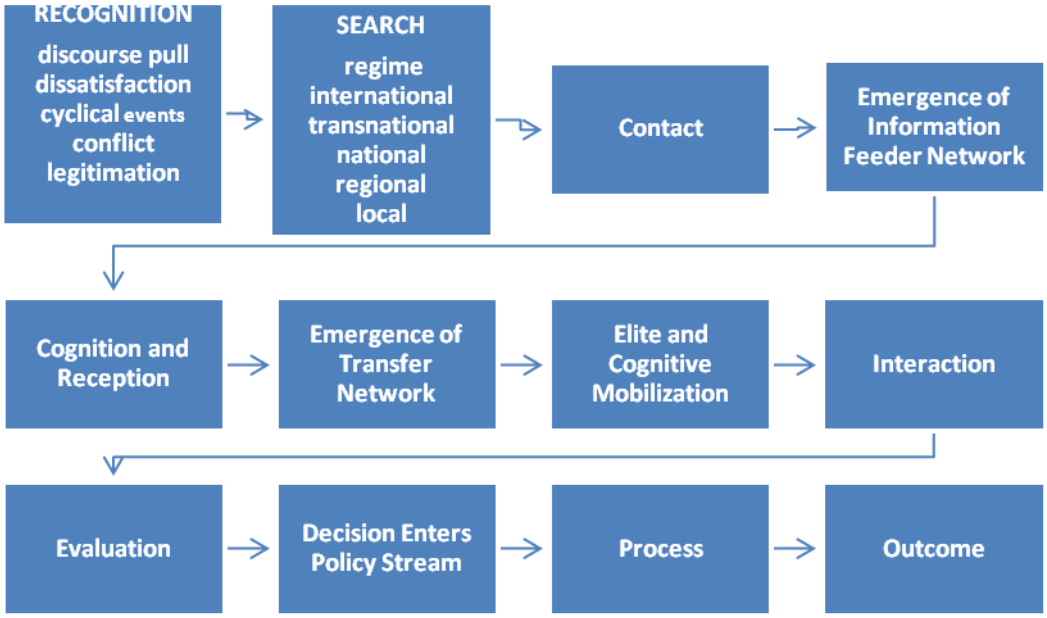

Figure 2 Emergence and development of a voluntary transfer network (Evans and Davies, 1999: 377)

Figure 3 Emergence and development of coercive transfer network (Evans and Davies, 1999: 380)

As reflected in *figure 4*, Dolowitz and Marsh (1996) conceptualise "policy transfer in terms of a continuum that runs from lesson-drawing at the voluntary end to direct imposition at the coercive end". This continuum will complement this analysis by providing the tools for evaluating the level of pressure exerted by key actors for policy change.

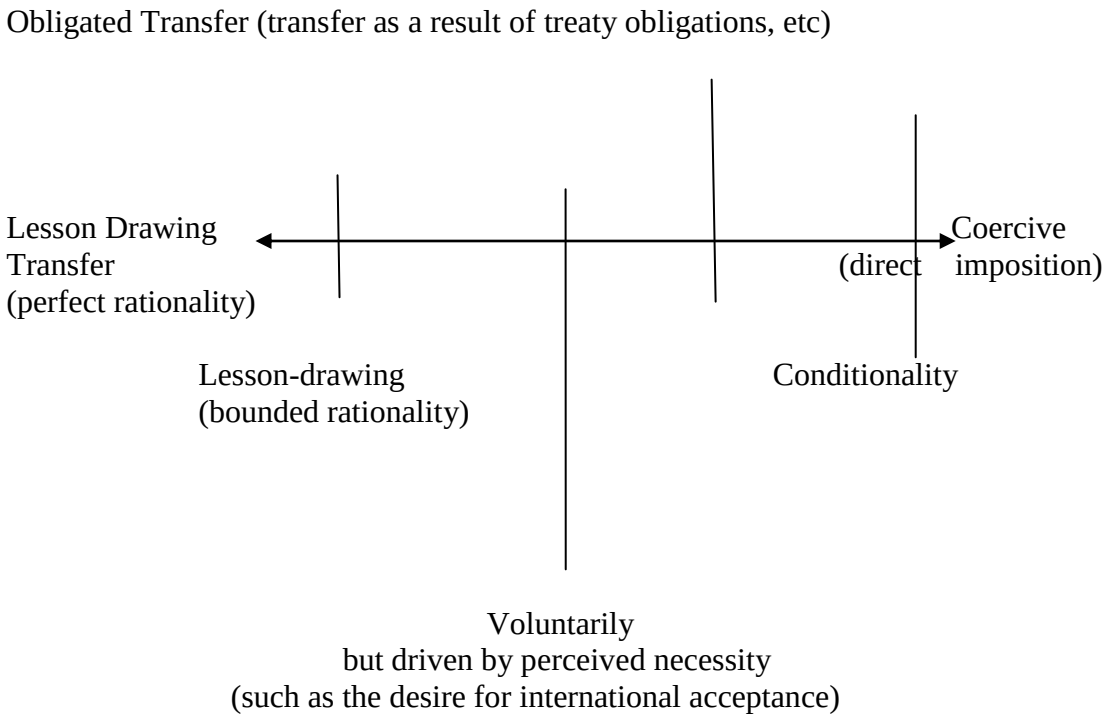

Figure 4 The Continuum from Lesson Drawing to Coercive Transfer (Dolowitz and Marsh, 2000: 13)

The lesson-drawing end of the continuum assumes that the actors choose policy transfer as a rational response to a perceived process. Rose (1991:3) explains that the process of lesson drawing begins with scanning programmes used elsewhere and ends with the "prospective evaluation" of what would happen if a programme already in use elsewhere were transferred here. The coercive end of the continuum refers to cases, where transnational organizations and international financial institutions compel governments to adopt programs and policies regardless of their will. There are two types of transfer on this part of the continuum towards the coercive end: obligated transfer, where national governments have to adopt programs and policies as part of their obligations arising from their international commitments; and conditionality, where an aid agency connects the release of the loans to a number of requirements (Dolowitz and Marsh, 2000: 16). The question then arises with regard to the type of transfer occurring within the European Union. Since nations join the Union on a voluntary basis, can the acts of the EU be considered as

coercive? Given that these nations also actively and voluntarily influence the adoption of the EU policies, it is more of an obligated transfer than a coercive one. Some scholars such as Nedley (2007: 3) argue that the EU enables voluntary policy transfer as it enables member states to find out what the others are doing as well as promoting benchmarking.

Furthermore, the level of coercion depends on the key actors involved in the process as well as the timing of policy transfer, as "different actors have different motivations" (Dolowitz and Marsh, 2000). When politicians or policy entrepreneurs initiate the process, they do it voluntarily. When international organisations are involved in the process, this is some form of a coercive transfer. However, it is more likely to be a voluntary transfer when these organisations merely organise conferences or issue reports. The timing of the policy transfer also determines whether it is a voluntary or coercive transfer. It is very likely to be a voluntary transfer if it occurs at a period of social, political or economic stability whereas the policy transfer is likely to entail coercive elements if it is triggered by social, economic or political crises (Haktankaçmaz, 2009: 187).

In addition to the continuum model, which can be seen as a horizontal axis of the process, Dolowitz and Marsh (2000) determine levels or degrees of policy transfer, which can be seen as a vertical axis. These levels are *copying*, which refers to direct and complete transfer; *emulation*, which involves transfer of the ideas behind the policy or program; *combinations*, which entail mixtures of several diverse policies; and *inspiration*, where policy in another jurisdiction may inspire a policy change without necessarily leading to the same final outcome. The level or degree of transfer may differ based on the actor(s) dominating the process of policy transfer (Ibid.). Politicians may opt for quick-fixes which would tend to be in the form of copying or emulation; whereas bureaucrats are more likely to be more interested in combinations. Both horizontal and vertical axes of policy transfer as well as how it actually happens, which have been explained up until now, is summarised in *table 2*.

TABLE 1
A Policy Transfer Framework

Why Transfer? Continuum Want To.		Have To	Who Is Involved in Transfer?	What Is Transferred?	From Where			Degrees of Transfer	Constraints on Transfer	How To Demonstrate Policy Transfer	How Transfer leads to Policy Failure
Voluntary	Mixtures	Coercive			Past	Within-a Nation	Cross-National				
Lesson Drawing (Perfect Rationality)	Lesson Drawing (Bounded Rationality)	Direct Imposition	Elected Officials	Policies (Goals) (content) (instruments)	Internal	State Governments	International Organizations	Copying	Policy Complexity (Newspaper) (Magazine) (TV) (Radio)	Media	Uniformed Transfer
	International Pressures		Bureaucrats Civil Servants	Programs	Global	City Governments	Regional State Local Governments	Emulation	Past Policies	Reports	Incomplete Transfer
	(Image) (Consensus) (Perceptions)									(Commissioned) (uncommissioned)	
	Externalities	Pressure Groups	Institutions			Local Authorities		Mixtures	Structural Institutional	Conferences	Inappropriat Transfer
	Conditionality	Political Parties	Ideologies					Inspiration	Feasibility	Meetings/ Visits	
	(Loans) (Conditions Attached to Business Activity)								(Ideology) (cultural proximity) (technology) (economic) (bureaucratic)		
	Obligations	Policy Entrepreneurs/ Experts	Attitudes/ Cultural Values						Language	Statements (written) (verbal)	
			Consultants Think Tanks Transnational Corporations Supranational Institutions	Negative Lessons			Past Relations				

Table 2 A Policy Transfer Framework (Dolowitz and Marsh, 2000: 9)

Dolowitz and Marsh (1998: 40-41) argue that a reform process may entail both voluntary and coercive elements at the same time. As reflected above, there does not seem to be a consensus in the literature as to how to identify the level of coercion in the case of the EU -or the IFI- induced reforms. Although the intention or the method of imposing conditionality may have coercive elements, the interaction between the international and the national dynamics should also be taken into account whilst analysing the level of impact of the policy transfer actors in the overall reform process. Based on this argument and as indicated in *table 3*, we will seek to analyse whether the type of policy transfer in the adjustment oriented and accession oriented periods of reform in the Turkish Public Administration in general and Public Financial Management in particular were closer to the voluntary or coercive ends of the continuum.

Table 3 Mode and Type of Reform

Period	**Mode of Reform**	**Type of Policy Transfer**
1980-1999 Reorganisation	Adjustment Oriented	More Voluntary or Coercive?
1999 onwards Restructuring	Accession Oriented	More Voluntary or Coercive?

CHAPTER 3

CONCEPTS AND PROCESSES: GOOD GOVERNANCE FROM GLOBAL AND EUROPEAN PERSPECTIVES

3.1. GLOBALIZATION: WHAT IS BEHIND A CONCEPT?

The discussion about the impact of "globalization" upon domestic politics has started in the International Relations discipline long before the discovery of the term globalization. Gourevitch's "second image reversed" argument is the first time that emphasis is placed upon the two-way process of internationalization. It is claimed that international relations and domestic politics are so interrelated that they should be analyzed simultaneously (Gourevitch, 1978: 911).

Globalization is a complex concept that has been used in the whole range of social sciences, a fact that makes its meaning often unclear and leads to accusations of emptiness. As is often the case with broad terms such as globalization (in fact, as is the case with Europeanization too) there is no single definition attached to it able to refer to the entire set of dynamics linked to it. All kinds of processes, from cultural interchanges to athletics competition and taxation policy tend to be attributed to a nebulous form of "globalization". Below, I will seek to introduce some more clarity as to the usefulness of the concept.

The first wave of theories on globalization describes the weakening of the state and its replacement by new modes of governance (Ohmae, 1990, Strange, 1996). According to those writers, globalization has introduced a fundamentally new framework of operation for business (Ohmae, 1990) and civil society institutions (Held, 1991), creating new spaces whilst severely limiting others. It has made the nation-state redundant or at least outdated as the state is now less capable of responding to citizens' demands and increasingly obliged to follow the frantic pace of borderless business operations. It should be noted, however, that such statements

were aired during the 1990s, that is, prior to 9/11 and during the liberal euphoria of the type associated with Fukuyama's "End of History" thesis. The fact that Fukuyama has by now disowned the "End of History" says a lot about the world we live today as well as about some of the predictions or insights of an earlier era regarding the state and its role.

The second wave of theories emerged as a reaction to the excessive predictions of the first wave writers. They claimed that nothing new was happening and that the sovereignty of the state remains the same as prior to the latest globalization wave (e.g. Hirst and Thompson, 1996). They argued that globalization had happened for the first time in the late 19th century, a time when migration and trade flows were as liberal, if not more so, than in the late 20th century. It was only the outbreak of the Great War that stopped globalization – if only temporarily. These theorists sought on the one hand to convince that changes are more quantitative than qualitative, and on the other to attribute particular motivations to the "globalist" camp, such as an attachment to the goals and values of economic neo-liberalism.

The third strand of writers takes a midway position and supports the idea that the sovereignty of the state is not decreasing, but that its functions and structures are changing within a more internationalized world (e.g. Cerny, 1996: 617-37). Accordingly, globalization requires a new kind of state, which is a *competition state* that has the institutional and political capacity to provide the appropriate regulatory framework for an outward-oriented, market-based development (Cerny, 1998). Cerny (1999: 188) argues that globalization is "the convergence of economics and politics across borders into single dominant model, a variant of liberal capitalism aligned with neo-liberal politics" or "the intersection of different forms of both convergence and divergence." The third approach is the most interesting one, because it recognises the multidimensional nature of globalization encapsulating both its material and ideational nature and impact. The writers of the third approach emphasise the reversibility of globalization and describe it as a process in progress, where a large number of governmental and non-governmental agents play an

important role within the system of global governance (e.g. Higgott, 1999: 24-36). Two are the implications of this approach: First, the state is studied as an agent of equal analytical importance to other agents that adapt to the new conditions but at the same time influence the direction of globalization (Scholte, 2005). Second, globalization is understood as a multi-dimensional approach where equal emphasis should be placed to its political, economic and cultural dimensions (Hay and Marsh, 1999: 5-22).

The prevalence of new modes of governance becomes particularly interesting in the third strand of the globalization literature and merits more attention. I will concentrate on its impact and formation in the next section of this chapter. For now it is important to claim that this process of complex governance is indeed taking place and is accompanied by global processes of political and economic reform. Public financial management is one very significant example of such a process.

Going back to the first two strands of the globalization literature, Held and McGrew (2002) argue that neo-liberals start from the position that the political as well as the economic life of citizens are issues of personal liberty. The state should stay outside the process of limiting personal freedom, because in doing so it stands accused of violating human rights and liberties. The market is what determines governments' route towards Western liberal democracy but should also be the dominant player in the allocation of economic resources and opportunities. This line of thinking has been particularly influential for both the IMF and the World Bank since the 1980s and the analysis that follows in the next section will touch extensively upon this issue.

There is a second group of liberals that Held and McGrew call "liberal-internationalists" who place more emphasis upon the significance of international co-operation and of international and regional organizations as a result of increased interdependence (e.g. Hinsley, 1986). For them, it is important to support regional

organizations such as the EU because it is a step towards further international co-operation. Held *et al.* (1999) differentiate from the institutional reformists and classify themselves as supporters of "global transformation". They are interested in the way processes of globalization could be better organized and they put forward the model of "cosmopolitan democracy". The model argues that different levels of governance co-exist above, lower or parallel with the state structure and the citizens function as citizens of the world that have a common identity which translates itself to rights and duties at all of the above levels. Organisations such as the EU are desirable and constitute one of the levels of global governance. The latter is seen as a feasible and realistic response to a complicated and multi-layered world.

A related school of thought is that of institutional reformists which also starts by recognizing the necessity of international co-operation in order to overcome the shortcomings of the public sector (Kaul, Gurnberg and Stern: 1999). For them, strong regional organizations are welcome, because they signify a step towards deeper international co-operation. In turn, such cooperation can secure not only international peace, but also assist countries in maximizing their potential and thus secure better living standards for citizens. For countries of middle income such as Turkey, such observations acquire particular significance.

There is an agreement among these schools that liberalization is the main parameter of globalization. What differs is whether they see liberalization as a constant, as unchangeable parameter of globalization or whether they perceive it as just one of the possible avenues for globalization.

3.2. EUROPEANIZATION: DEFINITION AND UTILIZATION

The debate on Europeanization is an extremely lively one and the academic community has benefited a lot from its usage. At the same time, however, an appropriate definition for this term is necessary in order to extract correct conclusions and proceed with proper social science analysis.

In this light and before beginning with the discussion of how Europeanization has been defined and the way that it can and ought to be used in the literature, it is important to focus first on potential pitfalls associated with the wrong or misleading use of this comprehensive yet notoriously nebulous term. As one of the most prominent political scientists of the modern era, Giovanni Sartori, argued a few decades ago, for every concept being used in science an appropriate level of analysis needs to accompany it. If that is not the case, what one may well end up with is a situation whereby new concepts that cannot be refuted are created. A concept that can mean everything quite simply ends up not meaning anything (Sartori 1970, 1984, 1991). In other words, one needs to avoid talking about Europeanization as everything that has happened to member-states due to the EU integration process or, on the other hand, every single detail of the integration process that resembles the situation in a member state.

It is worth highlighting some of the major problems one regularly encounters in attempts to provide comprehensive definitions and conceptual tools of analysis related to the concept. Most important of all is the danger of extension, to the point in which Europeanization becomes conflated with other processes. As Radaelli argued in a 2000 paper on Europeanization, following the earlier work of Sartori, extension occurs when the given properties of a concept are extended to a wide array of meanings (Radaelli 2000: 5). There is of course a fine balance between making sure that extension does not occur to a disproportionate degree and on the other hand ensuring that the concept of Europeanization does not end up being defined into "narrow" terms, thus blocking its fruitful application to different areas. Radaelli offers some insights as to what to avoid by explicitly mentioning what Europeanization should not be conflated with.

Firstly, Europeanization does not mean convergence, whilst convergence "does not mean the homogenization of domestic structures". (Cowles and Risse, 2001: 232). Changes that occur as a result of Europeanization are often "mixed", covering not all but some countries or policy/issue areas (*Ibid.).* Europeanization is a process which

can lead to many outcomes at the national level, one of which is convergence, (Aybars, 2007). The precise type of convergence observed can vary as one may find evidence of convergence of policy content, structures, objectives, results, or cognitive aspects of policies (O'Connor 2005 cited in Aybars, 2007).

Secondly, Europeanization needs to be made conceptually distinct from harmonization policies. This is especially important for the purposes of this thesis, as the following chapters will hopefully make clear. Harmonization of policy goals and objectives, as well as outcomes, is a process that can be enforced through hard law at the EU level and which aims at a high level of integration by harmonizing at least parts of the operational codes that member states use when designing and implementing policy. For Bomberg and Peterson (2000), policy transfer is crucial as these are the areas that one can find more evidence of Europeanization. Even in the absence of hard law, Europeanization is still possible by means of policy transfer, which is one of the "soft mechanisms" of Europeanization[9] (Ladi, 2011). Convergence, however, is indeed possible within the framework of Europeanization as the EU is a platform that enables policy transfer (Radaelli 2000), which will be analysed thoroughly in this study and as defined in the previous chapter. Both hard and soft acquis may lead to convergence (Göksel, 2011).

Finally, Radaelli (2003) draws attention to the fact that Europeanization cannot be made synonymous with the process of European integration in general and political integration, to the extent this has been achieved, in particular. The reasons for that are quite clear: there would be little discussion of Europeanization without the process of integration, but this does not mean that the opposite holds equally true. That point is directly related to the already existing literature that sometimes tends to see in Europeanization deepening integration in certain policy areas, not least with regard to the Single Market and regulation policy (Wallace and Wallace, 2000). What is particularly interesting about this strand of the literature is that it tends to

[9] Ladi (2011) identifies "changing domestic opportunity structures, framing domestic beliefs and expectations" as other soft mechanisms of Europeanization.

read in Europeanization an antidote to the alleged malign effects of globalization, thus ascribing an implicitly positive value to its role.

Having summarised what Europeanization is not, we can now elaborate on its usage in the relevant literature. For some, it is a method of explaining institution-building at the European level and the development of the integration process. Within this framework, Europeanization is but one of the factors leading to "ever closer Union" and contributes to the eventual arrival to a European polity (Wallace and Wallace, 2000). With time, Europeanization has acquired a second distinctive trait, and is also studied with regard to its effects "on member state policies, practices and politics" (Schmidt and Radaelli 2004: 183). This is a very common usage of the term and one that is often associated with its ever-expanding usage in the academic literature (See Featherstone and Radaelli 2003). In accordance with this body of literature, numerous interpretations have appeared seeking to define the precise constellation of Europeanization and the way its function influences domestic paradigms and policies. Nowadays, the concept has become linked with change and/or reform of national institutions, policies or indeed polities.

Delineating the precise value of Europeanization remains a challenging issue, especially as its meaning can differ depending on the policy area. Ladrech (1994: 69) describes it as a "process reorienting the direction and shape of politics to the degree that EU political and economic dynamics become part of the organizational logic of national politics and policymaking". An interesting definition, as it highlights the concept of organizational logic in decision-making. However, having such a logic has the disadvantage that less focus may be shed on the role of individual actors, also known as "policy entrepreneurs" in the literature (Radaelli 2000: 4). In addition, this particular definition seems to be excessively oriented towards the national level, therefore being potentially oblivious to the contribution of sub- or supranational elements to the debate and the impact of Europeanization.

More recent work has revealed the inadequacy of using such an all-encompassing term, and attempts have been made to move beyond a simple assessment of the implementation of policies designed at European level. In addition, the expansion of policy instruments by EU institutions, going beyond "hard law" issues and encompassing "soft law" policy prescriptions in an ever-increasing list of policy areas has reignited the debate of how to use Europeanization. Lawton (1999) has made a useful distinction that gives due credit to Europeanization but avoids the trap of extending the concept beyond acceptable limits of inquiry. He defines Europeanization as the *de jure* transfer of sovereignty to the European Union level. Accordingly, this process is distinct from *Europeification*, which he defines as the *de facto* power sharing between member states and the European Union. Useful as this definition is, It appears to ignore the vast spectrum of policy areas where member states and EU institutions either share sovereignty or compete for it. Moreover, there seems to be a limitation in its applicability to candidate countries and therefore the danger of creating an exclusive space of usage of the concept towards member states only. For inquiries that go beyond the member states and extend to candidate countries such as Turkey, the problem becomes particularly sensitive.

Börzel (1999) inserts an interesting angle to the discussion by examining what happens once power has been transferred to Brussels, a notion that is applicable to all countries operating according to the rules of the *acquis* and therefore open to member and candidate states alike. The author defines Europeanization as a process according to which domestic policy areas become increasingly subject to European policy-making. The question that then arises is to precisely outline the mechanisms at work once this process has been inaugurated, and distinguish between different levels of empowerment for domestic actors. Furthermore, the path to be followed by the countries in question depends on various mediating factors (Diez *et al*, 2005:4) These are, *inter alia*, the capacity of domestic institutions to promote change, the timing of the European input and the mobilization of agents of change at the domestic level (Radaelli, 2000: 47; Héritier and Knill, 2001: 288; Cowles and Risse, 2001: 226-230; Börzel and Risse, 2003: 63-68).

A key challenge in the Europeanization literature is to identify its mechanisms, that is, the ways in which it has a clearly detectable and measurable impact on policies and politics. That is necessary so as to show the extent to which Europeanization has real, rather than assumed, consequences in policy-making. The work of Knill (2001) has been particularly informative in this regard, as he has developed a clear analytical framework on the subject. He has identified three distinct Europeanization mechanisms, namely a) changing domestic opportunity structures, b) the framing of expectations and c) institutional compliance. Changing domestic opportunity structures is used to describe a situation whereby decisions and policies reached at European level affect the domestic equilibrium of power at national level. As a consequence, some domestic actors acquire more leverage and this opens the way for institutional changes that can potentially have an important effect on domestic policies. The second mechanism, framing of domestic expectations, implies that the Union aims not merely at legislative compliance towards its own standards but is rather seeking to alter the cognitive input of actors and the way they perceive their own interests. The last mechanism referred to by Knill is institutional compliance which equals to a set of policies derived from the EU template, which are to be introduced at the domestic level. In this mechanism, states have little leverage in terms of policy choices and the type of change required is more specific than in the second mechanism.

Radaelli has opened new ways of doing Europeanization research. He defines Europeanization as consisting of

> processes of a) construction, b) diffusion, and c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things' and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and sub-national) discourse, political structures and public policies (Radaelli 2000: 4; Bulmer and Radaelli 2004: 4).

In that context, Europeanization has simultaneous functions depending on the policy area under investigation. It does not only need to involve the Union exerting pressure on Member States (integration), or be top-down by examining the impact of the Union on member states. It should also be understood as occasionally being the "problem" to be explained, by starting from domestic institutional and organisational interaction and ending up at the domestic level, before assessing whether Europeanization has played any role in revising or modifying the original domestic constellation (Radaelli, 2005). In that sense, Europeanization is to be measured not only with reference to European actors, but also by the way domestic actors refer to European institutions and policy-making processes. It can, in other words be "bottom-up" as well as "top-down", and it can involve the interaction of different levels of authority. This definition stresses the importance of change in policy behaviour. Political behaviour is hereby said to change through a process of institutionalization of the domestic political system, at the national and sub-national level, of discourses, cognitive maps, normative frameworks and styles coming from the EU. In that sense, the definition permits a degree of flexibility in the sources of change that the object under study is subject to. Secondly, what Radaelli succeeds in doing is providing a blueprint for policy change. Radaelli's definition is useful in structuring the process. First he begins by discourse: when and how do domestic elites start using a discourse shared with the EU and the IFIs on those rules and procedures? What is it that motivated them in doing so, and is there any difference in the discursive usage of national as opposed to supranational elites? Secondly, he moves on to political structures: are there any changes in the political or (in our case) economic structures that signify a shift on the part of national authorities? Are there any organizational changes, mergers or new creations of institutions? In other words, is a potential change of rhetorical activism on the part of national actors also leading to changes in the empirical domain of policy-making and the institutional set-up governing their policy behaviour? How does public policy change and what are examples of such changes as a result of the processes of construction diffusion and institutionalisation?

Elaborating on how the process of Europeanization relates to the domestic context with a focus on the relations between the EU and Turkey, Eralp (2009: 150) argues that the *time factor* (*temporality)* and the *role of interaction* are important variables in analyzing how European integration leads to domestic change. He defines the "time factor" by using the notions of "time of governing" and "governing with time" as suggested by Goetz (2006). Accordingly, "time of governing" is concerned with sequence, speed, time and the window of opportunity aspects in formulating the policies and "governing with time" denotes "temporal rules" and "temporal governing devices" such as calendars, time-tables and road-maps (Goetz, 2006: 3). Eralp (2009: 150) defines the "role of interaction" as the "quality and intensity of relationships among governmental and non-governmental actors in Europe and Turkey. Based on this model of analysis, he argues that factors of temporality and interaction are key for understanding the linkages between the European and the national levels as well as the cycles of ups and downs triggered by these linkages (*Ibid.*). This framework of analysis is the point of departure for determining the two periods of reform in the Turkish context, since it highlights the salience of temporality not only in determining relations between Turkey and exogenous actors (The IFIs and the EU), but also helps shed light on the sequence of economic policy transformation and the mode of operation of key players in that context.

Post-structuralist scholars argue that the process of Europeanization should not be seen in terms of governance and policy but more in terms of governmentality and politics. Suggesting a distinction between governance and governmentality approaches, Lendvai (2007) argues that institutional approaches (rational choice, historical, sociological and discursive institutionalism) equate the process of Europeanization to "institutional adaptation" or "adaptation of policies and policy processes" (Featherstone, 2003). Institutional adaption, however, is not limited to the institutions and their transformation under the direct or indirect pressure of the EU, but also a result of the emergence of "multi-level" and "network" governance (Lendvai, 2007: 24). In this respect, the governmentality perspective implies that Europeanization should not be considered in terms of "impact", but rather as an

encounter “embedding the national in the European and the European in the national” (Laffan *et al*., 2000: 191).

Having reached a consensus on the “goodness of fit” or “misfit” arguments, the institutional approaches analyse the adaptational pressure exerted by the EU on national institutions and the institutional and policy changes required in these countries. They see the EU as an “already-established supranational arrangement” (Knill, 2001) that “impacts” in particular ways on domestic structures and processes. From this perspective, institutions and policy making processes at the national level are stable and established. Referring to Central, East and South East Europe, Dimitrov et al. (2006: 256) indicate, however, that the institutional structures in these countries are much more fragile, fluid and unstable and policy-making processes are rather *ad hoc*, unsettled and uneven. Thus, scholars such as Goetz (2006: 21) claim that Europeanization does not involve “so much adaptation, but rather the *ab ovo* creation of new actors, institutions and policies”. Therefore, the new member states could not engage in “deep” Europeanization, which required specific and institutional and policy arrangements (Dimitrov et al., 2006: 257). As a result this difference in means and levels of adaptation, one can talk about “clustered Europeanization” (Goetz; 2006). This concept refers to the “existence of multi-country groupings that are characterised by high levels of intra-regional commonality and inter-regional differences in both substance and modes of Europeanization” (*Ibid*.).

These arguments regarding the inconsistent nature of Europeanization are further reinforced by Paraskevopoulos and Leonardi (2004) arguing that the Europeanization process -in their case study in the context of cohesion policy- is not about the goodness of fit, but rather the *capacity* to undertake significant institutional change in order to maximize opportunities. For instance, the "institutional crisis" experienced in the early 1990s following the opening up of the economy by means of de-regulation can be explained with reference to the inadequate development of the

institutional capacities to undertake effective regulation evident in a number of member states (Öniş and Bakır, 2007: 149).

Post-structuralist scholars argue that the EU is located between the international and the domestic, between states and markets, between governments and governance, which leads to a contingent, ever-changing "in-betweenness". (Lendvai, 2007: 26). In this respect, the EU is innovative and experiential but ambiguous, multiple and contradictory at the same time (Laffan *et al*., 2000; Rumford, 2003). Drawing from these definitions of the EU, Lendvai defines Europeanization as an "importation of these features and tendencies, and their interplay with domestic policy processes" (2007: 30).

Based on these definitions and seeking to derive useful lessons from some of the post-structuralist critique discussed above, the author argues that Europeanization is a process within which the national administrations, both the Member States and the candidate countries, revise their policy making mechanisms and institutions guided by the EU *acquis* and the common practices to the extent it is allowed by their administrative capacities. Therefore, it could be argued that Europeanization is not a homogenous process leading to same outcomes in all countries. It would also not be correct to see the country in question, and especially candidate countries, being merely under the influence of the EU due to the membership or membership prospect and in complete isolation from the other proxies for change, such as the OECD and the World Bank. Therefore, what emerges out of this process accelerated by policy transfer networks is an amalgamation of the EU requirements with the domestic realities of the national administration, both of which are embedded in a global context of political and economic dimensions. In other words, Europeanization could be perceived not merely as a process of institutional change, but also as an opportunity tool to enhance the administrative capacity and resources of candidate countries so as to adjust both to domestic policy imperatives and to exogenous pressures for change.

3.3. GLOBALIZATION AND/VERSUS EUROPEANIZATION? THE ANALYSIS

Although the EU has been a focal point of the Turkish domestic reform agenda due to the application and later the candidate status granted to the country, other international organizations have been at play in the process of change in Turkey, most notably the OECD, the IMF and the World Bank. These institutions have never operated in the past and do not operate at present in a theoretical vacuum. Their policy choices and guidelines are largely informed by wider processes of change that alter the systemic equilibrium of their operations towards donor and beneficiary countries. Undoubtedly, the key event of the last few decades that has changed many of the parameters on the basis of which policy is designed by those institutions is the process of globalization. What is more, the relationship between globalization and Europeanization has recently attracted scholarly attention, due to the potential linkages between the two and the wide scope of work in their manifestation at national level. This section seeks to draw on this work and establish a framework within which both globalization and Europeanization can operate by retaining their theoretical and empirical value to the benefit of the present study.

An important characteristic of contemporary politics is the existence of international and regional organizations that are responsible for an increasing number of aspects of public life. The European Union (EU) can easily be considered as the most developed regional organization with an influence that extends outside its geographical borders. At the same time, pre-existing international institutions, such as the OECD, IMF and the World Bank, have become ever more important in economic steering and sponsor large-scale economic restructuring projects in various countries around the globe. Focusing on social policy in the accession countries, Guillen and Palier (2004: 204) argue that “Europeanization” should be analyzed in terms of the interaction between the adaptive pressures coming from both the EU and the other international organisations, namely the World Bank and the International Monetary Fund.

Analyzing the concept of globalization is thus vital, since it allows us to better understand the policy environment within which those institutions operate, but also explore the linkages between the European and global level. This is especially important in the case study of Turkey's public financial management, a candidate country of the European Union and founding member of the OECD as well as a country with a long-lasting, close relationship with both the IMF and the World Bank.

The analysis of the relationship between Europeanization and globalization is not an easy task. Both of these phenomena are multi-dimensional and their definitions are often abstract and general. They are concepts that refer to the macro-level of the analysis, which makes any attempt to correlate them, quite theoretical. In the last few years there have been a few but very interesting attempts to discuss the relationship between the two phenomena. There is an agreement that globalization and Europeanization are closely related, but there are variations in the perceptions of the degree of integration of the two phenomena. For some, the EU and Europeanization is seen as a response to globalization (e.g. Leibfried and Bonoli 2001). According to this point of view, a strong Europe can function as an obstacle to further liberalization and "Americanization" of the world. Europeanization as a "filter" for globalization signifies the capacity of the EU for deep co-operation on issues of political economy, but also on other issues, which allows for a selective reaction to the pressures of globalization (Wallace, 2000). Europeanization as an "antidote" to globalization, moves a step forward and refers to the capacity of Europeanization not only to act as a filter for the pressures of globalization, but also to promote policies and institutions that affect the same processes of globalization towards more socially just developments. Graziano (2003) wonders whether in a few years we will be able to talk about the "Europeanization of globalization". The most characteristic aspect of such an approach is that it ascribes a mediating role to the EU, mediating between the state and globalization. This, then, means that Europeanization is an external reality to globalization rather than an integral part of the process. A diametrically opposite reading of the relationship is that the EU facilitates globalization; through

its values, the Union promotes Western liberal democracy and the latter is closely associated with globalization (e.g. Rosamond, 1999). Finally, according to the third approach, the two phenomena are not entirely connected (e.g. Wincott, 1999). This third approach recognizes the dual nature of globalization, which is ideational and material, as well as the reversibility of the phenomenon.

Moreover, there is a similar point of view which explains that globalization is the main force that drives international change and sees Europeanization as simply following the trends outlined by globalization. This means that the main phenomenon that leads the way towards, for instance, a neo-liberal economic framework is globalization and the EU is part of it. For example, Levi-Faur (2004) in a study of the liberalization of telecoms and electricity regimes of EU and non-EU member states comes to the conclusion that Europeanization matters in a less obvious and less critical way than globalization. It is interesting to observe the equation between liberalization and globalization. This finding is confirmed by the study of the Spanish and Portuguese telecommunications and electricity sectors (Jordana, Levi-Faur and Puig, 2006). In the same vein, Della Sala (2004) in his study of Italy and of the reforms that are taking place comes to the same conclusion. The argument goes that Europeanization plays an indirect role in the process of change and that there are other global pressures that are more prominent. Verdier and Breen (2001) apply a quantitative research design in four different domestic dimensions and observe that in areas such as labour market and capital market, it is globalization that is mainly responsible for change while in electoral competition and in centre-local government, the EU plays an important role.

Bringing the discussion of the relationship between the two to an end, it is important to underline discourse again. It will be part of the empirical analysis later on, and it is also closely linked to different readings of globalization too. Hay and Rosamond (2002) stress the conscious depiction of both globalisation and European integration as external imperatives driving a reform course with which policy makers may not wish to be associated, not least because of the expected electoral backlash that such a

course (fiscal austerity and welfare retrenchment) is associated with. Schmidt and Radaelli (2004: 193) clarify that the study of discourse should coexist with the awareness that interests also matter, as well as material conditions and "hard" economic variables.

Economic globalization has played a very important role in fostering EU integration. It is by no means accidental that the Union's intensified efforts in promoting cooperation among member states began in the mid-1980s. That was the time of intensified competition emanating from the US and Japan. Economic globalisation had gradually transformed not only the operation of national business but also led to an intensification of trade and capital movement throughout the developed world, mainly concentrated on the triangle of the USA, Western Europe and Japan. The economic transformation that European firms experienced over the 1970s and 1980s was accompanied by a realisation that the creation of a Common Market would enhance their competitiveness on the international stage, while reducing transaction and logistical costs inside Europe. The adoption of the Single European Act (SEA) in 1986 signalled to the rest of the world that Europe could face up to the challenge of institutional and political transformation so as to respond effectively to the economic challenge of the United States and Japan.

The Treaty establishing the European Union (TEU), also known as Maastricht Treaty, is further evidence of the growing responsiveness of Europe to economic globalization. By setting out the Maastricht criteria and judiciously supervising the project of economic convergence, Europe sought to make sure that intensifying competitive pressures from outside Europe could be offset through better "inside" economic coordination and the establishment of a common currency. In fact, globalization has meant, inter alia, rapid currency flows and the possibility of speculative trade, which badly hurt the currencies of Italy, the UK and Sweden in the early 1990s. It was then commonly understood that the previous mechanisms in place to regulate exchange rates inside the Eurozone was inadequate in dealing with the new globalized economic reality. Hence, the decision was taken to establish a

European Central Bank (ECB) modelled on the German example and seeking to operate according to the Bundesbank's mission of containing inflation. Finally, the establishment of the Stability and Growth Pact (SGP) in 1997 is further evidence of the link between globalization and EU integration. The SGP was set up in order to guarantee that Eurozone countries abide by their commitment to sound finances after adopting the Euro. This Pact, in turn, was proof of Europe's perceived need to follow sound macroeconomic policies and avoid excessive public deficits, because such indicators would be punished hard in an era of economic globalization. What has occurred after that time in the EU and the Eurozone in particular is further evidence of that link. The Eurozone debt crisis amply demonstrates the degree of Europe's dependence on economic developments elsewhere, as well as the fact that large economies such as China and the US look to the Eurozone for a solution to a problem that has acquired a truly global dimension.

Yet what this evident link in the policy field does not show is whether there can be a difference in the impact that Europeanization has compared to globalization. Following on from the discussion above, two dimensions need to be explored: the substance of the policies and the decision-making and the implementation processes of the policies. As far as the first dimension is concerned, what can be easily observed is that both globalization and Europeanization favour neo-liberal policies that promote competitiveness. This is clearly reflected on EU member-states public policies (Cerny, 1996 and Korpi, 2003, Rosamond, 2002). There is no better evidence of this than the Eurozone crisis that began in 2010 and is still ongoing. When it comes to policy implementation, it is again difficult to detect any fundamentally different approach when looking at the main actors of Europeanization and globalization. The promotion of NPM frameworks is done through an attempt to involve a wide array of actors in decision-making with the objective to enhance the dimensions of the process. The EU, in its own dealing within the framework of public policy and particularly as represented by the Commission follows a very similar line. It consults a wide array of NGOs and similar associations before issuing its own Opinions or Recommendations, and does so to

reflect the plurality of voices involved in the process of EU governance (Graziano 2003).

Whether and how institutions are transformed because of globalization and Europeanization is another key question which deserves attention. Lowndes (1996: 194) argues that "change and stability are stages in an institutional life-cycle" but when does change take place and do the two phenomena direct change towards the same track? Do both of the phenomena have the same impact upon domestic institutions?

Institutions are more likely to change when there is a combination of endogenous and exogenous pressures for reform. The endogenous pressures to change, or as Schmidt (2002) describes them, the national mediating factors to change, vary between EU member-states. For example, the policy legacy of Spain that was under a dictatorial regime is different to the policy legacy of the UK that has never experienced dictatorship. What are also of interest to this thesis are the exogenous factors, which means globalization and Europeanization and the mechanisms that are in place and lead to specific outcomes such as convergence, divergence or inertia at the national level. Given that governance institutions are considered in the literature to be one of the two (the other one is welfare state institutions) types of institutions usually considered to change towards being more decentralised and more market-oriented under the impact of Globalization and Europeanization, the thesis will seek to analyse the interaction of these processes in bringing policy and institutional change.

3.4. GOOD GOVERNANCE: A MULTI-PURPOSE REFORM AGENDA

3.4.1. THE EMERGENCE OF GOOD GOVERNANCE: NEW PUBLIC MANAGEMENT AND GOVERNANCE

The debate on the relationship between governance and the new public management has been quite prominent in the last two decades. The timing of the governance

debate also coincided with the diffusion of new public management (NPM) techniques derived from the doctrine of the New Right (Aksoy, 1998: 4; Rhodes, 2000: 54) in many western democracies. Aktan and Özler (2008) argue that the new public management approach and the doctrine of the new right "shared a reformist agenda for public administration to be more inclusive, innovative, responsive and anti-establishment as a reaction to the "scientization of politics, which almost ignored the popular will, morality and social institutions" in the 1950s, 60s and 70s. On the other hand, Harlow argues that the "good governance agenda" has a flavour of cosmopolitan law and social democracy (Harlow, 2006: 199). The reason for that is because it aims to create a rule-based approach to governance as well as improve the delivery of public administration in a way that makes the more vulnerable members of society benefit the most. Likewise, Keating maintains that "public management reform was fundamentally a response to the increasing dissatisfaction with government performance in maintaining economic and social development (Keating, 2001). Sezen (2011: 323) asserts that public administration reform influenced by the NPM has been a "continuous public policy on a global scale" and almost all political parties support this type of reform. Sobacı (2009: 234) reiterates that the NPM influenced reforms were implemented by the Labour Party in New Zealand and by the Socialist governments in France. Focusing particularly on the relationship between governance and the new public management and ignoring their political connotations for reasons of brevity and objectiveness, I will seek to dwell into the scope of these concepts so as to explore the conditions giving rise to the emergence of the "good governance agenda".

In the 1980s, there was a consensus among policy makers that the traditional model of administration did not work any longer. The traditional model of administration had an inward focus and a short term perspective (Hughes, 1998:149). The Old Public Administration school assumed that law and hierarchy governed the public administration and the core of political life was law making, interpretation, implementation and enforcement (Olsen, 2003b: 510). Administrators were rule-driven bureaucrats executing and maintaining legal norms where administrative

dynamics were governed by legislatures and enforced by courts (Weber, 1978). Seeking to provide alternatives to the old public school, the authors came up with proposals for a new model of public administration, such as “new public management” (Hood,1991), “market-based public administration” (Lan, Zhiyong and Rosenbloom, 1992), “post bureaucratic paradigm” (Barzelay, 1992) “entrepreneurial government” (Osborne and Gaebler, 1992), “managerialism” (Politt, 1993) and “governing without government” (Rhodes, 1996). Among all these terms, “new public management” has been more frequently used in the literature. Despite identifying the new model with different names, the authors all agree on the need for a new model, which should be developed by acknowledging the difference between administration and management. Accordingly, administration means “following instructions” and fails to add value to the process, whilst management means “achievement of results” (Hughes, 1998: 54), which is increasingly becoming the concern of public authorities. Viewing the administration in its external as well as the internal environment and bringing a longer term perspective, the management approach adopts a strategic perspective. In the presence of the emerging new approach, governments started to reform the incumbent public administrations in a way that saw their role shifting from an interventionist and functional to a regulatory and effective entity aiming to ensure democratic participation in the decision-making structures (Demircan, 2006a: 1-2). In Aktan’s wording, public administration has started to build upon its protective role (protection of citizens and their properties) whilst limiting its productive role (offering goods which cannot be offered by the market) (Aktan *et al*, 2004: 37).

The new public management symbolizes “a transformation of the public sector and its relationship with government and society” (Hughes, 1998: 59). In other words, the NPM "advocates treating citizens like customers, separating public administrators from the public policy process, and convincing both that government is nothing more than a business within the public sector” (Box *et al*.,2001: 611). The main proponent of this model, Hood (cited in Hughes, 1998) identifies this transformation with seven phases:

1. Hands-on professional management in the public sector: as accountability requires clear assignment of responsibility for action, the managers should have the full mandate to take action.

2. Explicit standards and measures of performance: as "accountability requires clear statement of goals [and] efficiency requires a hard look at objectives", goals and performance indicators should be clearly identified.

3. Greater emphasis on output controls: as a result of the "need to stress results rather than procedures", resources should be allocated based on performance results.

4. A shift to disaggregation of units in the public sector: due to the need to create manageable units, large entities should be broken up into "corporatized units around products" cooperating with each other on an arm's length basis.

5. A shift to greater competition in the public sector: based on the justification that rivalry would lower costs and increase standards, there should be a shift to term contracts (part-time and/or fixed term) and standardisation of public procurement procedures.

6. A stress on private sector styles of management practice: the private sector way of human resources management should be used in the public sector to the extent possible.

7. A stress on greater discipline and parsimony in resource use: with the aim of doing more with less resources, Hood argues that cost-cutting measures should be taken, union demands should be resisted and "labour discipline" should increase.

The overall outcome of transformation through these phases is allegedly an environment with

• a focus on results in terms of efficiency, effectiveness, quality of service

• a decentralised management environment which better matches authority and responsibility so that decisions on resource allocation and service delivery are made closer to the point of delivery, and which provide scope for feedback from clients and other interest groups;

> • a greater client focus and provision for client choice through the creation of competitive environments within and between public sector organisations and non-government competitors;
>
> • the flexibility to explore more cost effective alternatives to direct public provision or regulation, including the use of market-type instruments, such as user charging, vouchers and the sale of property rights; and
>
> • accountability for results and for establishing due process rather than compliance with a particular set of rules, and a related change from risk avoidance to risk management. (Keating, 2001)

In a comparative study on impact of the NPM on national public administration reform processes identifies the main requirements of the NPM in a comprehensive manner. These requirements are minimising the state, distinction between policy making and provision of services, emphasis on market tools and values, utilization of private sector style management techniques, citizen/ customer orientation, outcome and result orientation, performance measurement and assessment, decentralization.

The experience in the 1990s showed that markets and the private sector alone could not accelerate development, spearhead growth, eliminate inequalities and make life better for all. There was indeed a need for a state, which needed to be neither maximalist nor minimalist, but a regulatory one. Although new public management dominated the public administration literature in the 1980s, another concept called "governance" -with the acknowledgement of the role of the state- started to emerge in the 1990s. This role envisaged an organic relationship between the state, civil society and the market. As a result, the scholars have sought to differentiate the two concepts so as to provide an analysis of the situation. Whilst some scholars use the terms interchangeably (i.e. Hood, 1991, Rhodes, 1996), the majority of the scholars seeks to differentiate them. Peters and Pierre (1998: 232) seek to bring in a clear distinction by stating that governance is a political theory while NPM is an organizational theory and governance is about process, while NPM is about outcomes. Another way to define the relation between governance and the new public management could be that governance theory is put into action by new public

management practices (Mathiasen, 1996; Lynn, 1996, 1998; Terry, 1998; Kelly, 1998; Peters and Pierre, 1998). Some authors define NPM as a combination of splitting large bureaucracies into smaller, more fragmented ones, competition between different public agencies, and between public agencies and private firms. NPM, compared to other public management theories, is oriented towards outcomes and efficiency, through better management of public budgets. Adopting a holistic approach, Stoker (1998: 17-18) argues that governance "is more than a new set of managerial tools" as it is also about more than achieving greater efficiency in the production of public services; and it is broader than "government" as it is a "new process of governing, or a changed condition of ordered rule; or the new method by which society is governed".

Introducing a time dimension, Keating (2001) explains the evolution of the new public management into the globally acknowledged concept of governance, which envisages not only an effective, efficient and economic public service provision, but also a participatory decision-making mechanism which involves all relevant parties, including what is often referred to as "stakeholders" in the related literature. Keating (2001:208) asserts that the emphasis of the public administration reform in the 1980s was management of the public sector characterised by the phrases of "allowing the managers to manage" and "making the managers manage for results". The focus of the new public management in the 2000s, however, was turning to decision-making systems and the wider issues of governance, including what citizens can reasonably expect from government.

All in all, we can summarise what emerged as an alternative model to the old public school first analyzed by Max Weber and was described as new public management in the 1980s. This model was based on the principles of participation, transparency, accountability, effectiveness, simplicity in bureaucratic transactions, focusing on service outputs rather than inputs, respect for human rights, and optimizing the use of information technologies. Over time and through the "internationalisation of public management" (Aucoin 1990) reinforced by the information revolution, the NPM was

transformed into a broader concept of governance, which has eventually become a reference point in the administrative reform agenda of both developed and developing countries in the context of a globally acknowledged goal of "good governance" (Özdemir, 2003: 125). The rest of the section will elaborate on its evolution as an example of convergence between the proxies of Globalization and Europeanization as well as a tool for policy transfer.

3.4.2. GOOD GOVERNANCE FROM AN IFI PERSPECTIVE

It was not until the fall of the Berlin Wall that the international organisations started to use good governance principles for pushing policy reforms (Ladi, 2008: 12-13). Beforehand and as enshrined in article 2(7) of the UN Charter, any external criticism on financial or public management of a state would be considered as hostile and interference in the internal affairs of a state (Weiss, 2000). Therefore, development cooperation during the Cold War was limited to adjusting policies due to the fear of upsetting the sensitive geopolitical balance maintained by superpower rivalry. In the post Cold War environment, however, aid policies of the UN, OECD, the WB and IMF went through a transformation. This substantial shift had been prepared during the Cold War, however. It was mainly down to the collapse of the Bretton Woods System, which had been dominant in international development assistance, and the rise of neo-liberal policies with Thatcher, Reagan and Kohl governments coming to power in the United Kingdom, the United States and Germany, which put an emphasis on efficient management (Ladi, 2008: 12). The UN, the OECD, the IMF and the World Bank gained significance-with the increase in interdependence- in establishing the horizontal basis for the new modes of management. They have all gone through a transformation in parallel to that of the nation-state. Their policies and modalities of intervention changed as the requirements and needs of states changed. Looking at the terms that these institutions use in their governance policies, one can see a number of concepts and approaches inherited from the new public management approach. This is a mutually reinforcing process as reforms aiming at adjustment with the NPM principles, which are advocated by the OECD, IMF and

the World Bank, are supportive of global market forces and conducive to globalization (Hague, 2002 cited in Sözen, 1995: 201).

As a matter of fact, these organizations became "powerful advocates of high standards of legitimacy, representation, and accountability", whilst these "high standards" were later phrased as "good governance" (Woods, 2000: 823). Going beyond the limits of policy adjustment, good governance involved restructuring the polity and politics (Börzel *et al*; 2008). This trend of focusing on the efficiency of national structures accumulated mainly as a result of the increased international donor assistance offered to former Soviet Republics for development-related purposes. In this context, good governance was used as a framework for applying political conditionality. In the name of political conditionality, the international organisations started to release loans to developing countries based on their political and administrative structures. In this respect good governance, which defined the content of political conditionality, has served as a "tool for the promotion of administrative change" (*Ibid*.). Ultimately, "good governance in developing countries has become an objective of and a condition for development assistance" (Santiso, 2001: 3).

In the UN context, governance is seen as a means of achieving the Millennium Development Goals- international development targets established following the Millennium Summit of the United Nations in 2000 with the overall deadline of 2015. "Governance" is defined in the UN Public Administration Glossary[10] as a practice in which "citizens have their say in the process of governing". The UN Development Programme (1997) defines it as an "exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises the mechanisms, processes and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences". The Glossary indicates that "good governance entails sound public

[1010] http://www.unpan.org/Directories/UNPublicAdministrationGlossary/tabid/928/language/en-US/Default.aspx retrieved on 12 December 2012.

sector management (efficiency, effectiveness and economy), accountability, exchange and free-flow of information (transparency) and a legal framework for development (justice, respect for human rights and liberties)".

The World Bank study on "Sub Saharan Africa – From Crisis to Sustainable Growth" of 1989 revealed the significance of governance in success or failure of development cooperation and marked a milestone for the revision of the World Bank development cooperation approach. Consequently, the World Bank issued the 1992 and 1994 reports, which defined the concepts of governance and good governance and their implications on the development agenda. Accordingly, governance was "the manner in which power is exercised in the management of a country's economic and social resources for development" whilst good governance was "sound development management" (World Bank, 1992). The 1994 World Bank Report identifies three significant aspects of governance:

> (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country's economic and social resources for development; and (iii) the capacity of governments to design, formulate, and implement policies and discharge functions (World Bank 1994: xiv).

The 1997 World Development Report refers merely to good governance and states that "an effective state is vital for the provision of the goods and services and the rules and institutions that allow markets to flourish and people to lead healthier, happier lives."

Adopting a "public sector management" approach, the World Bank formulates its approach based on three layers of governance: a) public employment and management, b) public finance and c) accountability and legitimacy. These layers entail the dimensions of voice and accountability, which includes civil liberties and political stability; government effectiveness, which includes the quality of policy making and public service delivery; lack of regulatory burden; the rule of law, which includes protection of property rights; and independence of the judiciary; and control

of corruption (Kaufmann *et al*, 1999). The World Bank Group adopted a Governance and Anti-Corruption Strategy in 2007, which was updated in 2012 to ensure the horizontal applicability of good governance principles in the Bank operations across sectors and countries.[11]

In the Public Management Development Report (1991) and under the influence of the NPM approach, the OECD acknowledged the efforts of many of its members on "mak[ing] their public sectors more managerial" as the introduction of "a more contractual, participative, discretionary style of relationship: between levels of hierarchy; between control agencies and operating units; and between producing units, be they public or private". Similar to the understanding of the World Bank, the OECD defines governance in a report drafted by the working group on "Participatory Development and Good Governance" established with the mandate of determining guidelines for the adjustment of development policy in 1990. The definition used reads as follows: [governance is] "the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development" (OECD 1995: 14). Following the three layers focused upon by the World Bank, the OECD focuses in particular on the following elements of good governance: accountability, transparency, efficiency and effectiveness, responsiveness, forward vision, rule of law.[12] The difference in these

[11] The World Bank website retrieved on 01.05.2012. http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTGOVANTICORR/0,,menuPK:3036107~pagePK:149018~piPK:149093~theSitePK:3035864,00.html

[12] The OECD defines these elements as: *"Accountability: government is able and willing to show the extent to which its actions and decisions are consistent with clearly-defined and agreed-upon objectives. Transparency: government actions, decisions and decision-making processes are open to an appropriate level of scrutiny by others parts of government, civil society and, in some instances, outside institutions and governments. Efficiency and effectiveness: government strives to produce quality public outputs, including services delivered to citizens, at the best cost, and ensures that outputs meet the original intentions of policymakers. Responsiveness*: government has the capacity and flexibility to respond rapidly to societal changes, takes into account the expectations of civil society in identifying the general public interest, and is willing to critically re-examine the role of government. Forward vision: government is able to anticipate future problems and issues based on current data and trends and develop policies that take into account future costs and anticipated changes (e.g. demographic, economic, environmental, etc.).Rule of law: government enforces equally transparent laws, regulations and codes"

two institutions' approach is that the OECD perceives the democratic elements of good governance not only as prerequisite for development (as the World Bank does); it also sees them as "values in their own right" (OECD, 1995: 6). Therefore, we can argue that the OECD understanding of good governance is broader than that of the World Bank (Börzel et al, 2008: 13).

Since the early 1990s, almost all OECD Member countries have been working on improving the quality of their public expenditure by focusing on results in their management and budgeting regimes[13]. Some of these initiatives for improving the quality of public expenditure have been signing performance contracts between entities delivering on public services (i.e. agencies) and parent ministerial departments, inclusion of performance information in the budgeting and annual accounting documents, encouraging performance audit by supreme audit institutions, conducting performance reviews, inclusion of performance targets in strategic plans for government entities (departments, ministries, agencies), enhancing competition between public (and sometimes private) sector providers of services on the basis of output costing, giving increased managerial control to managers in exchange for enhanced accountability for results. These reforms seek to address all levels of central government including the whole of government level, policy sectors, public sector organisations/agencies, units within those organisations and individual employees.

The IMF's definition of good governance -with a particular focus on the economic aspects and in line with its origin as Bretton Woods mandate and mission- is ensuring macroeconomic stability of the monetary system as well as the global economy, external viability and orderly economic growth in member countries (IMF, 1997). Within this specific framework, the IMF seeks to promote good

OECD web-site retrieved on 08.04.2012. http://www.oecd.org/department/0,3355,en_2649_34119_1_1_1_1_1,00.html

[13] OECD web-site retrieved on 08.04.2012. http://www.oecd.org/department/0,3355,en_2649_34119_1_1_1_1_1,00.html

governance through the following means: *improving the management of public resources through reforms covering public sector institutions* (e.g., the treasury, central bank, public enterprises, civil service, and the official statistics function), *including administrative procedures* (e.g., expenditure control, budget management, and revenue collection); *and supporting the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private sector activities* (e.g., price systems, exchange and trade regimes, and banking systems and their related regulations) (*Ibid*.). Good governance was described first hand by the IMF Managing Director in 1992 as "accountable and active governments that enjoy the trust and support of their societies" (Camdessus, 1992). All in all, both in the World Bank and the IMF, the "good governance" agenda refers to the objectives of improving political accountability, participation, an effective rule of law, transparency, and flows of information between governments and their citizens; although the IMF has a particular focus on "fiscal transparency" (Woods, 2000: 824). The commitment of the World Bank and the IMF to strengthen good governance in public financial management can best be observed in the Poverty Reduction Strategy Papers, co-drafted by the World Bank and the IMF (Cangöz, 2010: 70-71). These strategies require highly indebted poor countries to enhance participatory decision-making and implementation.[14]

3.4.3. GOOD GOVERNANCE FROM AN EU PERSPECTIVE: THE EMERGENCE OF THE EUROPEAN ADMINISTRATIVE SPACE

Good governance acquires three dimensions in the European Union context. Primarily, it is a point of reference for Member States in improving their policy making processes and institutions on an individual basis to cope with the demands of the continuous integration process as well as in addressing the challenges of global economy in the EU context. Secondly and similar to the IFIs, good governance is a significant part of the conditionality mechanism for providing assistance. Unlike the

[14] http://www.imf.org/external/np/prsp/prsp.aspx retrieved on 27 January 2013.

IFIs, however, the assistance is not only in the form of development aid but also in the form of accession oriented technical support. Thirdly, good governance has become a horizontal criterion for EU membership in the context of accession. The capacity of national administrations has been included in every negotiation chapter as a result of the emergence of administrative capacities of the candidate countries as a top priority in the pre-accession strategies ever since the Eastern Enlargement (Mihai, 2005: 2).

Although some of the Member States (the UK, Austria, and Germany) have been actively involved in the development of the good governance framework, the issue of good governance and administrative reform came to the European Union agenda on an institutional basis only in the late 1990s. Beforehand, the EU had given modest attention and priority to the administrative issues whilst its main focus was policy-making (Olsen, 2003: 513). The resignation of the Santer Commission in 1999 due to accusations of mismanagement, fraud, corruption and nepotism significantly accelerated the debate. After this significant event in EU history, there has been more reference to governance issues in the documents issued by the European Union institutions. This was complemented by an emerging and expanding *acquis* in the field of public administration although it is not as explicit as it is in policy areas such as transport and the environment (OECD-SIGMA, 1999).

The *acquis* in this domain entails, *inter alia*, the Rome Treaty (1957), the Maastricht Treaty (1992) as well as the jurisprudence of the European Court of Justice in the way it has developed since the 1960s. "Public administration at European level" and ensuring "high-quality standards of efficiency and accountability to citizens" were incorporated in the Charter of Fundamental Rights attached to the Nice Treaty of 2000. Article 41 of the Treaty indicates the right of EU citizens to "good public administration" and shows how the concept of public administration has moved to the cross-national arena as an indicator and shaper of good governance practices

(Rydlewski, 2005: 8). The principles of good governance in the EU context refer to the principles of rule of law, openness, transparency, accountability and efficiency. [15]

The Lisbon European Council in 2000 marked the significance of public administration reform process within the European Union. Concrete steps were taken with the creation of the European Public Administration Network (EPAN), which comprised the European Ministers responsible for Public Administration. This was followed by the publication of a White Paper on European Governance in 2001. The White Paper indicated that European governance shall encompass the principles of "openness, participation, accountability, effectiveness and coherence" (European Commission, 2001a: 10). The European Commission (2004a) in its report on European Governance defined governance as "... the rules, processes and behaviour that affect the way in which powers are exercised at European level, particularly as regards openness, participation, accountability, effectiveness and coherence".

The Constitutional Treaty referred to the concept of "governance" for the first time in a primary EU legislation- in article I-50: "In order to promote good governance and ensure the participation of civil society, the Union institutions, bodies and agencies shall conduct their work as openly as possible…" Furthermore, article III-193 of the Constitutional Treaty stated that "The Union shall define and pursue common policies and actions and shall work for a high degree of co-operation in fields of international relations in order to… promote an international system of good global governance…" Article 10 A of the Treaty of Lisbon maintained this provision. Furthermore, article 16 indicated "in order to promote good governance and ensure the participation of civil society, the Union institutions, bodies, offices and agencies shall conduct their work as openly as possible".

These developments paved the way for the debate on the European Administrative Space (EAS), which is being developed as a part of the good governance agenda

[15] European Court of Justice, Case 68/81, Commission vs Belgium, 1982, ECR 153.

within the EU. The European Administrative Space can be defined as the set of "common standards for action within public administration, which are defined by law and enforced in practice through procedures and accountability mechanisms" (OECD-SIGMA, 1999: 5) or as "convergence on a common European model" (Olsen, 2003: 1).

Olsen claims that the EAS 'has roots in continental public law tradition and the "Old Public Administration". Harlow (2006) argues that the European structural models- such as the French administrative law, the British common law, the German principle of proportionality and the Scandinavian ombudsman- have highly influenced the concept of good governance. The mechanism of transmitting good governance principles in the EU is embedded within the structure of national administrative laws, such as acts on freedom of expression, civil service codes of conduct and acts, as well as administrative processes and the constitutional document of the given state in question. The degree to which a country can claim to adhere to these principles and EAS standards is a very good indication of the extent to which that country is actually able to implement the full *acquis*. As suggested by Mihai (2005: 1), "the success of the 'integration story' depends largely on the successful Europeanization of public administration".

Regarding the second dimension of good governance in the EU context, the EU development policy, the post-Cold war era signified change. Whereas it was mainly dealing with economic issues until that time, elements related to good governance started appearing after 1991. . In that year, the Luxembourg European Council adopted a declaration[16] addressing the issue of good governance. Reflecting the interconnection between development and principles of good governance, the declaration identified "democracy, human rights, the rule of law, transparent and accountable governance, and the fight against corruption" as preconditions for development. (Conzelmann cited in Börzel *et al;* 2008). Consequently, good

[16] Resolution of the European Council, November 28, 1991, OJ EEC 11-1991: 122.

governance found its way in the 1995 Lomé IV Convention and its successor 2000 Cotonou Agreement, which set out the development cooperation arrangements between the EU and the African, Caribbean and the Pacific Group (ACP). In this respect, the European Commission indicated that good governance "[took] specific account of the role of the authorities in managing resources, promoting a favourable climate for economic and social initiatives and deciding how to allocate resources" (European Commission, 1998a: 8). Moreover, the 1995 Barcelona Declaration paved the way for the multilateral cooperation framework with the Southern Mediterranean and the Middle East- MEDA assistance programme. Article 2 of the MEDA Agreement (1996: Annex II) *envisaged "*promotion of good governance by supporting key institutions and key protagonists in civil society and by assisting in the capacity building of public administrations to develop and enforce policies. Good governance has become "an integral part of the EU's foreign policy" (Börzel *et al;* 2008: 4) and was reinforced with the European Commission communications on good governance and development (European Commision, 2003d).

The third dimension that good governance acquires in the EU context is the horizontal requirement for EU membership defined under the so-called Madrid criterion. Next to the Single Market and the single currency, the EU's second most successful policy is the enlargement process, which has spread prosperity and stability in the old continent. Enlargement is usually viewed and analyzed on the basis of the benefits it offers to candidates and then member states. This is useful, but should not hide the fact that enlargement has also had other functions. In particular, the enlargement process serves as a very useful policy area through which the EU codifies and openly monitors the implementation of good governance. As this form of conditionality is the one that is the most applicable in the Turkish case, the way conditionality works will be taken up in detail under chapter 5 of the thesis.

3.4.4. GOOD GOVERNANCE AS A POINT OF CONVERGENCE BETWEEN GLOBALIZATION AND EUROPEANIZATION

The impact of the processes of globalization and Europeanization on public administration has been convergence on a common reform agenda coined as "good governance". Although the initial elements of the concept have emerged in some of the European Union Member States, it has been primarily shaped as a guiding reform agenda by the international organizations such as the UN and OECD, and was put into practice by the IFIs as a part of their aid conditionality. Although good governance has been interpreted by the international organizations in a number of ways as a result of their different focus as discussed under the previous sections, it has evolved around similar principles and ideas, which were highly influenced by the emerging literature on new public management. Consequently, good governance has become a multi-purpose concept following the revision of the IFIs' role vis-à-vis the beneficiaries in providing development aid. It has been integrated into the development policies of the IFIs and has served the purpose of assessment tool as well as determining the type and amount of assistance in their donor activities. Later on, the EU adopted the good governance agenda at an institutional level both for development assistance and accession conditionality. The globally recognized principles were transposed in the primary legislation of the EU, which paved the way for the emergence of the European Administrative Space. Ever since, the EU has been active in further developing and promoting the "good governance" agenda together with the IFIs.

There have been a number of discussion fora and legal instruments that have reinforced convergence between the IFIs and the EU. Within the framework of providing assistance to the CEECs in 1989, following the collapse of the Eastern Bloc, the European Commission attained the task of coordinating aid from the G24 , including the OECD, World Bank, IMF and Paris Club (Grabbe, 1999: 10). Unlike the previous rounds of enlargement, this time the European Commission took responsibility not only for accession preparations, but also for a major aid

programme (*Ibid*.) The coordinated assistance was geared at the elimination of trade barriers and export promotion for CEE states as well as the provision of macroeconomic guidance for currency stabilisation, balance of payments and debt relief.

Following the adoption of the Agenda 2000 by the EU in June 1997, the World Bank (WB) and the European Bank for Reconstruction and Development (EBRD) signed a Memorandum of Understanding (MoU)[17] in April 1998. Thereafter, the European Investment Bank (EIB) also agreed to closely collaborate with the MoU signatories. In March 2000, the scope of the MoU was extended so as to cover Instruments for Structural Policies for Pre-Accession (ISPA) and the Special Accession Programme for Agricultural Development (SAPARD) in addition to the already covered PHARE, the EU Pre-accession financial instrument assisting the then EU candidate countries in their preparation to join the EU. It was further revised in June 2003 and in April 2006 to enable cooperation with Cyprus, Malta and Turkey; as well as the Western Balkan countries.

The Framework for World Bank Group Support to EU Accession Candidate Countries of Central and Eastern Europe listed "good governance" as one of the strategic issues that could be taken up by the World Bank (World Bank, 2002: 9). This was identified on the basis of the agreement between the EU and the World Bank that the "development areas not explicitly covered by the *acquis* may well be a major focus for World Bank activity; and in these areas- notably ...good governance and public administration- the World Bank would be prepared to take a lead partner role if the Government concerned so wished". Since the late 1980s, the World Bank has provided aid to the then accession countries by means of lending USD 11.1 billion for 143 operations; and technical assistance (TA), for economic and social

[17] Memorandum of Understanding between the European Commission in liaison with the EIB and the IFIs retrieved on 10 May 2012.
http://siteresources.worldbank.org/INTEUEINP/Resources/MoU.pdf

transformation and convergence.[18] It continues to cooperate closely with the European Commission (EC) in the candidate countries (Croatia, Macedonia and Turkey) with complementary projects and provides analytical and advisory assistance to support reforms that facilitate accession to and integration with EU.

On the development front, the OECD has been the main coordinator of the donors within the framework of increasing aid effectiveness. The endeavours for aid effectiveness picked up in 2002 at the International Conference on Financing for Development in Monterrey, Mexico, which led to the Monterrey Consensus, which established a new partnership based on mutual responsibility and accountability between developed and developing countries in support of sound policies, good governance and the rule of law. This was further structured with the Paris Declaration on Aid Effectiveness in 2005, and followed up by the third and fourth high level fora in Accra and Busan in 2008 and 2011 respectively. Being the reference document for aid effectiveness, the Paris Declaration envisages a comprehensive attempt to change the way donor and developing countries do business together on a number of domains, one of which is assisting the countries in strengthening their governance.

Based on the existence of such fora and instruments, it would not be wrong to argue that good governance can be considered as one of the domains of convergence between globalization and Europeanization. This argument will be further developed with specific evidence on public finance, one of the main policy areas directly influenced by good governance in the rest of the thesis. Furthermore, we can say that good governance broadly corresponds with the elements of transparency, political accountability, administrative and financial accountability, legal accountability, political participation, administrative coherence, subsidiarity, efficiency and the rule of law. For the purposes of this thesis, good governance is defined as the overall

[18] The World Bank and EU Integration, retrieved on 1 October 2012. http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EUEINPEXTN/0,,contentMDK:20408902~menuPK:590774~pagePK:141137~piPK:141127~theSitePK:590766,00.html#MOU

framework of principles and standards developed as a yardstick and promoted by the IFIs and the EU for both development and accession oriented reform. In other words, the concept of governance will be used as an all encompassing term, which signifies a change in the meaning of government (Jørgensen, 1993; Marsh and Olsen, 1989). That is to say, governance in this thesis is a deeply political process and does not solely refer to enlarging the circle of decision-makers or stakeholders in political economy.

3.4.5. GOOD GOVERNANCE AS A FRAMEWORK FOR POLICY TRANSFER ON PUBLIC FINANCIAL MANAGEMENT

In addition to being a point of convergence between globalization and Europeanization, good governance serves as a framework enabling policy transfer between the national and international actors on a voluntary, obligated or coercive basis. The transformation of the role and responsibilities of governments for ensuring these principles of good governance has affected the fiscal as well as other domains of public administration such as the civil service and administrative structures. As a starting point for the case study to be analyzed under chapters 4 and 5, we will look into the way good governance is interpreted into public financial management and how it serves as a framework for policy transfer in this domain.

Good governance in public administration is often said to have become important for enhancing competitiveness in global markets in line with the new global macroeconomic framework (Reviglio, 2001: 3). Reviglio justifies his position by stating that public expenditures should be reduced so as to decrease tax rates on labour and profits (Reviglio, 2001: 3). The improvement of the operation of the international financial system has been dependent on sound and sustainable macroeconomic policy frameworks based on the principles of openness, transparency and accountability (HM Treasury, 2002: 1). This way, the administrations would open up to the public about the structure and functions of government, fiscal policy

intentions, public sector accounts and fiscal projections (Kopits and Craig, 1996: 26). Transparency and accountability shall also be considered as a tool available to the governments for assuring the Parliament and the people about effective use of public funds entrusted to them (Kesik, 2005b, 131). Such strong macroeconomic frameworks are to be created by states through the application of internationally agreed codes and standards, improved surveillance, and greater international economic cooperation. The system of internationally accepted codes and standards aims to improve the quality of policy-making in all countries, by advocating that countries set out their own long-term objectives, put in place strong institutional arrangements, that is, effective and efficient public administration, and promote the openness and transparency needed to keep markets informed (Reviglio, 2001: 7). Macroeconomic and financial stability therefore requires more robust policy frameworks, which can be ensured through strong institutions. In turn, the formation of a robust institutional framework underpinning the work of national public administrations can have long-term, important implications for European as well as global governance.

3.4.5.1. How is Good Governance Reflected on Publıc Financial Management?

Within the framework of the good governance agenda, public financial management went through a transformation. This transformation entailed ensuring fiscal discipline in the public sector, the allocation of public resources for the provision of services in line with strategic priorities, the utilization of allocated resources in an effective, economic and efficient way, granting more autonomy and flexibility to spending agencies in budget preparation and execution, transparency and accountability in public expenditure (Kesik and Kıral, 2012: 514). In a nutshell, the reform efforts focused on reformulating the three main functions of the public sector, which are control of public resources, medium term resource allocation and management of resources (Kesik, 2005b: 130; World Bank, 1999: 17). The new system was based on the logic of providing the managers with broader mandate in utilization of public resources, but making them accountable for their spending decisions by means of

reinforcing the audit mechanisms (Kesik, 2005a: 94). Mutluer *et al* (2005: 138) determine the main principles that guide the management of public resources as fiscal transparency, accountability, performance-based budgeting and medium-term budget framework. In line with the definition of good governance offered in this thesis, which sees the former as the overall framework of principles and standards developed as a yardstick and promoted by the IFIs and the EU for both development and accession oriented reform, we will refer to the principles of transparency and accountability in the analysis. The primary reason for this is the global consensus around them in various definitions of good governance offered by the international organizations, IFIs, the EU, which were explained in the previous section. The second reason is that they have already been reflected into concrete measurement tools in public financial management, in the form of standards, benchmarks and analysis tools. Based on this logic, the thesis deems *transparency* and *accountability* as the main principles that guide the management of public resources similar to Mutluer *et al*, whilst considering performance-based budgeting and medium-term budget framework as institutional arrangements necessary for putting these principles into practice. The arrangements created under the influence of the principles of transparency and accountability (medium-term budget framework, performance-based budgeting and accrual-based accounting as well as the creation of sound audit mechanisms based on internationally agreed audit standards, which are explained under 3.4.5.1.3.) will be analysed in the Turkish context within the context of budget preparation, budget execution, accounting and financial reporting and external audit and legislative oversight. As shown in figure 5, public financial management comprises these processes in the overall public finance environment.

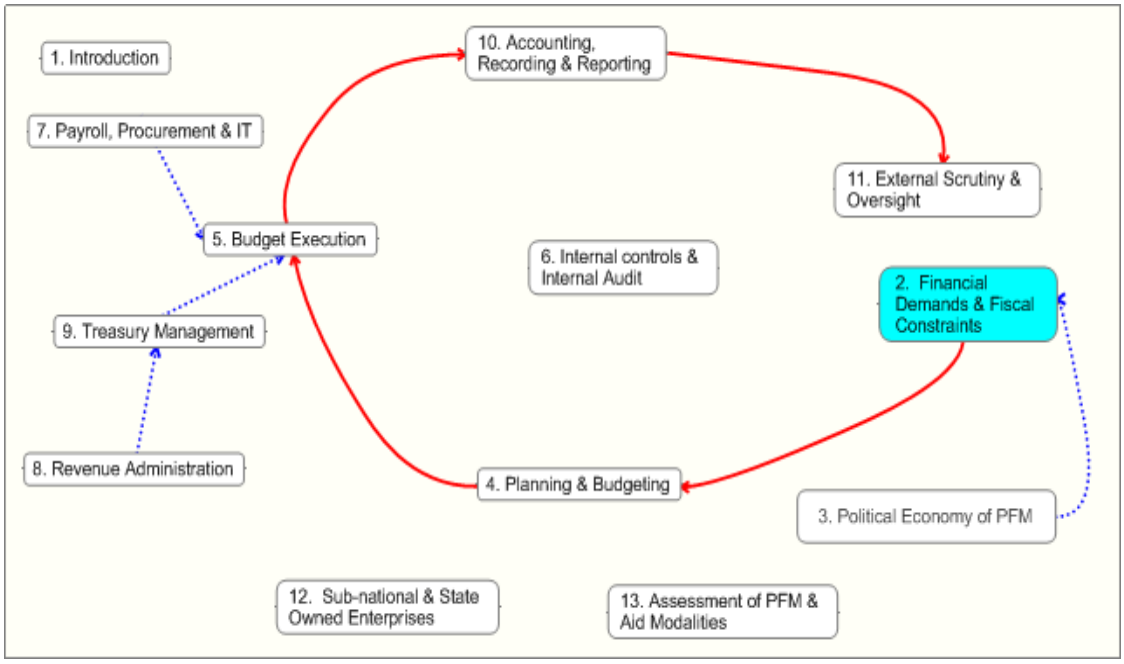

Figure 5 Public Finance Environment (PPCM, DEVCO Capacity Development Programme, 2010)

All in all, a good PFM system is indispensable "for the implementation of policies and the achievement of developmental objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery" (PEFA, 2011). The budgetary cycle is the framework for PFM, where the budget is the key instrument for a sound Public Financial Management. From a good governance point of view, budgeting process is the way that the state utilizes the mandate granted by the citizens and is accountable to the citizens about how it utilizes this mandate (Kesik, 2005b: 134). A well functioning budget system is crucial as it would enable the government to determine and achieve comprehensive fiscal magnitudes based on an informed judgment about what level of expenditure could be sustained by tax and non-tax resources and a sustainable deficit strategy; generate the information necessary to provide key decision makers with the information to make strategic decisions regarding resource allocation and to ensure that key policy objectives are adequately funded; generate incentives for efficiency and effectiveness by public

agencies and support the achievement of performance objectives as part of their accountability responsibility towards the public (WB, 2001: i-ii). It should also be underlined that the budgeting process from accounting to reporting assumes the most important role in ensuring fiscal discipline.

A sound PFM aims at budgetary discipline, allocation of resources in a strategic manner, which is to say, in conformity with the overall objectives of public policy and performance in the provision of public services and management of resources in an effective, efficient and economic way. These can be achieved as long as fiscal discipline is secured and performance management is fully operational. Budgetary discipline ensures that all proposals to spend and to save are - as far as possible- considered at the same time so that they can compete with each other on merit. Fiscal discipline is also crucial for improving the quality of decision- making. The quality of information used in preparation of the budget and thus the quality of decision-making can be improved through the provision of performance indicators and programme evaluations. These are crucial elements for a rational resource allocation. On the whole, the PFM reform "addresses good governance procedures and the implementation of accountability approaches" (OECD, 2008a: 11)

3.4.5.1.1. The Principle of Transparency in Public Financial Management

Fiscal transparency is a crucial tool in accomplishing fundamental budgetary results, including the achievement of financial discipline and ensuring the distribution and efficient use of resources according to strategic priorities. It entails disclosing the government's structure and functions, financial policy plans, public sector accounts and financial targets as well as sharing a full information set about the public finance management's structure, functions, plans and targets and aiming at increasing efficiency in the public sector by putting into place a systematic evaluation of this data (SPO, 2000: 12). The OECD definition of transparency is availability of reliable, relevant and timely information of the government to the public (OECD, 2002: 7). Highlighting that "fiscal transparency is closely associated with the

successful implementation of good governance", Kopits and Craig (1998) bring in a structured explanation of how fiscal transparency should be ensured in the public financial management systems in three dimensions. First, transparency calls for the provision of reliable information on the government's fiscal policy intentions and forecasts. Secondly, it is necessary to produce detailed data and information on government operations including the publication of comprehensive budget documents that contain properly classified accounts for the general government and estimates of quasi-fiscal activities conducted outside government. The third dimension mainly refers to behavioural aspects, including clearly established conflict-of-interest rules for elected and appointed officials, freedom of information requirements, a transparent regulatory framework, open public procurement and employment practices, a code of conduct for tax officials, and published performance audits.

3.4.5.1.2. The Principle of Accountability in Public Financial Management

The OECD (2002: 7) defines accountability as the possibility to identify and hold public officials to account for their actions. Public accountability is defined by the International Organisation of Supreme Audit Institutions (INTOSAI)[19] as "obligations of persons or entities entrusted with public resources to be answerable for the fiscal, managerial and program responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities". Based on this definition, Aktan defines accountability from a public financial management perspective as a relationship based on the responsibility assumed to ensure an action is carried out in line with pre-determined goals and the need to demonstrate this responsibility (Aktan, 2006: 18). The European Commission (2006c) defines accountability as follows:

> The process whereby public service organisations and individuals within them are held responsible for their decisions and actions and all aspects of

[19] http://www.intosaiglossary.org.mx/Default.aspx?ReturnUrl=per cent2fMain.aspx retrieved on 17 November 2012.

performance. This will be realised by developing, maintaining and making available reliable and relevant financial and nonfinancial information, in a fair and timely way.

The main instruments of financial accountability are government budgets, periodic data published on public finances, annual accounts and the investigative and other general reports prepared by independent agencies, whilst the main mechanism for ensuring accountability is having in place audit functions.

All in all, the prerequisites for an effective accountability mechanism are the determination of measurable objectives and responsibilities, planning of the means to realise the objectives, making the transaction and monitoring developments, reporting the results, assessment of results and provision of feedback (Kesik and Kıral, 2012: 519), which also constitute the elements of strategic management. A strategic approach involves defining goals and objectives, developing an action plan which mediates between the administration and the environment and designing effective methods of implementation (Hughes, 1998: 54).

3.4.5.1.3. The Institutional Arrangements for Putting Transparency and Accountability into Practice

It is not possible to separate accountability from transparency as they both encompass many of the same actions (INTOSAI, 2000). Therefore, they should be seen as complementary elements for a fully functioning public financial management system, which will be the overarching paradigm for the case study analysis. A straightforward example for the interdependence between transparency and accountability is public reporting. In this case, a*ccountability* refers to the legal and reporting framework, organisational structure, strategy, procedures and actions to help ensure that SAIs carry out their audit mandate and reporting, evaluate and follow up their own performance as well as the impact of their audit; report on the regularity and the efficiency of the use of public funds, including their own actions and activities and the use of SAI resources. T*ransparency* refers to the SAI's timely,

reliable, clear and relevant public reporting on its status, mandate, strategy, activities, financial management, operations and performance as well as the obligation of public reporting on audit findings and conclusions and public access to information about the SAI.

Transparency and accountability, which are key principles for enhancing public sector financial management, require governments to introduce a number of institutional arrangements and tools. These are the medium-*term budget framework, performance-based budgeting and accrual-based accounting* as well as *creation of sound audit mechanisms based on internationally agreed audit standards.* A medium-term enables establishing a link between policy, plan and budget and therefore increases predictability and reliability of the budget (Kesik, 2005b: 131). Furthermore, it provides flexibility to the government and the public institutions to reallocate resources between the budget items in case of a change in the priorities of the government (Schick, 2002: 27). It also means that both governments and citizens are fully informed about the total costs of new proposals rather than just the first year costs, which are often misleadingly low. Ever since the late 1980s, a number of countries have either shifted to multi-year budgeting system as part of their efforts to restructure their fiscal structures or made new arrangements designed to increase the efficiency of multi-year budgets (e.g. the U.K., Sweden, New Zealand, Australia) (SAHC, 2000: 22). To achieve a medium-term budget framework, a firm set of forward estimates for every programme and for each agency's running costs is an essential underpinning for devolution from central agencies to programme managers. Managers become responsible for living within their budgets instead of transferring that financial responsibility to the budget office each time they experience a shortage of funds. A multi-year budget framework also allows programme expenditures to be better planned. Managers can carry-over funds, thus reducing the waste associated with the end of the financial year "spend-up" as managers seek to avoid being penalised in next year's budget for under-spending this year.

Performance budgeting refers to a "budget that presents information on the outputs, services, or activities of each spending unit" (Schick, 2010). Performance-based budgeting is a budgeting system which reinforces a more effective allocation of resources, strategic planning; aims at establishing a relation between inputs and outputs in the public sector as well as between budget and plan so as to comply with the pre-determined objectives (McGill, 2001: 379). The type of the budgeting system in use is crucial as it has a direct impact on the success of the budget. Furthermore, it has an impact on establishing a financial rule in economy, extending the budget process in multiple-years, determining realistic assumptions about the forthcoming budget realisation, reducing the political influence on budgetary stability (Schick, 2008: 8-9). Performance- based budgeting allocates resources based on the achievement of specific, measurable outcomes (Smith 1999 cited in World Bank, 2003b: 1) and provides feedback for the budget preparation of the next year. It envisages a link between performance measures and resource allocations. Performance measures can enrich policy debates by enabling legislators to ask questions about outputs and outcomes linked to public spending (World Bank, 2003b: 2) In this framework, managers must be able to show that they have deployed their resources to achieve value for money. The development of performance measures and indicators, and a regular cycle of evaluations to determine cost-effectiveness, should be part of management responsibility (Keating, 2001: 152-154).

Accrual based accounting can be established through the adoption and implementation of International Public Sector Accounting Standards. Recording all public transactions instantly, accrual-based accounting allows for enhanced monitoring of government debt and liabilities by providing higher flexibility in reporting with their true economic implications. Furthermore, there should be consistency within the accounting methods used in the public sector as well as between the accounting and budgeting systems. Fiscal or government finance statistics (GFS) provides macroeconomic data to support public finance economics, whilst *the Government Finance Statistics Manual 2001 (GFSM 2001)* is the internationally accepted methodology for compiling fiscal data. It is consistent with

regionally accepted methodologies such as the *European System of Accounts 1995* (ESA 95) and consistent with the methodology of the *System of National Accounts (SNA1993)* and broadly in line with its most recent update, the *SNA 2008*. As shown in figure 6, the *GFSM 2001* disaggregates the general government into subsectors: central government, state government, and local government. Very similar to the *GFSM*, the European System of Accounts envisages four sub-sectors under the general government: central government, state government, local government and social security funds. Central government consists of all administrative departments of the state and other central agencies whose responsibilities cover the whole economic territory of a country, except for the administration of social security funds. State government is defined as the separate institutional units that exercise some government functions below those units at central government level and above those units at local government level, excluding the administration of social security funds. Local government covers all types of public administration whose responsibility covers only a local part of the economic territory, apart from local agencies of social security funds. Social security fund is a central, state or local institutional unit whose main activity is to provide social benefits.

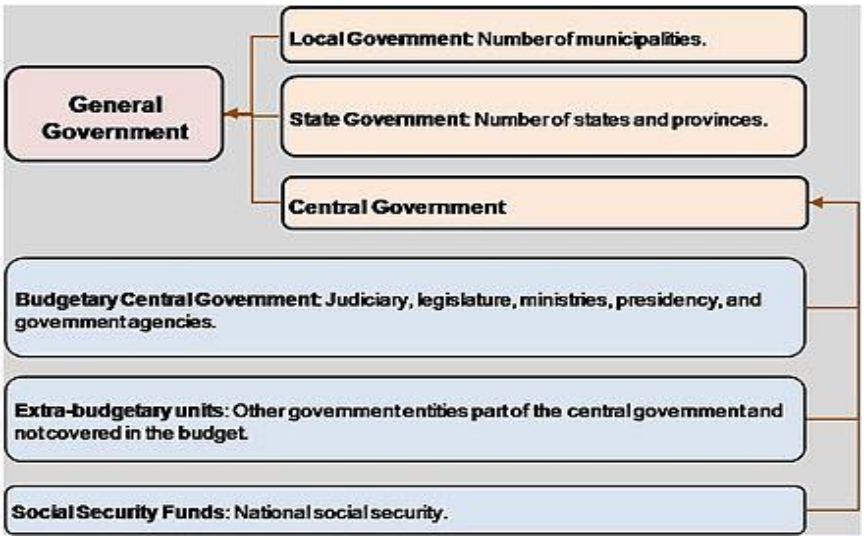

Figure 6 General Government (IMF Government Finance Statistics Manual, 2001:13)

As the government finance statistics provides data for topics such as the fiscal architecture, the measurement of efficiency and effectiveness of government expenditures, the economics of taxation, and the structure of public financing, the *GFSM 2001* provides a blueprint for the compilation, recording, and presentation of revenues, expenditures, stocks of assets, and stocks of liabilities. This blueprint, based on a functional classification, enables policy makers to analyze expenditures on various categories.

Audit is a continuous and systematic activity performed in line with strategic priorities and annual programs by taking into account risky and critical areas. Independence, meaning being independent of the audited entity as well as being far from any external intervention, is a *sine qua non* for all auditing operations based on an international consensus that the auditor and the auditing unit, body and institution must be independent in order to ensure the impartiality of findings, results and recommendations of an audit (SAHC, 2000: 23-24). Budgetary expenditures are audited by means of administrative audit, external audit and legislative audit (Kesik, 2005a: 96). Audit comprises the verification of compliance of individual transactions relating to revenues and expenditures of public agencies and institutions with applicable laws and correctness of their fiscal statements (regularity audit) as well as determining the rationality of systems and mechanisms producing fiscal transactions and accounts (financial audit) and whether they function effectively and efficiently (performance audit) (*Ibid.*). The national audit office responsible for external audit is to adopt the international standards of the INTOSAI described in the Guidelines on Auditing Precepts (often called the "Lima Declaration")[20], which provide

[20] The Lima Declaration addresses a number of key issues regarding the SAIs such as:
-The requirement for independence of the SAI and its audit personnel. The Constitution should guarantee the independence and the Supreme Court should protected it.
-The requirement that SAI audit powers be embodied in the Constitution and legislation. The SAI's mandate should cover all public financial operations.
-The relationship with the legislature. The SAI should be empowered and required to report annually to the legislature.
-The assurance that the government remains fully and solely responsible for its acts and omissions and cannot free itself by referring to audit findings.
INTOSAI web-site: http://www.intosai.org/documents/intosai/general/declarations-of-lima-and-mexico/lima-declaration.html (Retrieved on 25 November 201).

institutional principles for SAIs. Adoption of the Lima Declaration would involve giving priority to developing performance audit as well as financial and regularity audit.

When we look at the IFI and the EU requirements for applying the principles of transparency and accountability in public financial management, the IMF encourages governments to eliminate or make explicit government expenditure and tax payment arrears, off-budget operations, and quasi-fiscal activities; remove non-transparent subsidies from commodity stabilization funds and public pension funds; and trim or make apparent the cost of government regulation of labour, commodity, and financial markets. The IMF provides assistance in this endeavour through surveillance in the context of Article IV consultation discussions and World Economic Outlook exercises; conditionality in IMF-supported programs; technical assistance, including training covering a wide range of public finance and statistical issues; development and publication of the Government Finance Statistics (GFS) Database; development of standards for data dissemination; publication of research on selected fiscal policy issues; and initiatives to promote good governance (Kopits and Craig, 1996).

The IMF carries out the Review of Standards and Codes (ROSCs) to assess the extent to which countries observe the IMF's Code of Good Practices on Fiscal Transparency (See appendix B). The Code of Good Practices on Fiscal Transparency identifies four fundamental principles that should be supported in IMF-member countries. These are[21]:

1. CLARITY OF ROLES AND RESPONSIBILITIES: The government sector should be distinguished from the rest of the public sector and from the

[21] http://www.imf.org/external/np/pp/2007/eng/051507c.pdf retrieved on 30 November 2012.

rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed. There should be a clear and open legal, regulatory, and administrative framework for fiscal management.

2. OPEN BUDGET PROCESSES: Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives. There should be clear procedures for budget execution, monitoring, and reporting.

3. PUBLIC AVAILABILITY OF INFORMATION: The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks. Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability. A commitment should be made to the timely publication of fiscal information.

4. ASSURANCES OF INTEGRITY: Fiscal data should meet accepted data quality standards. Fiscal activities should be subject to effective internal oversight and safeguards. Fiscal information should be externally scrutinized.

ROSCs suggest priorities for improvement. The systematic structure envisaged by the code can be summarised as follows (SPO, 2000:13):

- Extension of the budget's scope. If there are political and legal difficulties in achieving this goal, then all agencies using public funds should be required to prepare uniform financial statements and gather information about the public sector as a whole through the consolidation of these reports.
- Budget projections shall be prepared and presented in a manner allowing for the definition of responsibilities and analysis of performance.
- The government's actions shall be reported on a gross base in order to obtain a more precise data on the realization of stated items.
- Reports shall be comprehensive and reliable and show no deviations from the preceding period.
- Data and accounting standards, used in annual budget and result accounts, shall be made public.
- Making a commitment on regular publication of financial data and reports.
- Initiation of preparation of reports regarding tax expenditures and liabilities likely to occur, thereby allowing performance of financial risk-bearing analyses.

- Ensuring that arrangements governing expenditures e.g. the Public Tenders Law are applied to the whole public sector, thereby procedures applied to utilization of public funds are standardised.
- Complex financial laws and regulations currently in force shall be simplified and all legal arrangements in the country, including developments in this field, are discussed by the public by using technological facilities (e.g. displaying bills on the internet).

The World Bank requirements can be derived from the scope of the Public Expenditure and Financial Accountability (PEFA) exercise, which the WB promotes widely (See Appendix C). PEFA identifies the key dimensions of performance of an open and orderly PFM system as follows:

1. **Credibility of the budget -** The budget is realistic and is implemented as intended.

2. **Comprehensiveness and transparency** - The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.

3. **Policy-based budgeting -** The budget is prepared with due regard to government policy.

4. **Predictability and control in budget execution -** The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.

5. **Accounting, recording and reporting –** Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.

6. **External scrutiny and audit -** Arrangements for scrutiny of public finances and follow up by executive are operating.

Strengthening national public financial administrations acquires three dimensions in the EU context. First of all, upgrading public financial management in line with EU standards improves the economic and financial stability of the national administration. Apart from reducing the risk premium that the markets assign to states and increasing the credibility of the candidate countries in the international markets, EU requirements bring in an institutional and policy framework to be

followed and be relied upon as a benchmark by international markets. The alignment with this framework results in better macroeconomic performance in comparison to the period prior to EU candidacy. Potentially, this can then translate into a qualitative and quantitative improvement in fiscal performance thus securing the long-term economic stability of the country in question.

Secondly, an EU-compatible financial management structure is a precondition for the receipt and management of EU funds, which constitutes a significant amount of assistance in the pre-accession process as well as membership assistance for the Member States. EU funds provide financial support to candidate countries in aligning their legislation and institutions according to accession requirements. However, the release and utilization of these funds is conditional upon the existence of a sound and sustainable legal basis and structure in candidate countries. Candidate states need to establish structures for managing the funds (National Fund), for tendering and contracting the funds (Central Finance and Contracts Unit) as well as for audit structures (Anti-Fraud Coordination Structures- AFCOS) within the framework of the "Decentralised Implementation System" (DIS). It should also be stressed that this legislative framework and structures subsequently need to be integrated into the national administration upon membership, so as to allow the country in question to benefit from the (substantial) structural funds. The fact that two out of 35 negotiation chapters are on financial control (Chapter 32) and budgetary and financial provisions (Chapter 33), is a further indicator reflecting the importance attached to public financial management. Thirdly, an effective Medium Term Budget Framework ought to be implemented by candidates as a mechanism for both managing domestic fiscal policy and planning within the EU. Being a key element for effective EU membership, development and maintenance of sound accounting systems that are fully capable of timely reporting on budget execution are highly important for achieving national as well as EU fiscal goals. The EU does not impose any binding constraints on national budgetary policy during the pre-accession period, although there are impacts in the areas of independence of the central bank and its financing of the public sector and financial institutions in particular. Upon the accession,

however, the fiscal discipline is firmly reinforced by the common policy framework (Scott, 2007: 67).

Within this context, the European Commission has developed the concept of *Public Internal Financial Control (PIFC)* as a means of awareness-raising about principles of transparency and accountability and prevention of mismanagement of public resources through a number of conceptual, legal and organizational actions, such as comparing the national internal control systems with the relevant INTOSAI and IIA standards to revise incumbent legislation and structures (de Koning, 2007: 23). The PIFC is based on the assumption that the government and Parliament have the overall mandate to ensure economic, efficient and effective use of public money. The government is to manage, implement and control its policies and establish systems for budgeting and accounting procedures, internal control measures and inspection services to fight against fraud and corruption, while Parliament should ensure a legislative oversight through its own services and the external audit carried out by the Supreme Audit Institution. The PIFC is primarily focused on how to reinforce the structures and procedures to ensure that the government takes up its duty, although it also provides references to the tasks of the Supreme Audit Institution. In this respect, the PIFC is an integral part of good governance for the purpose of increasing accountability and transparency in spending public money whilst being interrelated with accounting, the national budget cycle, the fight against fraud (inspection), external audit and civil service reform.[22] It is developed on the basis of EU practices and international standards such as the INTOSAI Guidelines for Internal Control in the Public Sector and the EC IIA Position Paper on Internal Audit in Europe. The main international standard for public External Audit is the INTOSAI Lima Declaration of Guidelines on Auditing Precepts of 1977. Besides, the European Union institutions have adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and Criteria of Control (CoCo) models, which offer an integrated internal control framework for risk management.

[22] Presentation made by the European Commission on PIFC, 2nd SIGMA networking seminar, 27-28 November 2008. *www.oecd.org/site/sigma/publicationsdocuments/41797788.ppt (retrieved on 25 November 2012).*

The PIFC is based around 3 pillars, namely a) *managerial accountability* (financial management and control systems), b) *functionally independent internal audit* (IA systems) and c) a centr*al harmonisation unit* (CHU) for developing methodologies and standards relating to the first two pillars (European Commission, 2006c: 6). Managerial accountability assumes that managers of all levels in both public revenue and expenditure units should be accountable for the activities they carry out; and envisages that each public manager is "responsible for establishing and maintaining adequate financial management and control (FMC) systems to carry out the tasks of planning, programming, budgeting, accounting, controlling, reporting, archiving and monitoring" (Ibid.). To ensure a functionally independent internal audit, "budget and spending centres should be equipped with a functionally independent internal auditor in order to support management through the provision of objective assessments of the internal control systems in place". (European Commission, 2006c: 7). The Central Harmonization Unit is considered as "a driver for change", which

> is responsible for developing and promoting internal control and audit methodologies on the basis of internationally accepted standards and best practice and for co-ordinating the implementation of new legislation on managerial accountability and internal audit" (*Ibid*.)

Internal control and external audit ensure accountability of the spending agencies vis-à-vis the taxpayers by means of their control activities and audit reports that they draft based on their control activities (Mutluer *et al*, 2005: 345).

The European Commission (2003c: 53) requires the candidate countries to comply with the following criteria in terms of financial management and control, the first three of which fall under the scope of this analysis:

1. existence of adequate ex ante financial control and functionally independent internal audit systems
2. an independent external audit of the public internal financial control systems in the public sector
3. an appropriate financial control mechanism for EU pre-accession funding

and future structural action expenditure

4. arrangements on the protection of EC financial interests
5. an anti-fraud co-ordination service

Financial control provides assurance to the government, the parliament, the citizens and all stakeholders regarding the use of public resources in line with pre-determined objectives and applicable legislation in an effective, efficient and economic way (Kesik, 2005a: 112). In line with INTOSAI standards, financial control is divided into two as internal and external, which constitute the first two elements of the financial control and management requirements. There should be two main institutions in the national system coordinating internal and external audit execution in all spending agencies. Another important point with regard to financial management is the establishment of the necessary institutions to train the staff to carry out audit in line with international standards. With regard to internal audit, the EU promotes centralised organisation, i.e. entrusts this task to the Ministry of Finance. As for external audit, the EU promotes centralised and independent organisation, i.e. entrusts this task to the State Audit Office. The third point is closely related to the first two elements, namely, internal and external audit. The utilization of EU funds is conditional upon the existence and functioning of these control mechanisms in the national system. Pre-accession funding and future structural action expenditure clearly reflects the importance of financial management not only as a prerequisite for pre-accession funds but also for structural funds available upon membership. The fourth and fifth requirements under this chapter concern the protection of EU financial interests, which envisages operational cooperation of Member States with the European Commission to communicate all suspected cases of irregularities and fraud. (European Commission, 2006b: 2). They must ensure the protection of EU funds at an equivalent level to the protection of national funds. Member States are also obliged to assist and co-operate on-the-spot checks carried out by EC services. In order to facilitate the required cooperation, the candidate countries are required to appoint the national anti-fraud cooperation services – AFCOS – as a single contact point with the relevant units of the

Commission. Furthermore, this part of the chapter also includes implementation of the convention on the protection of the EU's financial interests ("PIF-Convention") and its three protocols, including the harmonisation of penal law and the reinforcement of cooperation.

The definition of Public Financial Management, which is often used by the IFIs, coincides with "Financial Management and Control", which is a term defined for the Public Internal Financial Control concept of the European Union (de Koning, 2007:51). Financial Management and Control entails budget preparation, budget allocations, accounting, payment systems, expenditure management. In the Public Internal Financial Control concept, however, management and control aspects concerning the management of income, expenditure, assets and liabilities receive more attention than budgeting and accounting systems. Özoğlu Pocan (2005: 113) argues that there is a division of labour between the IFIs and the EU, where the former has the role of "defining the economic model", and the latter has the task of "defining the political and social restructuring". As a result, we can argue that the IFIs and the EU focus on different aspects of public financial management and control as the former attach particular attention to budget preparation, execution, accounting and monitoring, whereas the EU is more concerned with the financial control aspect of public expenditure. However, this division of labour also ensures complementarities between the policy recommendations particularly in the countries where both the IFIs and the EU are actively involved in providing assistance to national authorities. As indicated by Mutluer *et al* (2005: 134), one can detect many similarities and complementarities among the recommendations of the IFIs and the EU on Turkey's PFM.

3.4.5.2. Channels for Policy Transfer in Public Financial Management

Mihai (2005:1) argues that one of the roles of public administration is to serve as a means of policy transfer, since its mandate "goes beyond that of a pure bureaucracy, into that of an efficient catalyst for the process of transferring political measures

towards society". In addition to public administrations themselves, there are a number of channels for policy transfer, which will be examined under this section.

In the field of PFM, policy transfer from the international to the national level occurs through a number of diagnostic tools of the international organizations as well as international Networks:

- Country Financial Accountability Assessments (CFAAs), Public Expenditure Review (PER), occasionally Public Expenditure and Institutional Review (PEIR), Medium Term Expenditure Framework (MTEF) conducted by the World Bank, which are occasionally followed up by projects under the Programmatic Financial and Public Sector Adjustment Loan (PFPSAL)

- Report on Standards and Codes (ROSC) conducted by the IMF

- Public Internal Financial Control (PIFC) assessments conducted by the EU; Chapter 32-Financial Control in the Accession Partnerships and the Annual Progress Reports issued by the European Commission, which are occasionally followed up by projects under the Integrated Pre-accession Assistance

- OECD Fiscal Transparency Best Practice Guidelines, baselines for Public Expenditure Management and Control as well as on external audit (based on the INTOSAI standards) determined by the OECD-SIGMA, which are occasionally followed-up by short term technical assistance, SIGMA Annual Assessments on Public Expenditure Management and Public Financial Management and Control

- Public Expenditure and Financial Accountability (PEFA), which is a partnership of the World Bank, European Commission, Strategic Partnership for Africa, the OECD/DAC Joint Venture on PFM and several bilateral donors, including the IMF as an observer

- Strengthening Accountability and the Fiduciary Environment (SAFE) Trust Fund administered by the World Bank and established by the Swiss State Secretariat for Economic Affairs (SECO) and the European Commission with the aim of improving public financial management in the Europe and Central Asia region.

The most concrete reflection of these policies or policy documents on the national level can be observed in the stability programmes and legislation adopted by governments, National Development Plans, Medium Term Economic and Financial Frameworks, Letters of Intent submitted to the IMF as part of stand-by arrangements, the National Programme for the Adoption of the *Acquis* submitted to the European Union, reports and studies published by the Civil Society Organizations, Think Tanks and Pressure Groups. These channels, networks and interactions enable, if they do not facilitate, policy transfer and need to be analysed by exploring who does what, who cooperates with whom under which framework.

The IMF and the World Bank play a direct role in policy transfer due to their financial resources. Furthermore, the World Bank Institute promotes widespread economic norms through its twin development agencies of Global Knowledge Partnership and Global Development Network (Haktankaçmaz, 2010: 38). The World Bank also hosts the "governance for development" blog and the Public Financial Reform portal on its website to stimulate the debate on how to advance the good governance agenda. These interactive websites not only provide as with evidence of a soft form of policy transfer from the IFIs to the national administrations, but also encourage policy coordination among the international organizations, donors as well as providing a basis for exchanges with the country experts and for the dissemination of case studies in this domain.

The division of labour between the IMF and the WB is relatively more structured as they have different approaches to public expenditure. Ever since the Washington Consensus was set up, there is an ongoing effort to ensure better collaboration

between these institutions. In 1989, the "Concordat"[23], which provided specific guidance on the division of activities between the institutions on the basis of their primary responsibilities, was signed to address the growing overlap created by Bank and Fund structural adjustment programs during the 1980s. This was followed by the issuance of specific guidelines for the coordination of work on public expenditure in 1995[24]. This was reaffirmed by a joint memoranda in 1998[25] and in 2000 a partnership was envisaged based on the complementarities of the two institutions. The partnership became more institutionalised[26] after the United Nations Monterrey Summit of 2002. The summit also endorsed the role of the Fund and the Bank in enhancing participation to achieve the development goals of sustained economic growth, poverty reduction and sustainable development.[27] This was reinforced through the adoption of the Joint Management Action Plan on Bank-Fund Collaboration (JMAP)[28] in 2007, which has been reviewed regularly since. The JMAP envisages "collaboration on country work, including through new procedures for country team coordination; enhancing communication between staff of the two institutions working on common thematic issues; improving incentives and support for collaboration on policies, review, and other issues". In 2008, the IMF and the WB have established a joint web-portal on fiscal issues, which presents the work programs, Public Expenditure and Financial Accountability (PEFA) and Review of Standards and Codes (ROSC) mission schedules, mission reports, and so on.

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[23] The joint memorandum signed by the President of the World Bank and the Managing Director of the Fund entitled *Bank/Fund Collaboration in Assisting Member Countries* (SM/89/54, Revision 1 and R89-45), 31 March 1989.

[24] Bank/Fund Collaboration on Public Expenditure Work (EBD/95/123),7 September 1995.

[25] Report of the Managing Director and the President on Bank-Fund Collaboration (SecM98-733), 4 September 1998.

[26] Financing for Development: Implementing the Monterrey Consensus, Joint IMF-World Bank report to the Development Committee, 12 April 2002.

[27] Report of the International Conference on Financing for Development, Monterrey, Mexico (United Nations, A/CONF.198/11), March 18-22, 2002

[28] Joint Management Action Plan: Follow Up to the Report of the External Review Committee on Bank-Fund Collaboration, September 2007.

In comparison to the IMF and the WB, the OECD's "function, is limited to the exertion of moral pressure" by its practice of "naming and shaming", which also provides the national policy-makers with the option of disregarding OECD recommendations (Kildal, 2003: 8). Recognized as the world's premier think tank, the OECD neither imposes sanctions in the form of conditionality nor provides financial assistance. Nevertheless, the OECD serves as a crucial channel of policy transfer among its members as well as the IFIs and the EU. Part of its mandate is to assist governments in fostering prosperity and fighting poverty through economic growth and financial stability. In that context, the OECD attaches particular importance to issues related to public governance. This is reflected in the existence of the Public Governance and Territorial Development Directorate in this institution with a number of publications, reviews and actions on governance. The Committee on Public Management within the OECD is the main institution encouraging policy transfer. The Public Management Committee comprising senior officials from the OECD member countries established the Public Management Service (PUMA) in 1990 to establish baselines for the public governance reforms and to enable benchmarking. Furthermore, the OECD Support for Improvement in Governance and Management (SIGMA) unit was established in 1992. Being a joint initiative of the EU and the OECD, principally financed by the EU, SIGMA seeks to support European Union candidates, potential candidates and European Neighborhood countries in their public administration reforms by developing policy analysis and baselines for good governance. To provide a basis for conducting assessments of central management and control systems to support efforts by the European Commission in the area of EU enlargement, the baselines are used by the European Commission for assessing EU candidate countries and other countries of interest. The baselines (presented in Appendix A) are assessment tools, either in the form of a questionnaire or a narrative description, with which Sigma staff carry out the assessments on public sector financial control, public procurement management, public expenditure management, public sector external audit, civil service, policy-making and co-ordination machinery. Furthermore, the OECD hosts the Task Force on PFM, which aims to foster good practices in implementing PFM

reforms, harmonize the measurement of PFM performance, and share PFM knowledge and experiences among donors and partners.

Although the EU has created the concept of the PIFC, which sets the structure for a sound PFM system, it refers to international standards. In this respect, the EU is not an active actor in policy development in this domain. Nevertheless, it is a channel for policy transfer both within the Union and towards the candidates and third countries. It also financially supports institutions such as SIGMA and SAFE in supporting the development of the good governance agenda in the PFM field and improving PFM in a systematic way. Both initiatives seek to improve the understanding of PFM status in target beneficiaries, support design, implementation and management of the PFM reform agenda by governments, develop shared knowledge and experience on PFM reform to strengthen reform effectiveness, improve coordination between donors and their relationships with governments.

The PFM can thus be considered as a key area demonstrating that the IFIs and the EU work in a complementary fashion towards the development of a good governance agenda. One of the outstanding examples of coordination between the IFIs and the EU occurs in the field of public accounting. The IMF publishes GFS in the *International Financial Statistics* and the *Government Finance Statistics Yearbooks*. The World Bank gathers information on external debt. The OECD, on a regional level, compiles general government account data for its members, and the EU's Eurostat, following a methodology compatible with the GFSM 2001, compiles GFS for the members of the European Union.

CHAPTER 4

THE TURKISH PUBLIC FINANCIAL MANAGEMENT IN THE PERIOD OF 1980-1999: ADJUSTMENT- ORIENTED REFORM

4.1. EARLIER PUBLIC ADMINISTRATION REFORM INITIATIVES

The concentrated administrative structure, which was incrementally established following the Tanzimat Decree, was taken over by the newborn Turkish Republic (Sobacı, 2006: 78). Metin Heper (1985) asserts that the state legacy for the Turkish Republic was twofold: a moderate transcendentalist state based on a strong leader (epitomized by the Classical period and the reign of Mahmud II) and a moderate transcendentalist state based on a strong bureaucracy (epitomized by the Tanzimat period). As a result of the upsurge of admiration for the West, the Tanzimat era represents the first phase of the Europeanization of the Ottoman-Turkish polity with its adoption of Western legal and administrative institutions. Assenting to the western system of governance, the Ottomans sought to improve the Empire's military effectiveness and institutional models offered by the West by reforming the governing structures during the 19th century and transforming the state to fit the European model of the nation state in the early 20th century. This movement was not a process of change brought about by the dislocations within the society, but rathera series of reforms introduced from the top by the state in accordance with its own concepts and requirements. The reforms were the initiatives of the military-civilian bureaucrats. They conceived and formulated reforms guided by the Western models and also put them into practice. In this sense, we can argue that there was a voluntary policy transfer from the Western Great Powers to the Ottoman Empire particularly at the level of bureaucracy.

In this chapter, I begin with an overview of the earlier reform iniatives in the Turkish public administration. Next, I will outline the major iniatives for change in the Turkish public administration in general and public financial management in particular between 1980 and 1999. Doing so, I will also provide the economic and political background to reflect the conditions that these iniatives were taken. The third section will analyse -employing the good governance principles- the developments in the Turkish public financial management from transparency and accountability perspectives. This section will also reflect which of the outstanding issues in this domain were addressed and which were not. Against this background, the fourth section will analyse the dynamics behind the success and failure of the initaives in this period. As a means of exploring the dynamics, I will look into the channels of policy transfer, which are categorised as endogenous and exogenous factors for policy change.

Following the establishment of the Turkish Republic, the 1923-60 period entailed efforts to establish basic administrative procedures and processes, complete administrative structures and determine the administrative model. Sezen (2011: 328) asserts that "the most significant and comprehensive reform undertaking in the history of Turkey occurred in the early Republican period, where the Ottoman imperial heritage was completely transformed". It would hardly be an exaggeration to suggest that almost every government formed since 1923 has been keen on reforming the country's public administration system and has included such a reform commitment in its government programme (Sözen, 2005: 196). Although they have been addressed to a very limited extent in these programmes, the persistent problems of the Turkish public administration have been "widespread corruption, inadequate administrative capacity, bribery, red tape, lack of accountability, the existence of patronage and clientism instead of meritocracy, low level professionalism, highly centralized bureaucratic structure, and inefficiencies in the provision of public services" (TÜSİAD, 1983; Tutum, 1994; Oktay, 1997; TESEV, 2000; TESEV, 2001; TÜSİAD, 2002 cited in Sözen, 1995).

The influential endogenous factors triggering public administration reform to improve and develop the state apparatus in the 1923-45 period were the change in the economic role of the state from non-protectionist to protectionist in 1929, the change in the mode of governance from single- to multi-party system in 1945 as well as the economic difficulties experienced due to domestic deficiencies such as corruption and clientism. The exogenous pressures for change were the requirements introduced by the 1923 Lausanne Treaty, economic difficulties experienced during World War II, as well as the Cold War Environment in general and the Marshall Plan in particular, which set the nucleus of a common agenda for reforming public administrations to be mainly shaped by the OECD.

Primarily due to the conditions set by the Lausanne Treaty[29], the economic role of the state in the early years of the Republic (1923-1929) was non-protectionist in the sense that protectionist policies such as a high customs tax were not implemented, and interventionist policies were not followed except for the railways (Şener, 2008: 159). The predominant policy in the 1950s was import substitution, which entailed the "prohibition of imports of commodities for which domestic production was deemed adequate" (Krueger, 1995: 343).

Protectionist trade policies involved exchange rate controls, import licenses, quotas, taxes and a high level of external customs duties. In the 1960s and 1970s, the import substitution strategy resulted in an economy highly dependent on imports and foreign borrowing with a very low export volume. State economic enterprises (SEEs) were established and expanded to process and market agricultural commodities, to extract and export minerals, and to produce a wide variety of manufactured goods. High economic growth levels which averaged of 6.7 per cent until 1977 (growth levels in agriculture, industry and services sectors were 3.3 per cent, 10 per cent, 7.8 per cent

[29] The Trade convention-signed additionally to the Lausanne Treaty- restricted Turkey's external economic policies for 5 years, and foresaw the abolishment of export and import bans- with few exceptions. It also prohibited the introduction of new import or export bans and changed customs tariffs for the following 5 years (Boratav, 2007: 44).

respectively) started to decline leading to a contraction in industrial production of three per cent in 1977) exacerbated by the country's inability to import vital inputs for industry due to a shortage of foreign exchange, itself the result of the failure to borrow from international lenders to pay back some of previously accumulated debt and the second oil shock of 1979. By the end of 1979 Turkey's foreign debt had reached USD 14.6 billion.

In the post war period, the state and the fledgling industrialists had increased their contacts with international capitalism. Furthermore, Turkey became a founding member of a number of international organizations, which provided a strong basis for policy transfer. As a result, a number of foreign consultants were hired to analyse the problems in the Turkish public administration during the 1947-59 period. A series of reports confirm this: these were "the Neumark Report (1949), the Thormburg Report (1949), the Barker Report (1951), the Giyas Akdeniz Report (1952), the Martin-Cush Report (1951), the Gruber Report (1951-2), the Baade Report (1959) and the Chailloux-Dantel Report (1959)" (Sobacı, 2006: 77). In the Neumark and Barker Reports, Turkish Public Administration was analysed with a relatively broad perspective. The Neumark Report mentioned the reasons behind the state's reorganisation and provided recommendations such as the establishment of new institutions and measures to improve civil service performance as well as rationalize public services. The Barker Report contained recommendations on tutelage, relations between the centre and periphery, personnel issues, advisory and secretarial services, fiscal administration, public accounting and the provision of training. The Martin and Cush Report focused on the organisation of the Ministry of Finance, administrative procedures and methods, as well as administrative and personnel issues. Finally the Giyas Akdeniz, Baade ve Chailleux-Dantel Reports were on civil service related problems.

Soon after the military *coup d'etat* of 27 May 1960 and following the introduction of planning in determining public policies and expenditures, efforts for the

improvement of public administration were carried out in a more structured and regular basis (Sobacı, 2006:78). The Council of Ministers initiated a research project entitled MEHTAP (Research Project on Organization and Functions of the Central Government of Turkey) on 13 February 1962 with the state decree 6/209. MEHTAP was the first comprehensive initiative to analyse the public administration as a whole and provide recommendations for improvement. The project was to be carried out by Turkey and the Middle East Public Administration Institute (TODAIE), the State Planning Organization (SPO), the State Personnel Department and relevant institutions. In order to follow up on the findings of the research and to formulate the necessary measures and policy decisions, the Commission for Rearrangement of Administration and Administrative Methods was established in the SPO. Within the framework of this project, significant research was carried out and a number of policy proposals were submitted to the government. However, they were largely not implemented and the Commission was abolished in 1966 (Sobacı, 2006: 79).

In 1968, studies to shift from the classical to a program budget system were launched by the Ministry of Finance with the technical assistance of the US Agency for International Development (Cangöz, 2010: 71). On 27 May 1971, the government established an advisory board for Administrative Reform to determine the main line and strategies for the rearrangement of the public sector with the government programme. The Board did not initiate new research agendas but based its reports on the findings of MEHTAP. As of the 1973 Budget, the Plan-Program Budget was adopted although it failed to be fully implemented (SPO, 2000) due to a lack of political will supporting the plans, which eventually became so broad to cover almost everything (Mutluer *et al*, 2005: 129).

The administrative reform in the aftermath of the establishment of the State Planning Organization was targeted at "economic development." Ever since the publication of the first National Development Plan by the State Planning Organization in 1963 and up until 1980, Turkish economic and development policies were guided by four

consecutive development plans (SPO, 1963; SPO, 1968; SPO, 1973; SPO, 1979) (Şener, 2008: 182). Guided by the values of control and efficiency (Heper and Berkman, 1979: 310), public administration reforms in this period focused mainly on central government organization, local governments, SEEs and personnel administration (*Ibid*.).

Eventually, public administration reform efforts failed to materialise. Although these reform initiatives between1923-1980 were carried out in different domestic and international contexts and the level of their impact varied, they had some common features, which could provide an explanation as to their failure. Primarily, public administration reform came on the agenda either after a change of government or following an economic and political crisis. Another way to read this is that the need to reform was acknowledged not as a strategic objective, but more as a short-term solution or a "quick fix" to a broader problem. Şener (2008: 193) explains these quick fixes with the argument that economic crises change the role of the state and political authority pursues administrative reform in order to stabilise a country in crisis. In this context, once a degree of stability has been reached, the necessity to reform becomes less of a priority. Secondly and as a result of such initiatives, the administration culture based on a concentrated and hierarchical structure was maintained, if not increased, whilst politics accused the bureaucracy for failing to catch up with changing conditions (Çitci, 1984: 16). If the overall goal had been a more efficient public administration, a more strategic approach would have been needed to bring in a more de-concentrated or less hierarchical structure. Thirdly, administrative reform attempts in this period mainly comprised of *ad hoc* steps to establish the organizations necessary for the development of the nation state or to adapt the existing ones to the conditions of the time (Demirci, 1988: 35). Providing a comprehensive explanation for this failure, Heper (1979) identifies the following reasons: governments did not provide an assurance regarding the continuity of the reform efforts; reform efforts were not supported by consistent political will and structures; personnel reform was limited to the problem of wages and salaries; and

work on administrative reform often remained at the research level without being transferred to the policy level.

4.2. 1980-1999: REFORM EFFORTS GEARED AT POLITICAL AND ECONOMIC LIBERALIZATION

4.2.1. THE 24 JANUARY 1980 STABILITY PROGRAMME

In the late 1970s and similar to the earlier period, economic instability reinforced political instability, which resulted in a series of coalition governments failing to stabilize the Turkish economy. These governments had to cancel the IMF Programs agreed in 1978 and 1979. In November 1979, a center-right coalition led by Süleyman Demirel appointed Turgut Ozal as the deputy prime minister in charge of economic policy. Özal and a few bureaucrats, in collaboration with the IMF, drafted a package of adjustment measures, which were announced on 24 January 1980.

The "24 January" decision was a turning point for the Turkish state as the development policy that had been implemented for decades was replaced with a new concept of development (Aksoy, 1993: 39). The new concept was based on the pillars of liberalization, integration to international trade and export-led growth (Sezen, 2001: 6). Similar to most developing and underdeveloped countries during the late 1970s, Turkey witnessed the disadvantages of an import-substitution strategy and sought to overcome these weaknesses by gearing towards a more outward-oriented economic development strategy. The main reasons paving the way for this shift in the economic and trade policy can be explained primarily with the failure of the import-substitution strategy to address the needs of the Turkish economy; secondly with the urgency to resolve the extremely high foreign debt through receiving external aid; thirdly with the conviction that the failure to stabilize the economy could spill-over to politics leading to turmoil and fourthly with the increasing demands of the private sector to catch up with the economic conjuncture

of the 1980s, which was dominated by trade liberalization trade and a market-first conception of political economy.

The 1980 Stability Package provided guidelines for transforming the economy with the aim of achieving three objectives: the minimisation of state intervention in the economy, the establishment of a free market economy, and Turkey's integration with the world economy (Koch and Chaudhary, 2001: 468). Based on these objectives, the reform initiatives were geared at the removal of price controls and subsidies, the expansion of the private sector, the encouragement of private savings and investments, liberating foreign trade by reducing tariffs and other barriers, reducing controls over money transfers, improving the tax system, and finally encouraging Foreign Direct Investment.

Civil unrest had been a major problem prior to the outset of the program. As the Demirel–led coalition presented tax and other measures to Parliament in the summer of 1980, it became clear that Parliament was unlikely to approve them (Krueger, 1995: 352). In that context and with violence between clashing ideological and political groups on the rise, the military intervened in September 1980 and ousted the Demirel government. Turgut Özal, however, remained in office to become the deputy prime minister in charge of economic policy until he was replaced in June 1982 due to the Bankers' Crisis, in which the largest money broker and security house that entered the Turkish credit markets collapsed as a result of the recently introduced financial liberalization.

During the military regime between 12 September 1980 and the first election following the coup on 6 November 1983, the administrative reform agenda was maintained although it was primarily dominated by military reforms. The reform priorities were similar to those of the previous decades. Ensuring neutrality of the bureaucrats, the revision and reorganisation of public institutions, reducing red-tape, limiting the number of civil servants, increasing local revenues and ensuring the

efficient functioning of the SEEs remained reform priorities, through they were hardly achieved. The initiatives, which were very broad and superficial, ended up being “formalistic” rather than “substantial” (Şener, 2008: 201).

Following the announcement of the military that elections would be held in the autumn of 1983, Turgut Özal established the Motherland Party (ANAP), which ran against the party supported by the army and won the elections held on 6 November. The first years of the ANAP government were dominated by an accelerated reform drive and an adjustment process in almost all sectors of the economy (Sezen, 2001; Central Bank, 2002: 4). Nevertheless, this reform drive did not extend to public administration, which was mentioned in the fifth development plan (1985-1989) in less than half a page and only in terms of the guiding principles applicable to it.

Economic reforms started with the liberalization of the foreign trade regime and the financial sector and culminated with the liberalization of capital accounts during late 1989, which significantly changed the policy-making environment. Financial liberalization, through liberalization of capital accounts, "reduced demand for base money" and "fiscal balances came under increasing strain due to the external transfer" (Rodrik, 1990: 2). Bringing in a pre-mature liberalization, this decision did not only lead to detrimental effects on monetary discipline, but made the Turkish economy more vulnerable to external shocks.

It should be noted that the shift to a neo-liberal economy was not a voluntary choice of Turkey but rather "inevitable and an outcome of a major balance of payments crisis associated with the exhaustion of the import-substitution model of industrialization" (Öniş, 2004: 118). By the end of the 1980s, the import regime, interest and price policies had been liberated; sectors like tea and tobacco had been opened to private enterprises by means of lifting the public monopolies which then translated into the privatization of State Economic Enterprises (SEEs). The recurring public expenditure deficit started to be curbed. Coupled with privatization, earlier

controls on SEEs' borrowing reduced the transfers from the budget to these enterprises. The required financing from the government budget to the SEEs was equivalent to seven per cent in 1984; it fell further to two---three per cent by the late 1980s as opposed to 14 per cent in the late 1970s (Krueger, 1995: 356). Other factors which enabled the government to reduce the public expenditure were: cuts on civil servant expenditures by means of freezing new recruitment as part of the policy reform package and wage adjustments in the public sector lagging significantly behind inflation (*Ibid.*).

In terms of the institutional reorganization of the 1980s, the decree-law no.174 of 14 December 1983 sought to set out the basis of organisation, duties and mandate of the ministries in reorganizing public services towards a more effective, efficient and economic mode of operation. With a number of decree-laws published in the Official Gazette on 18 June 1984, the Özal government set up a new public administration mechanism by amending the founding laws of key ministries such as the Ministries of Interior, Foreign Affairs, Finance and Customs. One of the significant changes brought in by these decree laws was the establishment of the Treasury, which would be the leading organization in economic management under the ANAP government. This materialized through the separation of the Treasury from the Ministry of Finance and transforming it to an Undersecretariat attached to the Prime Minister's Office. As a consequence, the Ministry of Finance, which was the powerful institution of the conventional bureaucracy, was transformed into a unit merely responsible for revenue collection (Sezen, 2001: 8). Its role in economic management was severely weakened.

This reorganisation enabled the government to implement the 24 January economic decisions without the interference of the bureaucracy by transferring the overall mandate to carry out the tasks related to these decisions to a newly created institution as well as the Prime Ministry (Demirci, 1988: 126). Prior to 1980, the Ministry of Finance and Customs, the Ministry of Commerce, and the State Planning

Organization were the principle actors for economic and fiscal policy. One of the most significant institutional changes of the post-1980 period was the establishment of the Undersecretariat of Treasury and Foreign Trade by detaching some units from the Ministries of Finance, Industry and Commerce (Decree-law no:188). The Undersecratariat was directly attached to the Prime Ministry. This was necessary considering the economic policy, determined by the 24 January 1980 Stability Programme as well as the recently adopted export-oriented industrialisation strategy. For some scholars such as Güler (1996), the Treasury was established as a privileged organization acting as an agent for liberalization and for managing government's foreign economic relations.

The Undersecretariat consisted of the Directorate Generals of Foreign Economic Relations, Banks and Foreign Exchange, Public Finance, Exports, Imports, Agreements and the Departments of Evaluation and Standardization in Foreign Trade (article 33, Decree Law: 232, 18 June 1984). The Directorate General of the Turkish Mint became affiliated to the Undersecretariat of Treasury and Foreign Trade. In this way, not only the units but also their mandate, which used to fall under the jurisdiction of the Ministries of Finance and Commerce, were transferred to the Prime Ministry. These were the tasks related to export and import policy as well as international agreements. By 1984, the State Planning Organization, the Undersecretariat of Treasury and Foreign Trade, the Central Bank as well as the office of the Prime Minister had become the key institutions steering economic and fiscal policy. In addition to establishing the Treasury, which enabled the government to make the latter responsible for cash management (instead of the Ministry of Finance), the Özal government also created institutions such as the Mass Housing and Public Participation Administrations (Interviewee 1). These administrations were responsible for the execution of a significant part of public expenditure in terms of major public expenditure items such as housing and infrastructure.

Another significant change was the attachment of the Central Bank to the Minister of State for Economy together with the Undersecretariat of Treasury. Beforehand, the Central Bank was attached to the Ministry of Finance and had no autonomy from it. Post 1983, it assumed an important role in the structural adjustment process. By the end of the 1980s, the Central Bank had acquired "the institutional capacity, although not always the mandate, to take independent action that could influence policy outcomes" (Öniş and Webb, 1992: 23).

In the beginning of the 1990s, there was an increase in public expenditure as a result of populist policies, such as increasing the public wage bill, implementing generous agricultural support policies, supporting poorly performing state owned economic enterprises (SEE), and meeting the high cost of military operations in the South-eastern region of the country (Karagöl, 2008: 3). These resulted in huge public sector deficits with high interests paid on public debt accompanied by domestic debt with a short-term maturity. (Turhan, 2008) The transfers from the budget to the SEEs jumped back to nine per cent in 1991 from the previous two-three per cent range in the 1980s. In addition to a rapidly increasing government expenditure, expenditure out of the consolidated budget almost doubled, from 22 in 1995 to 42 per cent in 2001 (Sözen, 2005: 198). High fiscal deficits and inflation levels in the beginning of the 1990s overshadowed the gains incurred from liberalizing the economy in the 1980s. Furthermore, the decision to liberalize the capital account was taken without the necessary domestic infrastructure in place (Öniş, 2003b: 8) leading to economic instability. Insufficient importance was attached to administrative structures that would have allowed for a sustainable policy implementation, and this can be seen in the development plan of this period. Not considered a priority reform area, public administration "improvement" was mentioned in the sixth development plan (1990-1994) in half a page.

Following the unexpected death of (by then) President Özal in 1993, Süleyman Demirel, the leader of the Doğruyol (True Path, DYP) Party acceded to the

Presidency. His successor became his political protégé Tansu Çiller. Çiller led the coalition formed between DYP and the Social Democratic Peoples' Party (SHP) between1993-1996, the period in which both the 1994 economic crisis and the Customs Union agreement with the EU took place. The internal imbalances in 1993 spilled over to the external account. The governments opted for short-term solutions instead of structural changes, which further increased the budget deficit, domestic debt stock with limited capability of collecting revenues. As a result of these short term solutions and spiralling inflation, the Turkish economy could not benefit from liberalization or the Customs Union in terms of increased capital flows, foreign direct investments and exports (Eder, 2003:226). Failure to implement necessary institutional changes necessary for a well-functioning market economy, and a weak banking sector coupled with political instability gave rise to the economic crisis in 1994 (Karagöl, 2008:2). Foreign currency expenditure grew as a result of the liberalization of imports while revenues in foreign currency declined leading to increased indebtedness. The economy shrank by six per cent during the 1994 crisis.

Taking into account the failure to implement structural reforms and thus ensure sustainable economic stability, the 1990s are often identified as the "lost decade" both in economic and political terms (Keyder cited in Ataç and Grünewald, 2008; Turhan, 2008; Yılmaz, 2011, interviewees 1 and 2). Successive weak coalition governments could not secure the political will and failed to impose fiscal discipline and to encourage a sustained economic growth (Öniş and Bakır, 2007: 151). This decade was marked by increased corruption, economic deterioration and short-lived coalition governments. Table 4 lists all governments that served from 1980 until 2002.

Table 4 Turkish Governments (1980-1999)

Prime Minister	Period	Political Parties Making Up the Government
Bülent Ulusu	20.09.1980- 13.12.1983	Military Government
Turgut Özal (1st term)	13.12.1983- 21.12.1987	ANAP
Turgut Özal (2nd term)	21.12.1987-9.11.1989	ANAP
Yıldırım Akbulut	09.11.1989- 23.06.1991	ANAP
Mesut Yılmaz (1st term)	23.06.-20.11.1991	ANAP
Süleyman Demirel (7th term)	20.11.1991- 25.06.1993	DYP-SHP
Tansu Çiller (1st term)	25.06.1993- 5.10.1995	DYP-SHP
Tansu Çiller (2nd term)	05.10.1995- 30.10.1995	DYP
Tansu Çiller (3rd term)	30.10.1995- 06.03.1996	DYP-CHP
Mesut Yılmaz (2nd term)	06.03.1996- 28.06.1996	ANAP-DYP

Table 4 (continued)

Necmettin Erbakan	28.06.1996-30.06.1997	RP-DYP
Mesut Yılmaz (3rd term)	30.06.1997-11.01.1999	ANAP-DSP-DTP-Independent
Bülent Ecevit (4th term)	11.01.1999-28.05.1999	DSP

Source: Compiled from http://www.tbmm.gov.tr/kutuphane/e_kaynaklar_kutuphane_hukumetler.html. on 26 December 2012.

4.2.2. THE 5 APRIL 1994 STABILIZATION PROGRAMME

The 1994 economic crisis triggered the adoption of the 5 April 1994 Programme, which also entailed structural reforms. The main objectives of the 5 April Programme were to achieve a substantial and durable reduction in the fiscal deficit and inflation; reduce the external payments deficit and restore foreign exchange reserves; establish a structural framework for more sustainable rapid growth through a considerably reduced role of the state in economic activities. It also envisaged significant cuts in discretionary government spending, immediate price increases for SEEs, and a tighter monetary policy (Turhan, 2008: 262).

The 5 April 1994 Programme was supported by a twenty month (originally fourteen-month followed by a 6 month extension) IMF Stand-By Arrangement (SBA) for a Special Drawing Right of 509.3 million (approximately USD 715 million) approved in July 1994. In the short term, the Programme led to positive results as the budget deficit was substantially reduced the external current account registered a sizeable surplus and foreign currency reserves increased. However, these outcomes fell short of enabling a durable adjustment due to delays in structural reforms (Mutluer *et. al*, 2005: 128). Although significant steps had been taken to strengthen tax policies, and

some areas of government spending were rationalized, “progress with reform in the rest of the public sector [was] lagging” (World Bank, 1995: 1). The “lagging reforms” entailed the privatization or closure of state economic enterprises (SEEs); the rationalization of public administration; reductions in the costly government interventions in investment, production and marketing decisions; and medium term reforms on health and social security (*Ibid*.). These needed to be complemented by institutional reforms to strengthen public financial management.

The seventh national development plan (1996-2000) was prepared with a “market economy” approach aiming at the “institutionalisation of competition” (Şener, 2008). Furthermore, the Chapter on “Basic Objectives and Principles” indicated that the plan was developed on the basis of a “new strategic approach” (SPO, 1996). Moreover, this was the first national plan that entailed the terms "reform" and "structural reforms". However, it was more like a wish list of reforms without any clearly discernible strategic framework (WB, 2001: 98). In the absence of cost estimates of the policy priorities indicated in the report, the plan could not go beyond providing a general framework to assist decision-makers. Entailing 20 reform items, the development plan envisaged privatisations, the independence of the central bank, and the establishment of a transparent, participative administration, personnel reform, the prevention of waste, and the reduction of red-tape. The 1996 Government Program envisaged the adoption of the framework law regulating local governments and strengthening local government revenues. In terms of reorganising public administration, the priorities were improving central-local relations, making control of expenditures more effective and efficient, enhancing e-government, introducing the right to information, establishing an ombudsman, and reforming personnel management. Nevertheless, most of these reform ideas could not go beyond the draft stage (Şener, 2008: 207).

The reform record in the 1990s was limited to changes in: a) law no 3996 structuring the build-operate-transfer procedures b) law 4047 consolidating the Treasury

Guarantees and off-budget lending, c) law 4149 extending the audit scope of the Turkish Court of Accounts Law in 1996, d) an improvement in statistics and reporting of general government operations bringing it closer to internationally accepted standards such as the System of National Accounts (SNA) and the Government Finance Statistics (GFS) and e) the launch of a study on norm cadres via the Prime Minister's circulars. Although the drafts laws on personnel regime, right to information, and ombudsman were prepared in 1998, they never came to the Parliament's floor for a vote. Among others, the most advanced reform project was related to local government (Şener, 2008: 208). A draft framework law regulating competences between the centre and local level was submitted to the Turkish Grand National Assembly. Despite two rounds of attempts, it was not adopted by the Parliament.

In the late 1990s, policy makers started to reassess economic costs of populism and sustainability of contemporary policies. In 1998 a three-party coalition government launched a comprehensive disinflation program, aiming at reducing inflation and improving fiscal performance (Turhan, 2008: 264), which was supported by a Staff Monitoring Program with the IMF. Five months after the adoption of the program, the government collapsed due to a no-confidence motion over corruption allegations including the Prime Minister's tampering with the sale of a state bank. Moreover, the East Asian (1997) and Russian (1998) crises affected the already vulnerable economy in the last quarter of 1998.

The coalition government- between the Democratic Left Party (DSP), the Nationalistic Movement Party (MHP) and the Motherland Party (ANAP)- formed after the April 1999 elections adopted an exchange rate based disinflation program, envisaging fiscal adjustment, structural reforms, and a firm exchange rate commitment. Having the fiscal goal of increasing the public sector's primary surplus from 2.8 percent of GNP in 1999 to 3.7 percent in 2000, the program entailed reforming the agricultural subsidies system, restructuring the pension system,

enhancing transparency and accountability in public finance, accelerating privatizations, and strengthening the banking system and banking regulation (IMF, 1999). Although the coalition government initially appeared committed to a far-reaching disinflation program and structural reforms (Arpac and Bird, 2009: 140), this program also collapsed due to "accumulated structural distortions, which put pressure on the pegged exchange rate regime", and the failure to "maintain austerity targets and to implement the necessary structural adjustment reforms on time" (Turhan, 2008: 265; Demircan and Ener, 2007).

4.3. PUBLIC FINANCIAL MANAGEMENT FROM A GOOD GOVERNANCE PERSPECTIVE

Although the Turkish economy underwent considerable change as a result of economic liberalization, the scope of changes has been very limited in the area of public sector in general and public finance in particular. This limited focus as well as reluctance on structural changes, which could have reinforced economic and fiscal policies, has been one of the reasons for the failure of stabilization attempts between 1980 and 1999 followed by consecutive economic crises in 1999 and 2001. Therefore, it is crucial to analyse the situation in the area of public finance and identify the main deficiencies in the period of 1980-1999. This will facilitate our understanding of the structural changes envisaged as of 1999, which started to be implemented as of 2002.

The main problems of the Turkish public financial management in this period are summarised in the most comprehensive way by Mutluer *et al* (2005: 124). It is thus worth quoting at length:

> Failure of the budget system to establish links between plan and budget, program and budget, plan and budget; failure to prepare strategic plans for the public institutions, failure to make a functional analysis of the state which results in the absence of delineation of mandates of the public authorities; the limited scope of the budget to compliance audit disregarding performance

> and systems-audit; difficulty to close down a public institution once it is established and indicated in the budget, taking into account expenditures merely in the previous year whilst designating allocations; blurred definition of managerial responsibilities; not reflecting some of the debt in the budget although it is related to general and annexed budget; high value of supplementary allocations which were not envisaged in the budget; low level of effectiveness in registration of the state property; lack of an overall outlook provided to the government; not budgeting some of the external project loans; compensation of SEE losses by the profits of some of the SEEs in the previous year, which were not indicated in the budget; executing the payments related to internal or external debt interest and transfers to the social security institutions even in the case of insufficient allocation.

Likewise, the former Deputy Undersecretary of the Treasury, indicated the main problems of public expenditure system in one of his analysis as follows (Emil cited in Scott, 2007: 60-61):

> (1) Aggregate fiscal management is weakened by the inability of the budget to encompass and report on quasi-fiscal activities or “hidden deficits”
>
> (2) Neither the five-year development plans nor discretionary policies generally linked to the budget, which is short term and lacks credibility with the agencies
>
> (3) Excessive controls over budget implementation do not however prevent waste and inefficiency
>
> (4) Fiscal transparency is undermined by a lack of common accounting standards
>
> (5) A significant part of the government finance is not subject to audit examination, despite the existence of the Court of Accounts and other multiple control and inspection bodies.

In 1980s and 1990s, Turkey witnessed "the violation of the principle of budget unity as a consequence of the increase in extra-budgetary funds and duty losses"; leading to loss of flexibility of the budget and inefficient execution of the budget (Central bank, 2002: 55). The report of the Special Ad Hoc Committee on Restructuring Public Financial Management and Fiscal Transparency (SAHC) set up in preparation of the eighth Development Plan (2001-2005) indicated that the budget scope was

very narrow, reflecting merely a portion of the funds managed by the government. It also concluded that ensuring transparency should be one of the priorities to improve the public finance system (SPO, 2000). Likewise, the World Bank Public Financial Management Project Report (1995: 13,18-19) indicated that "expenditure management and control [were] severely hampered by the complex and outdated budgetary framework and systems, the plethora of agencies and funds that [were] effectively outside the budgetary process, and deficiencies in cash management and public sector accounting". This resulted in general government expenditures to exceed targets by large limits and fiscal policy to be driven by the short-term financing needs of the government. The Report highlighted that the budget gave a fragmented and incomplete picture of government finances, where large arrears and future claims existed and the link between earmarked revenue and allocated expenditure remained vague (World Bank, 1995).

Consecutive studies by the OECD also highlighted the need for Turkey to "foster internationalised best practice" (OECD, 1996, p. 58). Introducing management reforms was recommended by the OECD so as to obtain value for money (OECD, 1996). The OECD Country Report on Turkey (1998) reiterated the need to improve public management in terms of organization, operation and personnel structure.

The ROSC carried out by the IMF (2000: 7) proposed coverage of the budget, budget preparation, budget classification, accounting systems and budgetary procedures as the priority areas to be addressed by the government. In this respect, it made the following recommendations:

> The coverage of the budget should be broadened further by drastically reducing the scope of extrabudgetary and quasi-fiscal operations. Shifting the focus to achieving general government fiscal targets and improving transparency at all levels of government will require reviewing institutional aspects of intergovernmental relations and improving local government statistical reporting; second, poor budget preparation is possibly the root cause of most of the above-mentioned weaknesses.... third, in spite of

> considerable progress made in the reporting area, there is an urgent need to address long-standing shortcomings in budget classification and accounting systems, and budgetary procedures.

Based on the previous reports of the IMF and the Ad Hoc Committee on Restructuring Public Financial Management and Fiscal Transparency, the World Bank -led Public Expenditure and Institutional Review (PEIR) of 2001 identified a long list of problems. It reaffirmed that policy formulation was a neglected function in line ministries and the Cabinet; the processes for HPC and Cabinet decision making on strategic policy choices were very inadequate; implementation of policy decisions was poor, partly because of a lack of credible HPC and Cabinet guidance on real priorities. It then went on to argue that budget preparation was an especially weak link, hampered by fragmentation of the budget, divided responsibility for budget management, and inadequate *ex ante* guidance to line ministries on ceilings; Parliamentary committees did not play a strong compensating role to establish priorities or demand transparent fiscal policy; Budget implementation, while improved along some dimensions, was limited by "upstream handicaps" due to policy and budget formulation but additionally suffered from excessive *ex ante* input controls that limited managerial discretion and performance in line agencies. This plethora of control activities focused on "catching violators" rather than on fixing the internal control system (World Bank, 2006: 180). Finally, it was mentioned that reporting on budget implementation was incomplete due to the absence of a comprehensive general government reporting framework; Fragmentation of budgets, the absence of functional classification of expenditure and lack of clarity on roles prevented a sector wide perspective and undermine effective policy analysis and risk management (World Bank, 2001: 107). The recommendations were widening the scope of the budget by eliminating quasi-fiscal activities, introducing a multi-year budgeting system, analytical budget classification and accrual-accounting system and revising the roles and responsibilities of public institutions in budget programming and execution.

The EU Progress Report on Turkey (2000), the first one referring to financial control in Turkey, highlighted the weaknesses in the financial management system in terms of fiscal transparency and public accountability. The next report underlined the absence of a general law on auditing standards and an overall law on PIFC (European Commission, 2001a:91). Furthermore, there was neither the profession of internal audit nor standards and procedures for external audit (European Commission 2000, 2001a).

As reflected in both national and international analyses, one of the main stumbling blocks in the efforts to stabilize the Turkish economy was the interwoven deficiencies in public financial management policies and structures. This part of public sector management was often neglected as a priority area in the public administration reform initiatives. Consequently, we can argue that there was a consensus among the IFIs and the EU as well as the bureaucratic and academic elite on the need and direction for PFM reform in light of the good governance agenda. Although the IFIs and the EU had different focus areas and tools when analysing the PFM, their analysis was shaped by the good governance principles of transparency and accountability. As a result, one can discern a degree of consistency in their findings and recommendations. Overall, their findings concentrated on the limited scope of the budget, the absence of a medium-term perspective and strategic planning for the budgetary process, the need for an analytical budget classification and accrual-accounting system as well as more effective and efficient monitoring structures. Having this overall picture in mind, we will now look into the processes of budget preparation, budget allocations, accounting, expenditure management and audit structures through the lenses of transparency and accountability to identify the most problematic areas.

4.3.1. LIMITED TRANSPARENCY

The budgetary legislative framework in Turkey is comprised of the Constitution, the General Accounting Law, the Court of Accounts Law, the annual Budget Law, and

regulations issued by the Council of Ministers and the Ministry of Finance (MOF). The Constitution determines the general framework for budget preparation and execution under the "fiscal provisions" section. Article 161 of the Constitution refers to the preparation and implementation of the budget, Article 162 determines the budgetary approval process, Article 163 sets out the principles for amending the budget and Article 164 defines the finalization of the accounts.

According to the General Accounting Law no. 1050, which was the main piece of legislation determining the public finance related procedures and structures, the national budget- also termed the "consolidated budget"- comprised the "general" and "annexed" budgets. General budget agencies were the Parliament, the Presidency, ministries, and judiciary; whilst universities and autonomous agencies accounting for half of investment spending in the budget were classified as annexed budget agencies. Annexed budget agencies had a relative autonomy over their expenditures as they maintained their own revenue generating functions. Extra-budgetary funds, revolving funds, and social security institutions were identified as "special budget agencies" and were not reflected in the budget.

Based on the way the fiscal policy was determined, the Turkish budget can be examined under three phases: the Classical Budget System (1927-1973), the Plan-Programme-Budget System (1973-2006) and the Performance Budget System (2006-onwards) (Mutluer *et. al*, 2005: 125; Kesik and Kıral, 2012: 515). In the classical budget system, the budget was prepared by determining allocations to spending agencies and receiving parliamentary approval for them. The Plan-Programme-Budget was introduced in 1973 with the aim of establishing a link between the objectives of the plan, programme and the budget. In this system, allocations were supposed to be made on the basis of actions to be carried out in line with the plan and the programme. It should be mentioned that the initial stages of incorporating a strategic perspective into the Turkish public sector focused merely on planning rather than management. It was not until the late 1980s that strategic

management integrating the planning function with the overall management task evolved in the public sector. In addition to the planning function, strategic management introduced a broader and more complete perspective by also including strategy implementation and strategic control. The Budget Justification document, which was prepared by the MoF and submitted to TGNA with the draft budget, also provided a short-term perspective as it included original and end-year appropriations, and realizations for the preceding five years. Nevertheless, it did not present estimates beyond the upcoming fiscal year. (IMF, 2000: 4).

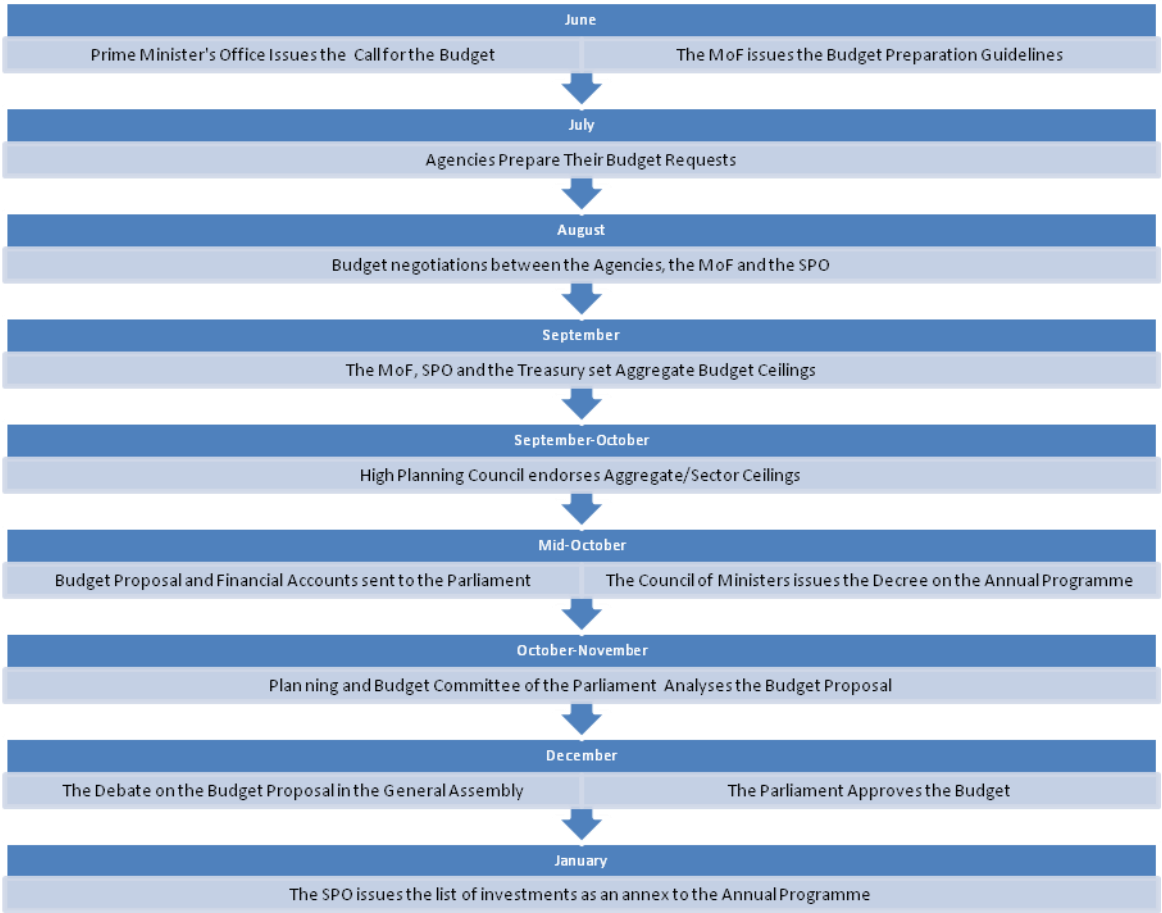
The structure of the budget with codes based on administrative lines did not allow programme-based budgeting to become operational although the development programmes were adopted by the government. Furthermore, the budget code was not conducive to economic analysis and did not enable a strategic approach on the basis of such analyses. As it was not possible to surpass administrative boundaries in preparing and implementing "programmes", programmes eventually converged with existing administrative lines. (Gönenç *et al*, 2005: 23). In the absence of functional classification of expenditure, it was difficult to understand expenditure priorities. Furthermore, data on general government could only be compiled on an annual basis due to different accounting systems used for the revolving funds, extra-budgetary funds and local governments (SPO, 2000:11; IMF, 2002: 12). Some were using cash accounting whilst others were using different forms of accrual accounting. In the absence of such fiscal data and combined with the fact that annual reports were not open to the public to provide a clear overview of program and fiscal policy objectives, the Letter of Intents submitted to the IMF ended up being the "main source of public information on fiscal policies" (IMF, 2002: 9). To illustrate, monitoring budget development was not possible as annual spending programs were not available to the public.

Three institutions, namely the Ministry of Finance, the State Planning Organization and the Treasury were involved in budget formulation, execution and control. As

reflected in table 5, budget preparation cycles started in June with the Budget Call issued by the Prime Minister's Office, followed by the publication of the Budget Preparation Guidelines by the Ministry of Finance. The call and the guidelines focused on technical details and failed to indicate the government's strategic objectives (World Bank, 2001). In July, the agencies prepared their proposals in line with the guidelines and submitted them to the MoF. In the absence of indicative ceilings and objectives, these proposals were often unrealistic. Following negotiations between the agencies, MoF and the SPO in August, the Ministry of Finance was responsible for budget allocations whilst the State Planning Organisation was preparing the investment budget based on requests coming from the ministries and MPs. This process was restricted, however, to parliamentarians from the governing party or parties and government party members (Öniş and Webb, 1992: 55). The Treasury was preparing the budgets of the SEEs based on the input received from the SPO. Afterwards, SPO, Treasury and the Ministry of Finance consolidated the overall budget and reconciled it with the macro-economic programme of the following year. The Treasury prepared this program on the basis of macroeconomic forecasting done in SPO. In September, the draft budget was submitted to the High Planning Council, where the Prime Minister and key officials made final modifications and determined economic and social objectives as well as the ceilings of current, investment and transfer allocations for the spending agencies. In October, seventy-five days before the start of the fiscal year, the final version was submitted to the Parliament for approval. The budget was accompanied with several documents, none of which could provide a complete picture of the government's economic and financial activities or priorities. (IMF, 2002: 24). Due to the classification of expenditures as organizations, programmes, economic nature of expenditures, purchase of immovable and construction, transfer payments, etc. Members of Parliament could express their views on the budget only as a whole (Cangöz, 2010: 47). Therefore, changes introduced by Parliament were often minor. In December, the Parliament gave its approval to the Budget. However, this approval was merely at the program level. The budgets were prepared on an annual basis and lacked a multi-year perspective. As a result, it was not possible to learn the overall

cost of the government's policy priorities since these often stretched out in more than a year.

Table 5 Budget Preparation Cycle (Cansızlar, 1994)



The General Accounting Law (article 56) envisaged the enactment of a law to make reallocations between the programmes, whereas the Ministry of Finance had the mandate to make reallocations between the spending items within a program. The Ministry of Finance also had the mandate to create appropriations for unpredictable expenditures (article 48) and increase appropriations (article 36). Furthermore, Parliament could adopt supplementary budgets if the budget appropriations failed to match the expenditures. The budget at the end of the year was significantly different from the one approved by Parliament (Cangöz, 2010: 48). For instance, the average overshoot between the approved and realized budget in 1991-1995 reached 20 per

cent (Cangöz, 2010: 59). These “flexible modalities” reinforced a lack of transparency on the budget and made public resources more vulnerable to politicization particularly in the absence of pre-determined and announced strategic priorities. The absence of a strategic plan or budget program was valid also for budgeting, which made it difficult to monitor expenditure vis-à-vis given indicators. The government's broad fiscal policy objectives were announced in the Prime Minister's Budget Call, usually released in June. The Budget Call did not provide a macroeconomic framework or the main policy parameters on which to formulate the budget. The Budget Guidelines, issued by the MOF inviting spending units to submit their requests for the upcoming fiscal year, provided information neither on macroeconomic variables nor on sectoral parameters and indicators.

General government fiscal balances were not reported in national accounts. The “consolidated government budget”, which was the most comprehensive concept utilised at that time, included “the budgets of central government ministries and agencies, three extra-budgetary funds, the *budget transfers* to social security institutions and the *budget transfers* to local governments (without, however, integrating the *total revenues and expenditures* of social security institutions and local governments)” (Gönenç et al, 2005: 20). Data on central government budget execution were published on a monthly basis by the MOF, the Treasury, and the SPO. The SPO published a yearly estimate of general government balances for the purposes of its five-yearly development plans and annual programmes. Nevertheless, this was not part of the national accounts and had no adequate intra-annual frequency for the purposes of macroeconomic management.

Being formulated in 1927 under the influence of the centralist tradition of the French financial management system of that time, the General Accounting Law emphasized the strong control over inputs through the extensive use of *ex ante* approvals by multiple agencies with the aim of ensuring compliance with financial regulations. This approach brought in various shortcomings in the effective and efficient

management of the budget. Primarily, there were rigid procedures involved in the pre-expenditure phase in spending agencies. Spending agencies had to obtain a visa from the MoF, SPO and the Turkish Court of Accounts (TCA) before making any kind of expenditure. Apart from the long delays caused by multiple authorizations, the involvement of the TCA in the approval of expenditure it would subsequently audit was considered a "clear anomaly" in terms of accountability (IMF, 2002: 11).

Secondly, the highly centralised public expenditure management structure slowed down the process as it involved a number of actors and gave limited discretion to the spending agencies to utilise their appropriations. For instance, budget appropriations were very detailed and itemised and approval for spending involved both the officials of each ministry and the special budget officers appointed by the Ministry of Finance within each Ministry. In addition to monitoring the appropriations, these officials carried out *ex ante* control expenditures, re-appropriation as well as keeping the accounts. Due to these difficulties and a heavily centralised system, spending agencies were seeking means to finance policy initiatives with high budgets through means other than the mainstream budget. This resulted in heavy reliance on extra-budgetary funds and deepened a functional divide between the official budget voted by the Parliament and alternative sources. Huge investments on roads, energy, telecommunications and public housing in the 1980s and 1990s were eventually funded by large extra-budgetary funds, which will be further elaborated in the following section. Thirdly, the scope of the General Accounting Law was very limited. Therefore, the novelties in budget preparation or execution as well as modes of investments were introduced in annual budget laws (Interviewee 1). For instance, it was not until June 1994 when law no 3996 was adopted that procedures such as build-operate-transfer and guidelines for the provision of some services and investments were consolidated in a single legislation. This legislation was further reinforced with the amending law 4047. Moreover, the Requirement of Securing the Treasury guarantee and the upper limit for local borrowing was introduced for the

first time in 1998 Budget Law. The limits for Treasury Guarantee and off-budget lending were consolidated by law 4047 as well.

The 1994 economic crisis was an ice breaker in the sense that it made clear to policy makers that they could not obtain an overall picture of the national budget, since a significant amount of activities were out of the scope of the budget and various institutions were using different accounting techniques (Interviewee 5). Apart from having economic consequences, this situation was contradictory to the principle of transparency. Neither taxpayers nor bureaucrats or politicians could have a clear picture of the annual budget and policy priorities of the government. In the absence of a transparent framework of budget preparation execution and accounting, it was not possible to manage public expenditure in a strategic way. As the changes introduced to the PFM in this period were very limited with a few improvements introduced in the annual budget law, the economic-crisis-and- ad hoc- solutions vicious circle continued during this period.

4.3.2. GOING AROUND THE BUDGET: EXTRA-BUDGETARY FUNDS AND STATE OWNED ENTERPRISES

A tight, centrally controlled budget, a lack of clear policy direction for budget formulation in the absence of a medium term perspective to policy and budgets, and adaptations to high inflation resulted in the fragmentation of the budget and breakdown of fiscal discipline. The budget system with weakening linkages between resources and expenditures failed to provide adequate information to the decision-makers (Central Bank, 2002: 55). This situation encouraged spending agencies to seek resources outside the budget framework (World Bank, 2001: 8). The governments resorted to the establishment of extra-budgetary funds to facilitate the financing of government priorities rather than reform and modernize the public financial management system (Sak, 2000). The main obstacles to fiscal discipline in general and to fiscal transparency in particular in this period were the extensive use of extra-budgetary funds, transfers to the State Economic Enterprises, which were

not always reflected in budget documents, and public procurement activities carried out in a scattered way. This meant that “a sizeable portion of public spending [took] place outside the budget, with little or no control and reporting” (IMF, 2000: 2) and out of the legislative oversight of the Parliament (Mutluer *et al*, 2005: 124). According Atiyas and Emil's calculation (2005: 14), at least 10% of GNP was understated in the 2000 budget.

Extra-budgetary funds were not audited by the Turkish Court of Accounts like the central government budget, but by the Supreme Audit Board which had a different audit regime; also, these were subject to a different accounting classification (Cangöz, 2010: 63-64). What emerged out of this structure was a new public sector, which managed -the ever expanding public resources- out of the scope of the public finance legislation with an increased supremacy of the executive over the legislature (Öner, 2005: 657,658).

As categorized in *table 6*, a number of extra-budgetary funds were created in the form of "non-budgetary funds" (NBF) and "budgetary funds" (BF)[30] as well as revolving funds. The extra-budgetary funds were financed through earmarked special excise taxes. In some cases, the establishment of such funds was followed by subsequent attempts by the central agencies to recover resources through *ad hoc* tax measures or partial attempts to reintegrate such funds into the budget (World Bank, 2001: 8). They were originally established as agencies to finance prioritized economic activities. Moreover, the extra-budgetary funds and the local budgets were considered as means of disposing patronage, as the expenditures of the funds were often used to reward municipalities that voted for governing party or parties (Öniş and Webb, 1992).

[30] "Non-Budgetary funds" (NBFs) are not included in the budget. "Budgetary funds"(BFs) are included in the budget but continue to rely on earmarked sources and are not necessarily subject to all budgetary controls. The term Extra-Budgetary Funds refers to the sum of BFs and NBFs.

Table 6 Non-Budgetary Public Spending Areas (SAHC, 2000: 29)

Non-budgetary Direct Expenditures	**Non-budgetary Indirect Expenditures**
1. Funds 1.1 Partially Budgeted Funds 1.2 Non-budgetary Funds 1.3 Special Accounts 2. Revolving Funds	1. Government Property and Immovables 2. Quasi-official Transactions 2.1 Functional Losses Resulting from State-owned Enterprises 2.2 Bonds Issued to the Central Bank for Foreign Currency Translation Differences
Non-budgetary Direct Expenditures	**Non-budgetary Indirect Expenditures**
3. Local Governments 4. Public Agencies With Independent Budgets 5. Foundations and Associations 6. Mutual assistance funds	2.3. Bonds Resulting from Consolidations 3. Contingent Liabilities 3.1. Guaranteed Foreign Debts 3.2. Transfer Credits 3.3. Domestic Guarantees 3.4. Deposits Insurance 3.5.Build Operate / Build Operate Transfer Projects 3.6. Investment Stock 3.7.Other Contingent Liabilities 4. Tax Expenditures 5. Taxes and Similar Levies Imposed by Different Laws (Revenues Not Attached to the Budget and Directly Transferred to the Agency) 6. Foreign Project Credit Applications

The proliferation of these funds coupled with increased spending authority granted to municipalities as part of fiscal decentralization paved the way for fiscal disequilibria (Öniş and Webb, 1992: 24). Öniş and Webb (1992) argue that "the proliferation of the Extra Budgetary Funds was the biggest organizational mistake of the 1980s" as it impeded the sustainability of structural adjustment. Although the management of

these funds were centralised during the Premiership of Özal, control of most activities of the funds were designated to line ministries after he ascended to the Presidency in 1989. Before 1980, there were "33 funds, all small and some dating back to the 1940s, but 24 were added in 1980-83 and 48 more in 1984-90" (Öniş and Webb, 1992:24). In 1992, the DYP-SHP coalition government centralized the funds, consolidated 59 EBFs into the budget and moved them to a single account in the Central Bank and designated their control to the Undersecretariat of Treasury and Foreign Trade[31]. This was done as a preparatory step for the Customs Union. Another step to this end was taken in the 1993 Budget Law[32], which converted some of the extra-budgetary funds into budgetary funds and designated an allocation per fund in the budget. In 1995, there were 77 EBFs, 18 of which were completely out of the budget coverage and more than 3,105 revolving funds, which was equivalent to 7.5 percent of total government expenditure (World Bank, 1995: 13). Furthermore, the Customs Union Decision[33] (articles 32–38) envisaged that remaining incentives would be removed gradually within five years following the signature. In line with the Customs Union Decision, the World Bank study (1995) indicated that

> the central government budget should include all expenditure by public agencies financed from general revenue, in order to have a clear picture of all central government spending, and...to submit all proposed expenditures to the same standards of comparative economic efficiency. [Therefore], the objectives should be (a) elimination of all EBFs except a very few "strategic" ones; (b) elimination of revolving funds not financed mostly by revenues internal to the agency in question; and (c) integration of annexed budgets into the single consolidated budget.

State Economic Enterprises casted a shadow on fiscal transparency as the cost of their non-commercial activities were not fully reflected or were significantly underestimated in the budget. These "duty losses" incurred in providing goods and services below cost or purchasing agricultural products above world market prices

[31] 1992 Budget Law, published in the recurrent Official Gazette no: 21186, 29.3.1992.

[32] 1993 Budget Law, published in the recurrent Official Gazette no: 21450, 29.12.1992.

(mostly tobacco, cereals, and sugar beets) were covered by tax offsetting and consolidation in annual budget (IMF, 2000: 1). By 1999, state-owned enterprises' duty losses amounted to 2 percent of GNP, of which only a marginal share was envisaged in the central government budget; while about 1 percent of GNP was allowed to be offset against liabilities (on-lent or guaranteed credit) due to the central government. (IMF, 2000: 2).

Other challenges to fiscal discipline and practices reducing transparency occurred in some of the fiscal activities of public agencies and in public tenders. The scope of Treasury operations was limited as many fiscal activities, such as local governments' off-budget operations involved financial flows which did not pass through Treasury accounts. (IMF, 2002: 13). As a result, an accumulation of off-budget debt and contingent liabilities increased fiscal risks. Procurement processes were "non-transparent, open to abuse and contribute[d] to the low completion rate of investment projects" (WB, 2001: iii). Due to "lengthy and recurring controls and procedures under both financial regulations and administrative arrangements", the efficient and effective management of public resources was compromised in the process of public tenders. The lack of uniform public procurement procedures and controls applicable to all procuring entities was another element distorting fiscal discipline (SPO, 2000: 10). Procurement procedures contributed to waste and offered opportunities for corruption in the award of public sector contracts. (World Bank, 2001: 14). The practice of inviting bids on projects with incomplete designs suggested that project approvals were based on underestimated costs, which implied that government was committing to projects without a full assessment of cost, an undesirable fiscal practice. The discounting process used in awarding bids combined with the opportunity to seek increases in the project value subsequent to project awards created strong incentives for cost escalation.

[33] Decision 1/95 of the Association Council on 22.12.1995 (OJ L 35, 13.02.1996).

4.3.3. CONCERNS OF ACCOUNTABILITY

The historical influence of the original Ottoman/Republican centralist tradition and a General Accounting Law formulated in 1927 had created a regime that emphasized strong control over inputs through the extensive use of *ex ante* approvals by multiple agencies, namely the MoF, the TCA, MoF staff in the spending agencies, different financial control bodies in the MoF, internal control bodies in the spending agencies. Fragmentation in the budget management had repercussions on financial control as numerous audit bodies carried out inspection, control and audit with diverse mandates. As a result of too many actors involved in the process and multiple auditing of the same activity, transactions were not fully audited at any level, which effectively resulted in "circumvention of auditing" (European Commission, 2000: 69). The purpose of most of this oversight was to backstop adherence to and compliance with financial regulations. Nevertheless, such tight central control could not secure effective financial management, in part because it provoked adjusting behaviour and encouraged extra-budgetary arrangements.

Another major shortcoming of the audit system was "the failure to act according to a continuous and systematic process targeting priority and risk areas, instead of mere *ad hoc* reactions to administrative requests" …The Ministry of Finance carried out controls to assess only "conformity" and this involved lengthy procedures, creating substantial inefficiencies in the provision of goods and services as well as audits on "simple regularity and legality of spending transactions without necessarily auditing the spending systems themselves" (European Commission, 2000: 69). The World Bank (1995:19) recommendation for making controls more efficient was to define controls needed at different steps of the process, namely financial control prior to the commitment, accounting control prior to the payment and audit after payment; it also recommended reviewing the responsibility of agencies in charge of budgetary control so as to eliminate duplicate controls and focus on their essential functions.

Fragmentation in internal control was also replicated in external audit. External audit was not carried out merely by the Turkish Supreme Audit Institution- the TCA, but also by the Supreme Audit Court under the Prime Minister's Office and the State Audit Board under the Presidency (IMF, 2002: 26). The TCA had the mandate to audit central and annexed budgets, local administrations and revolving funds. The Supreme Audit Board was in charge of auditing SEEs, social security funds and some other budgetary funds. The State Audit Board initiated investigations and audits on all public institutions upon the request of the President. Within this fragmented structure, extra-budgetary funds, which were taken up in detail in the previous section, regulatory bodies and privatization operations were not subject to a regular external audit. The audit did not cover all general government but only one sixth of all public accounts in 1999 (European Commission, 2000:69).

In addition to the institutional fragmentation limiting the effectiveness of external audit, neither the scope nor the type of audit was compliant with INTOSAI guidelines. The TCA was engaged both in budget execution activities (pre-audit) and audit. Therefore, the TCA could not fully carry out an external audit as it was involved in the approval of the very transactions it was meant to audit. This situation "automatically undermine[d] its external audit capacity and authority" (European Commission, 2000: 69) and "reduced the degree of managerial discretion in budget management" (WB, 2001: iii). The purpose of auditing was not to check the quality, efficiency and relevance of expenditures with regard to the public policy objectives pursued. The scope of the TCA audit was limited to compliance, excluding performance and/or systems audit. Audit, which was mainly based on formal compliance, was rarely performed according to strategic plans giving consideration to priority and risk areas. Thus, audit reports failed to provide an assessment of performance or efficiency.

This deficiency was partially addressed with the amendment to the TCA Law no. 832 in 1996. According to that law, the TCA received the mandate to audit the

expenditures of the public institutions under its scrutiny on the basis of efficiency, effectiveness and economy, and report to the TGNA.[34] Although this was a significant reform initiative, its impact was limited taking into account the considerable size of extra-budgetary public expenditure and the involvement of other actors in external audit next to the TCA. Furthermore, the TCA involvement in the financial control process both before and after expenditure was already an impediment to effective audit. All considered, this was another *ad hoc* reform measure without a long term perspective, which would have necessitated an overhaul of the entire PFM system.

The limited coverage of the budget, which was explained in the previous section, also limited Parliamentary oversight over public expenditure. The Turkish Court of Accounts (TCA), being a judicial body appointed by the legislature and independent from the executive branch of government, was responsible for auditing government accounts and for providing reports to the legislature on their financial integrity. However, Parliament did not oversee its operations and its findings were not fully reported to the legislature and the public (European Commission, 2000: 68; IMF, 2000: 6). Its mandate did not include important areas of general government, such as extrabudgetary funds, parts of military spending, social security institutions, privatization operations, and specific areas such as earthquake-related spending. Responsibility for audit was fragmented and uncoordinated (IMF, 2002: 12). Although the TCA was legally obliged to provide yearly reports to Parliament on the adequacy of public spending “with the services and needs provided for by the budget”, "these reports never gained prominence in the Parliamentary process and [were often] sidestepped" (Gönenç *et al*, 2005: 48).

Next to fragmentation, "extreme centralisation" was seen as "a major source of inefficiency and lack of accountability" in major reviews of the public sector in this period (Gönenç *et al*, 2005: 43). Reflecting a centralised administration, Turkish

[34] Law no.4149 enacted on 4 July 1996, article 8.

fiscal management was structured on the basis of a strong centralist approach. Aiming at mobilizing more local resources for public services, a significant reform was launched in 1981, which improved revenue sharing between the central government and municipalities and did so by transferring a certain amount (first five and later six per cent) of general budget tax revenues to local authorities (Gönenç *et al*, 2005: 46). Complementary to the new revenue sharing system, the Municipal Fund and the Local Government Fund were established to provide investment grants to smaller municipalities. Furthermore, municipalities were given more autonomy to raise their own revenues. Nevertheless, the overall effect was limited although the new system improved resources for local governments (*ibid*.). This was mainly due to the unpredictability of annual allocations, which did not provide an environment conducive to strategic management, as well as the macroeconomic uncertainty related to economic boom-bust cycles.

Another issue affecting accountability was the lack of harmony between budgeting and accounting systems. The difference in accounting classification weakened the expenditure control and efficient resource allocation, generating an overall efficiency and governance problem (Cangöz, 2010: 64). Furthermore, the accounting of budget implementation and reporting on local and central levels were usually carried out manually, which had an adverse effect on accuracy and speed in the exchange of information. (SPO, 2000:12) Coupled with the strict budget code structure, which did not enable revisions, the governments had difficulty in obtaining reliable accounting data. One significant example is that until 1995, the Turkish Court of Accounts did not have access to Treasury accounts to conduct a thorough audit, although the Treasury was one of the key institutions carrying out budgetary payments. As of 1995, the Turkish Court of Accounts started to regularly draft "Treasury Accounts Surveillance Reports" and submitting them to Parliament. However, there were no procedures to follow-up the findings in these reports.

Improving the accounting system was addressed under the World Bank Public Finance Management Project launched in 1995 and completed in 2000. This was achieved through the establishment of say2000i- a web-based Accounting Office Automation System in March 1999 under the supervision of the General Directorate of Public Accounts (GDPA) of the Ministry of Finance (MoF). This sought to provide an integrated solution for the automation of public expenditure management process in 1457 offices spread across the country and the consolidation of key public financial data in a central database on a daily basis for effective budget execution. The system also provided a common technological infrastructure to integrate budget planning, execution and auditing functions within the MoF and to interface with the cash and debt management components of the Treasury and other external systems of the line ministries and key agencies in the Public Financial Management domain. The overall purpose of the World Bank project was to enhance fiscal consolidation and reform efforts initiated by the Turkish government in 1994 by improving the efficiency and effectiveness of tax administration, public expenditure and personnel management and customs operations. In 1998, a new component for modernizing debt accounting procedures and practices was added (World Bank, 2003a).

The 1995 PFMP project report noted that the major structural weaknesses in the public expenditure management process were an erratic budgetary policy, which had created a fragmented and ad hoc decision making process; and systems for budget preparation, monitoring and accounting, which needed updating. More specifically, the project identified the fragmentation and incomplete nature of information on government finances and expenditures, the poor integration of current and investment budget preparation, the lack of standard functional classification of expenditures, and the complex system of formal controls over expenditure. The PEM component of the project agreed with the government's proposal to introduce a new functional classification system by 1997, to prepare an action plan to streamline budgetary control processes by end 1995, to initiate the elimination of non-strategic

EBFs in 1996 and to introduce new regulations and a new accounting methodology to apply to EBFs and revolving funds by 1997 (World Bank, 2001: 4-5).

4.4. ANALYSING THE FACTORS FOR POLICY CHANGE: CHANNELS OF POLICY TRANSFER IN ADJUSTMENT ORIENTED REFORM

Having identified which issues had to be addressed in the PFM from a good governance point of view and which of those were eventually addressed and which did not, we will now analyse the interaction between endogenous and exogenous factors for policy change. The purpose of this exercise is to explain how and why some of these issues were addressed whilst others were not. Doing so will also enable us to observe how policy transfer mechanisms, namely the state-market-society, executive and bureaucracy, the IFIs and the EU, functioned in the adjustment oriented reform period of Turkey.

4.4.1. ENDOGENOUS FACTORS FOR REFORM

4.4.1.1. State-Market-Society Relations

Following the economic problems encountered in the late 1970s, the role of the state in Turkey started to change from protectionist to non-protectionist as of early 1980s. The first signals for change in the role of state were given in the Stability Package announced on 24 January 1980. However, it was not until the election of the ANAP government that the major shift in the role of the state-market-society relations occurred. In Şener's words, "there was a certain break with the past …in the Özal era which was closely linked to the new role of the state" (Şener, 2008:202). The change in the role of the state was reflected both in the government program (1983) and in the party program (ANAP Program, 1983: article 10). According to these programs, the role to be assigned to the state was limited with safety, security, defence and justice without any reference to the involvement of the state in economy. It was a

programme fully in line with the ideologically motivated equivalents in the US under Reagan and the UK under Thatcher.

Even after the electoral defeat of ANAP, "the pro-structural adjustment or pro-liberalization coalition" did not break up. Regardless of ideological differences, almost all political parties agreed on a similar economic program to ensure the continuation of market-oriented reforms (Öniş and Webb, 1992: 48). The liberalization efforts in the 1980s differed from the previous ones as they involved a set of policies aimed at a permanent transformation of the economy and the nature of the relationship between market forces and the state (Arıcanlı and Rodrik, 1990: 10). Between 1983 and 1991, Özal governments continued to "diffuse and deepen the reforms" using the motto of "integration with the globalizing world" and "keeping up with the era" (Sezen, 2001: 10). Not only in the 1980s but also in the 1990s, the "market philosophy" remained as a key element of the successive governments (Şener, 2008: 206). This can be explained with "Turkey's encounter with neoliberal policies and the logic of the Washington consensus" in the 1980s and the 1990s (Öniş, 2010: 48).

Despite the achievements of fiscal liberalization, the governments in the 1990s failed to ensure macroeconomic stability and thus could not avert consecutive economic crises. One of the reasons for this situation was the fact that fiscal liberalization was not complemented by macroeconomic stabilization measures through structural changes aimed at fiscal adjustment, more effective risk management framework and fiscal discipline. It was not possible to ensure the effective operation of a market economy without a strong institutional infrastructure. The significance of institutional infrastructure for sustainability of the reform was not adequately taken into consideration (Acemoğlu and Robinson, 2012). State-market relations were not reinforced by solid structures. Furthermore, the state could not provide the market with a predictable macroeconomic environment in the absence of a transparent and accountable public financial management.

Historically, Turkey has a strong patrimonial state tradition (Heper, 1985), which assumes that "the state is a provider, an institution to guarantee the livelihood of broad strata of the population in a hierarchically organized society" (Öniş and Webb, 1992: 8). In other words, the relationship between the state (the ruler) and society (the ruled) resembles that between a father and a son. As a result, the state has occupied a dominant place in relation to civil society in Turkey (Heper, 1990), which created a deep seated respect for authority and the state and consequently lack of demand for accountability (İnalcık, 1980). Erdoğan (cited in Sözen and Shaw, 2003:110) describes this situation as follows:

> Within the framework of the traditional state, the state is not the apparatus of society; instead the society belongs to the state. Even more, society is possessed by the state and at the disposal of it. The state is above society, because it is "sacred" and "holy".

Eder (2003: 225) describes the nature of state-society relations in Turkey with reference to the absence of "embedded autonomy of the state" (Evans cited in Eder), which implies "the absence of institutionalized channels of information and negotiation between state and society ('embeddedness') along with a certain degree of insulation of state bureaucracy (autonomy) to provide for policy coherence".In the absence of a separation of economic sphere from the state and political power, it would not be possible to see and effective civil society.

One of the immediate outcomes of these features is the existence of patron-client relations (TESEV, 2000), where patronage is distributed through clientele networks rather than the equal distribution of resources on a meritocratic basis. Especially after the introduction of the multi-party system, political parties have resorted more to the already existing patron-client relations in order to establish a political support base by providing their supporters with access to state resources (Güneş-Ayata, 1994). State intervention was generating economic rents, and economic interest groups were seeking to maximize their benefits by influencing state policies (Tekin, 2006: 133).

This did not change much even after the economic liberalization programme, as the state could not transform the behavior of economic groups (Eder, 2003: 224). The state continued to dominate economic life as an awarder of contracts and as a legislative body, which reinforced clientism and patronage relations (Vorhoff cited in Şimşek, 2004: 59). The lop-sided development pattern, which was based on domestic and external debt as well as short-term capital (Öniş and Bakır, 2007: 152), generated a strong rent-seeking class (Yeldan and Köse, 1998). The "new rent-seeking elite of exporters", who emerged in the 1980s, continued to rely on state patronage, such as expert incentives, tax breaks and credits, similar to the beneficiaries of the import substitution system (Eder, 2003: 224). Consequently, any reform initiative which posed a threat to government's control over patronage was highly resisted (Özbudun, 1981). One could argue that patron-client relations have been one of the reasons behind the populist policies of the governments and their reluctance in introducing structural reforms in the area of public finance in general and in improving budgetary transparency in particular.

Another practical reflection of the patrimonial state tradition has been the transfer of senior public officials to the private sector as the public sector experience and the personal contacts the person brings with him/her are very valuable for the private sector. Apart from an exception in the Özal period, during which he appointed people from business to key positions in the public sector, the reverse practice has been common and continues to exist to this day. For the transfer of NPM principles by means of enabling private sector values to enter the public sector, the opposite transfer is expected to happen, where people from the private sector are appointed to key positions in the public sector (Sözen and Shaw, 2002: 482). This has been a common practice in countries such as the UK with a few exceptions in the Thatcher period (*ibid*.).

A crucial shortcoming of the patrimonial state culture is a weak civil society, which means that policy makers do not have an established policy dialogue with interest

groups for the purposes of decision-making. On the one hand, the weakness of civil society vis-à-vis the state does not enable them to exert sufficient pressure on governments to introduce reform. On the other hand, the weakness of civil society and organized groups led to the absence of real opposition during and right after the military rule, which created a favourable environment for the pursuit of a major reform agenda (Öniş and Webb, 1992). As argued by Walsh (1995 cited in Sözen and Shaw, 2002: 480), "the more unified and centralised the system of political control and power, the easier it is to introduce new approaches to the management of public services". The 1980-1987 period entailed successive policy changes, although not necessarily with the aim of transposing good governance principles into the Turkish public finance. The military rule imposed a ten-year ban on the leading politicians of the pre-1980 period, namely former Prime Ministers Bülent Ecevit and Süleyman Demirel, on their participation in politics. This ban up until the general elections of September 1987 enabled Özal to focus on economic management himself and introduce reforms without facing any major opposition (Öniş and Webb, 1992: 6). In this respect, the Turkish experience differs from the British one, which was one of the main sources for policy transfer in terms of neo-liberal policies in the 1980s. In the UK, a long democratic tradition, public pressure and people's expectations of better services with lower taxation played a crucial role in introduction of administrative reform in the UK (Caiden, 1998 cited in Sözen and Shaw, 2002: 479).

From a short-term perspective, the transition period of 1980-1983 from the military to civilian rule -suppressing the social opposition and organizations- prepared the ground for the rapid implementation of neo-liberal policies. Although the "strong state" coupled with a weak civil society was instrumental in carrying out stabilization and structural changes in the early 1980s, it turned out to be a disadvantage in the late 1980s when the time came for consolidating, institutionalizing, and maintaining the momentum of the reform process (Öniş and Webb, 1992: 8). From a long-term perspective, the military intervention "left a deep imprint on the subsequent political

trajectory of Turkey ... by imposing an authoritarian constitutional framework" and being "a major setback for the country's quest for EU membership" (Öniş, 2010: 51). From a public finance perspective, the lack of institutionalised links between the governments and interest groups in this period encouraged the development of extensive patron-client networks and resulted in attempts to build up popular support through the dispersion of patronage resources on a large scale through extra-budgetary funds.

The most active civil society organizations in the 1980s were the Turkish Industrialist and Businessmen Association (TÜSİAD), which was established in 1971 to reflect the views of the large-scale conglomerates mainly based in Istanbul, and the Turkish Union of Chambers of Commerce and Commodities (TOBB), which was established in 1950 to represent the private sector from all parts of the country and is dominated by Anatolia-based businessmen. Unlike the previous economic crises followed by stabilization programmes in Turkey in 1958 and 1970, TÜSIAD was arguing in 1979 that the earlier policies of import substitution had failed and would fail to generate future growth, even if the crisis was overcome. Therefore, it was advocating the introduction of an alternative strategy (Krueger, 1995: 351). Furthermore, TÜSİAD called for improvements in the Turkish public administration to cope with the global economic pressures in its report on "Public Bureaucracy" (1983). In this report, TÜSİAD referred to an efficient public administration as *a* "locomotive" for economic development (Çitci, 1984: 19): "*Ceteris paribus*, a nation with underdeveloped public administration would be in a standstill, whereas the one with an efficient public administration would rapidly develop" (TÜSİAD, 1983: 5) In concrete terms, an efficient public administration would enable public and private investments to flourish and increase national wealth, which would lead to economic development. The recommendations of the report for enhancing efficiency in public administration were mainly on reducing red tape, limiting the state with its traditional functions by privatizing the majority of public enterprises and decentralising public services.

In 1991, TÜSIAD sponsored a study that recommended the creation of an Economic and Social Council. The Council would bring together, in a formalized and legally recognized setting, representatives of business (TOBB, TÜSIAD, Turkish Foreign Trade Association [Turk-Trade], and Turkish Confederation of Trade Unions of Employers [TISK]), labour (Turkish Confederation of Trade Unions of Employees [Turk-Is] and Confederation of Trade Unions of Revolutionary Employees [DISK]) agriculture (Union of Agriculture Chambers of Turkey [TOZB]), and the government to create a consensus on the framework for economic policy and on the specific measures to effect it as well as to provide feedback and guidance during the implementation process (Öniş and Sunar, 1992). The Economic and Social Council was eventually established in 1995 with a Prime Ministry Circular. However, it failed to convene regularly and provide structured input in policy-making until 2001, when the then Minister for Economy Kemal Derviş reactivated it (Interviewee 1).

In addition to these civil society organizations, the special sectoral committees, composed of representatives of state agencies, the business community and academia with the mandate of providing input to the development plans in the pre-1980 era, "could have become a key form in the 1980s for institutionalizing discussion of government-business relations, but did not" (Öniş and Webb, 1992: 18) This was mainly due to the position of the state above society, which did not enable the positions of the societal actors to be streamlined in the policy decisions. This situation continued in the 1990s. Eventually, the significance of the special sectoral committees declined in the 1990s parallel to the decline of the importance of the development plans.

The interaction between these organisations and the state occurred mainly at a personal level, in the form of direct contacts between key businessmen and the Prime Minister together with a small core of Ministers and top-level bureaucrats (Heper, 1990). In the late 1980s, these contacts were more structured within the framework of the Political Science Graduates Association of Istanbul and the Taksim Round

Table discussions, as senior officials and sometimes Özal himself attended meetings. Moreover, TÜSIAD leaders were meeting regularly with senior bureaucrats at Treasury and the Central Bank, to discuss a variety of broad policy issues. Other examples of civil society involvement in public administration reform in this period are the Public Administration Assessment (KAYA) project implemented by the Turkey and Middle East Public Administration Institute in the 1980s, the "active collaboration" with IKV (Economic Development Foundation) in fulfilling the requirements towards the Customs Union in the early 1990s (interviewee 6) and the Study of the Experts Commission on Public Administration for the 8th National Development Plan in the late 1990s.

Although contacts between the state and the market and society intensified in the late 1980s and 1990s and civil society started to flourish after the end of the military rule in 1983, the interaction between state and civil society was far from being structured mainly due to restrictions imposed on interest group activity by the Constitution of 1982 and the paternalistic state tradition (Özbudun, 1991; Mardin, 1973; Heper, 1985). Kalaycıoğlu (1997) considers the Turkish political system as neo-patrimonial. Although it looks like a modern system, with all its institutions and codified laws, the political elite has a tendency to value the laws as long as they can be used in their own political struggles (Sözen and Shaw, 2003: 113).Using the categories created by Checkel (1999b: 88-90), relations between state and society could be described as the "state above society", where the state is free from domestic pressures and at the same time "exercises considerable control over society". This situation limited the functioning of policy transfer networks between the state, market and society. The "unquestionable state", which is a strong cultural value in Turkey, has been one of the main obstacles to transparency and accountability of the public sector (Emre *et al*, 2003: 45).

Although one cannot identify a structured policy dialogue between the state and civil society organizations in this period, it would not be wrong to say that governments

started to acknowledge the *need* for ensuring such a dialogue. For instance, it is noteworthy that the government felt the need to indicate in the Memorandum of Economic Policies[35] submitted to the IMF that the "support for the [three-year] program from the private sector and the labour and employers' unions continue[d], with an ongoing dialogue maintained at all times". Nevertheless, the relations between the state and the civil society institutions in this period stayed at the consultation level and did not evolve towards consensus building as the civil society institutions "remained as 'outsiders' vis-à-vis public policy-making" (Heper cited in Heper and Yıldırım, 2011: 10) .

4.4.1.2. Relations Between the Executive and the Bureaucracy

The 1980s and 1990s reflect a general weakening of public institutions in general and of budgetary institution in particular (Atiyas and Emil, 2005: 11) vis-à-vis the executive. Budgetary institutions in Turkey accommodated pressures on the public financial resources stemming from patronage politics rather than limiting and preventing them from leading to macroeconomic imbalances. On the contrary, they have evolved to "provide the executive with a large number of discretionary instruments with which public funds can be allocated without any accountability and in a non-transparent manner" (*Ibid.*)

The leader of the Motherland Party, Turgut Özal was a "devout defender of the new right policies", which were widely implemented in the US by the Reagan government and in the UK by the Thatcher government. Thus, the period that his party was in power as a single party government, the scope of the public administration reform reflected the neo-liberal conceptualisation of the state as well as the values directing the functioning of the state (Sezen, 2001: 7). Furthermore, he was a dominant leader who was reluctant to delegate power in the very hierarchical

[35] The Memorandum of Economic Policies submitted by the Republic Turkey Undersecretary of Treasury to the IMF on 26 June 1998.http://www.imf.org/external/np/loi/062698.htm retrieved on 28 September 2012.

structure of his party. The 24 January Programme was drafted by Özal and a very small team of bureaucrats. Even key ministers were unaware of the scope of the plan outside their own domain (Krueger, 1995: 351). This mode of policy-making within a close circle of bureaucrats became common practice during ANAP's rule.

Under the leadership of Özal and with the influence of liberal policies bureaucracy was "set in the sidelines" (Sezen, 2001: 8). This can best be seen in the operational modalities of the Özal government. First and foremost, Prime Minister Özal refrained from relying on high level public bureaucracy and preferred to work with the personnel, known as the "princes", whom he appointed to high positions in public banks; and with a staff that consisted of advisors coming from business circles. What emerged as a result of this preference was a system of "bureaucratic duality" (Aksoy and Polatoğlu, 2004; Güler, 1996) created with the aim of implementing neo-liberal policies. According to Turgut Özal, neo-liberal bureaucrats were needed to implement neo-liberal policies (Şener, 2008: 57). In this respect, one can see many similarities between the working style of Özal and that of Thatcher, who preferred to work with the "outsiders" who came from business circles, instead of "insiders" (Evans, 1997: 54). This preference, both in the case of Özal and of Thatcher, was essentially a way of overcoming the conventional bureaucracy's resistance to the newly introduced (or forthcoming) liberal policies. On one hand, creation of a "bureaucratic duality" (Aksoy and Polatoğlu, 2004; Güler, 1996) could also be an indication of the strength of the conventional bureaucracy vis-á-vis the executive in resisting the new policies. In this context, the executive found itself obliged to find alternative ways to pursue the changes in question. On the other hand, it verifies the rigid administration culture where the policies are not collectively formulated by executives and bureaucrats.

Secondly and next to the creation of a dual bureaucracy, Özal used "councils" to exclude conventional bureaucracy from decision-making mechanisms (Sezen, 2001: 8). During this period, either already existing councils were transformed into

decision-making centres with a broader mandate, where crucial economic decisions were made, or new councils were established. Rather than trying to reform the incumbent structures, new structures were created and new bureaucrats were appointed to the new positions. Furthermore, the majority of the newly appointed people who were responsible for shaping the economic and fiscal policies did not have any previous bureaucratic or political background (Interviewee 1). This would keep them clear of corruption allegations, at least initially. On the other hand, this was a continuation of the previous mode of public administration reform, which was based on *ad hoc* solutions to problems, which would create problems following the change of government. This very fact also justifies why the mode of public administration reform in this period is best described as the period of reorganisation rather than the period of restructuring.

Thirdly, a number of crucial decisions and institutional reforms were taken by means of decree-laws, which were to be adopted by the Council of Ministers and not by Parliament (although they had the legal effect of a law). The practice of governing with decree-laws was justified on the grounds that it offered flexibility and the government could introduce decisions rapidly without delays. However, government decrees did not only lead to more arbitrary decision making, but also caused uncertainty on the part of economic agents as a result of frequent changes which led to shorter investment horizons and reduced the credibility of the adjustment measures (Öniş and Webb, 1992: 10).

Although the establishment of new structures whilst preserving the old ones enabled the trouble-free adoption and implementation of economic reform, it also gave rise to fragmentation in the budget process, which was explained in section 4.3.1. On the one hand, the executive had a clear control over the budget by applying the "divide and rule" principle in the institutional structure for budget preparation and execution. On the other hand, fragmentation led not only to disintegration in the budget process, but also brought in coordination problems between public institutions in charge of

revenue collection, expenditure and cash management on overall policy making, mainly after Özal handed over economic policy coordination to his deputies (Interviewee 5).

In that structure, the MOF was responsible for budget preparation, budget execution, accounting and reporting, and revenue collection; the SPO was responsible for preparing the public investment program and the macroeconomic framework and for reporting public sector statistics; and the Treasury was responsible for cash and debt management, including extra-budgetary funds, and state-owned enterprises. An immediate outcome of this structure was reduced ownership of the budget (IMF, 2000: 2). With the establishment of the Undersecratariat of Treasury, the role of the SPO in fiscal management declined similar to that of the Ministry of Finance. The other reasons for this decline were the promotion of the private sector as a department within the SPO, change in the personnel policy to remove the "leftist planners" (Kansu, 2004: 469) and the downgrading of the SPO in the Higher Planning Council (HPC) (Kansu, 2004: 507). In 1984, decree law no: 223 removed the deputy undersecretaries responsible for planning, coordination and implementation in the SPO from the High Planning Council. Eventually, the SPO undersecretary was discharged from the HPC.[36]

As a reflection of reduced influence of both the SPO and the bureaucracy on the executive regarding the policy planning, it should be noted that the significance and quality of the Development Plans decreased sharply in the 1980s (Sezen, 2001). For instance, the IMF-sponsored stability program *de facto* replaced the Fourth Development Plan (Sezen, 2001: 6). Furthermore, the previous comprehensive "plans oriented to transform the society were replaced by plans merely oriented to transform the structure of the state" (Sezen, 2001: 9). Towards the end of 1990s, development plans were almost "used as letter of intents" setting out targets, which were "never complied with" (SPO, 2000: 5).

[36] Law no: 304, 1987.

The role of the SPO was strengthened again under the Çiller government (Şener, 2008: 205). Eventually, the Undersecretary of the SPO could find his/her place in the High Planning Council after seven years as of 19 June 1994 with Decree-Law No. 540. Nevertheless, the practice of a strong executive working with a small circle of bureaucrats and limited access of the bureaucracy to the executive level did not change. Consequently, policy transfer channels from the bureaucracy to the executive were very limited. A significant example for tension between the executive and bureaucracy occurred in the 1990s during the preparation for the Customs Union. On the one hand, there was resistance as well as concerns among the bureaucrats in taking the necessary steps for fulfilling the requirements of the Customs Union. On the other hand, the executive exerted pressure on the bureaucracy to finalize the Customs Union negotiations by 1995 at any cost. This was symbolically illustrated by the motto of "It will either happen or happen" used by the then Prime Minister Tansu Çiller (Interviewee 6). Eventually, the negotiations for the establishment of the Customs Union between the EU and Turkey were concluded in 1995.

According to Öniş and Webb (1992), this highly centralized and insulated policy apparatus revolving around "a strong and dominant" leader brought in advantages as well as disadvantages in the reform process. In terms of advantages, this close circle of technocrats enabled the government to "secure necessary degree of consistency and bureaucratic cohesion in the initiation of structural adjustment" (*ibid.*). However, the "absence of an autonomous and internally coherent bureaucracy" led to severe coordination problems once the leader departed. The outcome of these coordination problems were seen both in policy making and in state-society relations. The appointment of two separate Economy Ministers in 1989 (Güneş Taner and Işın Çelebi) brought to the fore bureaucratic conflicts and delays in policy making.

Moreover, political appointments to key positions considerably reduced the autonomy and collective identity of the bureaucracy vis-à-vis the political elites (Heper 1989). The bureaucrats lacking autonomy vis-à-vis the politicians were not

able to restrain the expansion of the fiscal deficit. Furthermore, the insulation of decision-making through the absence of any institutionalized consultation with interest groups and civil society organizations created difficulties in policy coordination and in managing distributional conflicts under fully competitive politics in the late 1980s (Öniş and Webb, 1992: 50). In the absence of such a consultation mechanism, it was no longer possible to secure popular support for fiscal reforms. Apart from problems in securing popular support, governments failed to receive bureaucratic support as the "old-line bureaucrats resented having their traditional policies rejected and their career plans thwarted" (Öniş and Webb, 1992. 23). As the changes and more importantly the mindset behind these changes were not internalised by the bureaucrats at large, the issues of sustainability came to the fore. During the 1990s, the frequent turnover of governments also resulted in frequent changes in bureaucratic personnel, which also inhibited the sustainability of any reform initiative.

Despite the pressure exerted by executive on bureaucracy, there is a near consensus in the literature that the major reforms in Turkey have been initiated by the bureaucratic elite (Aykaç, 1997; Arslan ve Yılmaz, 2001; Durgun, 2002; Dursun, 1998; Görmez, 1998 cited in Haktankaçmaz, 2009: 188). Bureaucrats were more influential particularly in the crisis environment in Turkey (Interviewee 11). This applies to the case of public financial management as the origins of the Public Financial Management and Control Law, which will be analysed in the next chapter, was shaped by a group of bureaucratic elite as of 1995. Acknowledging the high influence of the bureaucratic elite on major reforms, however, this thesis would like to bring in, some additional dimensions into the picture. Firstly, one should look into how the bureaucratic elite started to work together in a fragmented institutional structure. Like in the previous reform initiatives, the 1994 economic crisis triggered efforts of the bureaucrats to look for sustainable solutions to the acute problems (Interviewee 8). Secondly, external factors such as a multi-year project with the World Bank may facilitate bringing together a group of bureaucrats. Through the

Public Financial Management Project of the World Bank a group of high level bureaucrats from the Ministry of Finance, the Undersecretariat of Treasury, the State Planning Organization, the Central Bank, the Turkish Court of Accounts and some academics convened on a regular basis to on how to improve the public financial management (Interviewees 1, 2 and 8). In this respect, we can argue that an "epistemic community" for improving the public financial management was already formed in 1995. This community - comprised of bureaucrat, academics and representatives from think tanks- continued to operate in the form of the special sectoral committee on public financial management to provide input into the eighth development plan after the completion of the Project. The same group of bureaucrats continued to work on this issue among themselves as well as with the IFIs from 1995 until the major reform legislation was eventually enacted. (Interviewees 1, 2 and 8). An epistemic community was one of the main driving force behind the public administration reform in France in the 1980s as well. In the case of France, the rise of good governance was advocated by a group of senior bureaucrats in favour of monetarism instead of Keynesian policies, consultancy companies, an epistemic community evolving around *"Association Service Publique"* and the European Union (Sobacı, 2009: 225-226). Thirdly, it should also be noted despite the willingness of a core group of bureaucrats, political ownership in favour of the reforms could not immediately be secured (Interviewee 2). Therefore, it should be underlined that political commitment is as crucial as the bureaucratic willingness in the Turkish context, although it is true that the preparatory work for the reform content was prepared by the bureaucrats, where we also observe policy networks flourishing among them.

4.4.2. EXOGENOUS FACTORS FOR POLICY CHANGE

4.4.2.1. Relations with the International Financial Organizations

Turkey joined the IMF and World Bank in 1947. It has been a member of the OECD since its inauguration in 1950 due to its participation in its predecessor organization, the OEEC, created by the Marshall Plan. The OECD led a consortium to coordinate the rescheduling of Turkey's commercial and bilateral debt, when the country's commercial debt crisis became acute towards the end of the 1970s. An active policy dialogue with the World Bank, the IMF and the OECD continued throughout the 1980s. Turkey, being the first country to obtain this type of support, received five World Bank structural adjustment loans to initiate reforms (Krueger, 1995: 352). As reflected in appendix D, Turkey signed 7 stand-by arrangements (SBA) with the IMF in the 1980-1999 period. Seeking to address short-term economic problems in a member-country, SBAs provide general support to that country's balance of payments and international reserves, whilst the country in question takes policy action to address its problems[37]. On 18 June 1980, Turkey signed a SBA for a program that lasted until 17June 1983, which was the longest-lasting program to that date. In 1983, Turkey launched another IMF-backed program that lasted one year. Although dialogue continued, the influence of the IFIs declined in the 1990s since Turkey accessed international capital markets anew (Öniş and Webb, 1992: 27). Between 1984 and 1994, no stand-by arrangement was signed as the government did not see a need for such programmes in the presence of an improving economic performance (Arpac and Bird, 2009: 139). Nevertheless, distributional pressures which were repressed during the 1980s re-asserted themselves, leading to larger fiscal deficits and a declining economic performance. Following the economic crisis in 1994 which was the end result of the large fiscal deficits, signing an arrangement with the IMF became imperative. The program, which started on 8 July 1994 ended on 26 September 1995. Although they were originally signed for three years, all of

[37] Although there is an ongoing debate on the costs and benefits of signing SBAs with the IMF in the literature, the author does not refer to that debate to maintain the focus on the main research questions.

these SBAs (apart from the one in 1980) were cancelled before the expiry of the programme due to poor performance in complying with undertaken commitments (Binay, 2004).

In signing these arrangements, the primary focus of the IMF was ensuring exchange rate stability and balance of payments (Karagöl, 2008: 1). The Asian Economic Crisis in 1997 followed by the crisis in Russia increased the risk factor in the Turkish economy and alerted the government to take measures to avoid a balance of payment crisis. As a precautionary measure, the Staff Monitoring Programme was launched with the IMF in July 1998. This was followed by a stand-by arrangement on 22 December 1999. The arrangement aimed at bringing the consumer price inflation down to 25 percent by the end of 2000, 12 percent by the end of 2001, and to seven percent by the end of 2002 by means of a tight fiscal policy, an income policy in line with targeted inflation, and monetary and exchange rate policies formulated in line with decreasing inflation. The program also entailed structural adjustment commitments including those on public fiscal management.

In general, these institutions provided financial support to Turkey in overcoming economic crises as well as providing policy advice up until the 1980s. Although the scope of collaboration with these institutions did not change after the 1980s, the conditionality applicable to the release of loans has changed over time. The IFIs required the borrowing countries to adopt and implement structural adjustment programmes, which were to be determined within the framework of the stand-by arrangements or loan agreements. This type of conditionality attached to these arrangements eventually provided the IFIs with a “closer scrutiny” role. This "closer scrutiny" also facilitated the conditionality-based coercive policy transfer from the IFIs towards the beneficiary countries.

In line with this new role, the 1980 Stability Programme of Turkey was "one of the earliest of its kind" (Öniş, 2004: 118) designed on the basis of the recommendations

of the IMF, the WB and the OECD (Müftüler, 1992: 175). It was believed that to secure the support of the IFIs was essential for a smooth recovery and sustained economic growth in the 1980s. Importantly, although the OECD, the World Bank and the IMF "played a big role in Turkey's adjustment program in the 1980s, they did not dictate most of its content" (Öniş and Webb, 1992: 26). Their major influence was on the long-term evolution of economic philosophy in Turkey and the short-term determination of policies (*Ibid*.). Close working relations established between the World Bank, IMF and the Turkish officials "led to agreement on the diagnosis and prescriptions for Turkey's economic problems" (Öniş and Webb, 1992: 26). Furthermore, the previous tenure of Prime Minister Özal in the World Bank and the Central Bank Governor Saracoglu in the IMF in the 1970s reinforced the influence of the IFIs and facilitated policy transfer.

In the late 1990s, however, the IFIs influence was more visible. Sezen (2001) asserts that when coalition governments were formed, the IMF and World Bank could nearly be described as the coalition partners in the administration of the country. For instance, the letters of intent submitted to the IMF and the outputs of the Structural Adjustment Programs of the World Bank became reference documents in shaping the socio-economic policies of the country, besides the National Development Plans. Moreover, the OECD regulatory reform reports of the 1990s "nurtured the intellectual basis of reforms" (Sezen, 2011: 337). Likewise, the discussions platforms in the OECD such as those on public expenditure and public debt management enabled the Turkish bureaucrats to familiarize themselves with global trends (Interviewee 1). Apart from enabling voluntary policy transfer, these platforms and reports provided the Turkish officials with a benchmark by use of which they could compare and contrast the Turkish system with others.

Through these channels of policy transfer, good governance principles started to enter the Turkish public financial management in 1995 (Interviewees 1 and 2) mainly through the Public Financial Management Project (PFMP) financed by the World

Bank, which evaluated the system for its adequacy in terms of completeness, transparency, predictability, accountability, macroeconomic flexibility and administrative cost. Following the Turkish Court of Accounts' Report on 1995 Compliance Attestation to the Parliament indicating the weaknesses of the foreign debts accounts database of the Treasury, the World Bank provided a loan for development of the Treasury database systems. Likewise, the Turkish Court of Accounts received World Bank support following the 1996 amendment to its law, which broadened its audit scope.

Given that the Turkish bureaucracy did not have structured consultation mechanisms in the 1980s, the impact of the World Bank Public Financial Management Project on creation of an epistemic community in 1995 is noteworthy. It was a turning point for Turkish bureaucracy (Interviewees 1, 2 and 11). Apart from facilitating the policy transfer among this community through regular meetings over a couple of years, IFIs served as a bridge between the bureaucracy and the politicians (Interviewee 8). The majority of the IFI analysis was carried out together with the Turkish officials and the recommendations were shaped taking the local knowledge into account. When these recommendations were made by the IFIs, they received more attention from the politicians (Interviewee 8). Highlighting the importance of mutual understanding between the IFI teams and the domestic bureaucrats, the then Chairman of the Banking Regulation and Supervision Authority (BRSA) Engin Akçakoca indicates that the IMF and the Turkish bureaucrats "were in the same boat. If the program did not work, everyone's seat was in danger" (Arpac and Bird, 2009: 148).

Another point which should be highlighted regarding the relations with the IFIs is the clearly observable reluctance among the executive and the bureaucrats to reveal the contacts with the IFIs in preparation for initiatives leading to policy change. Unlike the practise of giving reference to EU requirements, any reference to IFI requirements or conditionality is hardly noticeable in the political discourse or in the official justification of legislative changes. Although the 24 January 1980 Stability

Programme was prepared by the team led by Özal in collaboration with the World Bank the IMF and the OECD, the Structural Adjustment Loans(SALs) with the World Bank and the stand-by arrangement with the IMF were officially signed in April and June 1980 respectively, months after the announcement of the Stability Programme. This is mainly due to concerns of securing domestic support for the Programme.

For the Demirel government, "it was important to be seen publicly in Turkey as acting on [its] own initiative, rather than at the behest of the international institutions" (Öniş and Webb, 1992: 27). As the SALs were not announced to the public, the Turkish government could gradually present the measures, which were agreed together with the Bank, as its own policy (*Ibid.*). Likewise, the Çiller government signed the SBA in July 1994, two months after announcing the 5 April 1994 Stabilization Programme. By the time the stand-by arrangement was signed, most of the provisions had already been met (Krueger, 1995:352). Street (2004 cited in Haktankaçmaz, 2010: 33) argues that although the IFIs promoted administrative reform across the World with the aim of maintaining the stability of the global economy and of ensuring the sustainability of effectiveness and efficiency of the national economies in the aftermath of economic crises, they managed to dictate their conditions fully only to those countries that were in an extremely harsh financial crisis.

This argument does not seem to apply to the Turkish case. Despite the difficult financial conditions and the coercive pressure for policy change, IFIs recommendations for policy change incorporating good governance principles were not materialized. This is due to the reluctance by endogenous actors to fully endorse them and thus did not prepare the domestic ground for the completion of the coercive policy transfer process, as determined by Evans and Davies (1998), and discussed in 2.2.2.2. The phases of regime pull, regime search, contacts within epistemic community- the IFIs in this case, the process of elite and cognitive mobilization,

interaction, evaluation, were completed. However, the cycle was halted at the stage where the "decision enters the policy cycle" and the implementation starts.

4.4.2.2. Relations with the European Union

Turkey's relations with the European Union started in 1959. The Ankara-Agreement of 1963 provided the basis for a gradual integration with the EU as well as opening up Turkey to European market forces. Apart from receiving a confirmation on Turkey's European status, the economic motivations of Turkey whilst signing this agreement were attracting foreign capital so as to finance national development, ensuring a stronger arrangement with its largest trading partner as well as obtaining a position to be able to influence Community tariffs, duties and other restrictions (Müftüler, 1992: 77). The Association Agreement was later modified by the Additional Protocol on 13 November 1970, which entered into force in 1973. The Additional Protocol envisaged that tariffs on imports would be reduced as a preparation for the eventual Customs Union between the EU and Turkey, which was scheduled to take place at the end of 1995. This actually reflected an inconsistency between the internal and external aspects of Turkey's economic development at the time, which envisaged national integration through the import substitution policies on one hand, and the prospect of transnational integration through the Customs Union on the other (Kahraman, 2000: 3). As a result, inward-looking import-substitution policies did not enable Turkey to materialize its commitments towards the establishment of the Customs Union in the 1970s (Müftüler, 1992: 179). In this respect, the 1980 Stabilization Programme did not only launch a major shift in economic and trade policy, but also enabled the government to fulfil some of its obligations under the Protocol and prepare the economy for the Customs Union (Müftüler, 1992: 173).

Already thorny relations with the EU in the 1970s due to the economic and foreign policies of Turkey were dealt a "serious blow" with the 1980 military intervention (Kahraman, 2000: 4). The military rule caused concerns in Europe regarding

democracy and the defence of human rights in Turkey. The European Union suspended the relationship in 1982, after a warning in 1980. On the EU front, the 1980s were the twilight years for the EU both in terms of "widening and deepening" especially under Jacques Delors Commission (1985-95). Consecutive enlargement rounds took place: towards Greece in 1981, Spain and Portugal in 1986 followed by the adoption of the Single European Act in 1987. A series of cross-border networks were created in the 1970s and 1980s beginning with Research and Development (R&D) and extending cooperation to other areas that went beyond the mere increase of trade flows (Tsoukalis, 1993: 50). In March 1985, the new Commission President Jacques Delors outlined his plan for the creation of a Single Market to facilitate the realisation of earlier European Council declarations regarding the four freedoms of movement for goods, services, capital and persons (Tsoukalis, 1993: 59). Thus, the Single European Act (SEA) came into being in 1986 setting the goal of establishing a genuine single market in Europe, which would change the entire economic structure of Europe.

Within this context, Turkey submitted an application to the EU for full membership in 1987. The literature refers to different motives behind this application. Eralp (2009: 156) asserts that Europe was “a stable market for Turkish export as well as a source of funds and technology”. According to Öniş (2004: 119), then Prime Minister Özal was keen on enhancing relations with the European Union due to his conviction that a strong external anchor, such as EU, membership was crucial to consolidate the reform process. Müftüler-Baç (1992: 172-173) argues, however, that the very reason for carrying out the liberalization reform was "an attempt to adapt to the newly emerging system in Europe" and quotes Turgut Özal: "the aim of the economic liberalization program and our reforms was to facilitate our integration into the Community as a full member". Likewise, Kahraman (2000: 15) and Kazgan (1993: 70) argue that the government at the time of application believed that the recently introduced macro-economic policy orientation would facilitate Turkey’s integration to the European Union. Tekeli and İlkin (2000:572) argue that Turkey

had started to realise the non-economic features of the EU in the 1980s and saw the EU accession as a means of "saving the nation-state against globalization". Öniş (2004: 119), however, indicates that government knew that it was very unlikely to receive a favourable response from the Community and the application was tactical whilst the primary aim was to accelerate the process of trade liberalization.

The European Commission's Opinion on Turkey[38], published in December 1989 and endorsed by the Council in February 1990, was to reject the application by arguing that a common market process was in progress and enlargement was not recommended (Tecer, 2007: 174). Nevertheless, the EU offered Turkey a set of measures that would enhance the association. By the same token, the Commission declared that it would not engage in accession negotiations with candidate countries before 1993. The relations between Turkey and the European Union were reinvigorated in 1992 as discussions on the establishment of a Customs Union between the two got under way. In June 1993, the Copenhagen European Council set out the requirements for accession, which will be discussed in detail in the following chapter. Eventually, the Customs Union entered into force on 1 January 1996. Opening up the Turkish market for the EU and third states, the scope of the Customs Union covered trade in manufactured products between Turkey and the EU, and also entailed an alignment by Turkey with certain EU policies, such as technical regulation of products, competition, and intellectual property law. Accordingly, Turkey agreed to impose the common external tariffs of the EU against third countries, whilst the EU committed itself to eliminate quotas applicable to the Turkish exporters of textiles and clothing (Yılmaz, 2011: 236)

Although it did not have a direct impact on public financial management system in Turkey, the Customs Union deserves special attention as it gives us important insights regarding the interaction between domestic actors as well as their relations

[38] EC Commission, "Opinion on Turkey's Request for Accession to the Community," SEC (89) 2290 final, Brussels, 18 December 1989.

with the EU. The Customs Union Decision[39] was crucial in many aspects. Above all, it had the potential to make the Turkish economy more competitive owing to a number of technical and legislative changes pre-requisite to the Agreement. Despite the ongoing debate about the pros and cons of the Customs Union, it is commonly asserted that it introduced a high degree of predictability, transparency and stability in the Turkish trade policy framework (Kaminski and Ng cited in Yılmaz, 2011: 237). Secondly, it functioned as a significant policy transfer channel from the European Union towards the Turkish decision-making echelons. The Turkish public administration became familiar with EU *acquis* and the process of alignment with the *acquis* in preparation for the Customs Union (Göksel, 2001: 201; Sezen, 2011: 337, interviewees 6 and 7). Thirdly, it served as a means for implementation of the regulatory reforms-although very limited- in the Turkish economy throughout the 1990s. Fourthly, the Customs Union started the "trans-nationalization of Turkish big business, meaning the growing ability to invest beyond the home base and enter into strategic alliances with foreign partners" (Öniş, 2010: 49). Moreover, the Customs Union brought the notion of civil society involvement public decision-making processes to the Turkish context.

On the one hand, this involvement was one of the reasons for the delays in the fulfilment of preliminary alignment requirements, as some of the Turkish conglomerates were not in favour of a Customs Union, which they were eventually able to fully benefit from (Interviewee 7). On the other hand, civil society organizations such as the IKV highly contributed to the alignment process (Interviewee 6). Apart from providing assistance in reinforcing fiscal stabilization, the Wold Bank's PFMP entailed a special component for modernization of the Turkish Customs administration. Serving a good example of ensuring complementarities between the priorities of the World Bank and the beneficiary country as well as those of the European Union, it was indicated in the Project

[39] Decision No 1/95 of the EC-Turkey Association Council of 22 December 1995 on implementing the final phase of the Customs Union, Official Journal L 035 , 13/02/1996.

Description that “the envisaged changes would enhance the sustainability of fiscal stabilization and facilitate Turkey’s successful entry into the Customs Union” (World Bank, 1995: 2).

Except for the establishment of the Customs Union, Turkey’s relations with the EU in the late 1990s were dominated by disappointment on the side of Turkey (Göksel, 2011:18). Despite confirming the eligibility of Turkey’s accession to the European Union, the 1997 Luxembourg European Council did not include it in the list of candidate countries. Turkish authorities reacted vigorously to this decision. The EU, however, started to issue Annual Progress Reports on Turkey similar to those on candidate countries as of 1998. These reports were shared between all stakeholders as they provided an overall of picture of developments in Turkey in political, economic and social terms. Being open to the public, these reports provided a number of recommendations as to how to improve the policy area in question after making an analysis of the current situation. In this aspect, these reports offered the Turkish decision-makers with a number of policy change options.

Unlike the 1959-1970 period, which demonstrated a “convergence between in the dynamics of European integration and developments in the Turkish context, the 1970-1999 period entailed divergence between these dynamics and developments (Eralp, 2009: 151-153). As a part of this divergence, there was a “decline of interaction between the governmental and non-governmental elites of Turkey “and the EU (Eralp, 2009: 153). In this respect, the Helsinki European Council of December 1999 was a turning point in EU- Turkey relations as it granted Turkey the status of candidacy for EU membership, which put an end to this divergence. Consequently, the interaction between the policy actors of Turkey and the EU resumed enabling new channels of policy transfer from the EU towards Turkey on an “obligated” form within the pre-accession framework.

Apart from functioning as a commitment device, the EU accession process introduced the practice of strategy-based policy-making, which was indicated in the National Programme for the Adoption of the Acquis (NPAA). Moreover, it served as a catalyst for a significant reform drive towards the transformation of Turkey (Göksel, 2011: 19). The impact of the EU accession process on public administration reform in general and on public financial management in particular will be analyzed under the next chapter as the impact could only be observed once the pre-accession structures were put into place in the 2000s. In the period which falls under the focus of this chapter, the EU was an exogenous actor for Turkey within the framework of the Ankara Agreement, the Additional Protocol as well as the Customs Union. These entailed conditionality for triggering change in the Turkish administration. However, this was limited to customs, trade policy, competition and the protection of intellectual, industrial and commercial property. Taking into account the limited scope of influence and the lack of a clear conditionality mechanism, we can conclude that the European Union did not have "a powerful transformative influence" (Öniş and Bakır: 2007: 151) and had rather a secondary role during the adjustment oriented reform in comparison to the IFIs.

4.4.3. INTERACTION BETWEEN THE ENDOGENOUS AND EXOGENOUS FACTORS FOR REFORM

Reform priorities in the 1980s were primarily trade liberalization and exchange reforms, with a limited focus on fiscal policies. The governments during the 1990s were preoccupied with the means to reduce external debt and related interest payments (Interviewee 5). If compared with the UK -with the aim of benchmarking with a key country influencing the NPM debate- the reform drive towards a more liberal economy, including the public administrative structures, was consistent with developments in the UK. However, the salience of implementing good governance practices in public administration in general and public finance in particular was overlooked.

As a result of the state-market-society relations based on a patrimonial state and a weak civil society accompanied by populist policies reinforced by patronage politics, the liberalization agenda failed to address structural reforms in general and improving management of public finance in particular. To achieve the sustainability of these liberalization initiatives, however, a series of necessary measures should have been taken so as to reduce fiscal deficits, adjust fiscal tools and structures with the domestic and global changes, and increase transparency in budget formulation and execution (Öniş and Webb, 1992). Although there were references to the need of structural reforms in public finance in the analyses of the IFIs, these did not find their way in the reform agenda of the governments. There was an explicit tendency to favour quick-fixes over institutional reform (Atiyas and Emil, 2005: 10). This is often attributed to the lack of political will of the political elite to "identify themselves with the reforms".[40]

Among many other factors, the lack of political will can be explained by the existence of patronage politics reflecting intertwined relations between politics and economics. Moreover, there were important delays and reversals of reform, especially on fiscal reform, bank restructuring, and SEE privatization (Öniş and Webb, 1992: 5). In this respect, what emerged was an "incomplete stabilization" (Rodrik, 1990) where crucial elements of ensuring public sector discipline and establishing a transparent and accountable institutional governance framework were missing (Turhan, 2008: 260). In other words, one of the main shortcomings of the public administration reforms in this period was the failure to take structural measures (Sak 2000: 3) to strengthen public finance and to reinforce the necessary infrastructure to meet the requirements of a well-functioning and competitive market economy. In a similar vein, Gönenç *et al* (2005: 19) assert that the "absence of political will by successive coalition governments to reign in budget, off-budget and quasi-fiscal spending was behind the spectacular fiscal worsening" of the 1990s.

[40] See Cizre and Yeldan (2005); interview with Kemal Derviş by Leyla Boulton and Martin Wolf, "Winning Turkey's Trust," Financial Times, 14 May 2001.

Nevertheless, we cannot find evidence neither of substantial structural and legal reforms nor for combating corruption and improving governance, transparency and accountability in this period (Koch and Chaudhary, 2001: 469). On the contrary, this period could even be identified as the period of "deviation from the fiscal discipline" (Interviewee 8). Although the administrative reform in the early 1980s was meant to minimize the state, "the size of the state in the economy could not be diminished until the financial crisis starting in 1994" (Şener, 2008: 196). The public sector remained dominant in the economy, which entailed the unresolved problem of endemic fiscal deficits with inadequate tax revenues and rising external/internal debt (Eder, 2003: 224). All in all, this "loose and non-transparent" fiscal policy environment did not only reduce fiscal discipline, but also turned financial liberalization into a "harmful factor for macroeconomic stability" (Öniş, 2010). Following the economic crisis in 1994, there "was a very small window for reform, which was closed briefly" (Interviewee 4).

This can be attributed to political instability, reflected in the number of coalition governments formed (ten in only nine years). The reform record on PFM in this period of analysis was limited to the amendment in 1981 on transfer of revenues from the central to the local governments a first step for fiscal decentralisation, the 1994 legislation on Treasury gurantees and the 1996 amendment to the TCA Law for extending the scope of its audit. The institutional reorganization created a very fragmented structure with negative consequences on budget preparation and execution. The rigid nature of the budget and the willingness to maintain patronage politics increased off-budget activities distorting fiscal discipline. The World Bank findings and the recommendations in 2001 were almost identical with those of the 1995, which is a clear indication that there was very little improvement during those six years.

Looking further into the domestic conditions in Turkey, we can argue that governments assumed a reactive rather than proactive role in bringing in major

policy changes. Öniş (2003b: 3) argues that these changes “have taken place in a top-down fashion, often in response to influences originating from the international economy”. Likewise, Müftüler-Baç (1992) asserts that "the stimuli for the adoption of the liberalization programme in the 1980s came from outside, specifically from the European Community".

Although agreeing with these analyses that the initial stimulus came from outside, the author argues that the extent and the scope of these reactive measures have been predominantly determined by endogenous factors in the period of adjustment-oriented reform. Despite the existence of active channels of policy transfer available to domestic policy makers both at the international and national level, policy makers made limited use of them. The argument that external support or pressure coming from the international organizations would provide the ruling elite with a commitment device and serve as a catalyst for introducing reform initiatives (Ikenberry, 1990 cited in Haktankaçmaz, 2010: 41) did not hold true for Turkey in this period. A comparative analysis of the economic crises giving rise to the Stabilization Programmes from 1978 until 1999 is provided in Table 7.

Table 7 Characteristics of Economic Crises in Turkey (Öniş, 2003b: 4-5)

	1978-1979	**1994**
Nature of the Crises	Balance of payments crisis, originating from the current account, caused mainly by domestic imbalances.	Balance of payments crises, originating mainly from the capital account, caused partly by domestic imbalances.
Origins	Fiscal imbalances; steady appreciation of the real exchange rate; export stagnation and rising trade deficit; distorted production and trade structure caused by ISI.	Fiscal imbalances; steady appreciation of the real exchange rate; export stagnation, import boom, outflow of short-term capital

Table 7 (continued)

	1978-1979	**1994**
External Dimension	Successive oil shocks have contributed to the crises; oil shocks largely aggravated the problem created primarily by domestic imbalances.	Significant over-dependence on fragile short-term capital inflows following premature capital account liberalization in August 1989.
International Actors in the Post Crisis Context	Both IMF and the World Bank are heavily involved; official assistance through the OECD is also important	IMF is the primary actor; EU is also involved through the Customs Union.
Political Consequences	Collapse of the democratic regime; longer military rule; restoration of full or unrestricted party competition occurs over a longer period.	Democratic regime remained intact; an implicit link could be formulated between the negative effect of 1994 crisis, the rise of political Islam and indirect or "postmodern" military intervention in February 1997.

As reflected in the above table and as shown by the analysis, the majority of the reform initiatives (1) were triggered by domestic economic crisis (2) their scope was influenced by the international organizations (3) their extent and success were dependent on the interaction between the endogenous and exogenous factors. Governments prioritized administrative reform in the aftermath of crisis mainly because good governance was an influential tool for curbing public expenditure, which was often seen as one of factors underlying the economic crisis. In addition to

curbing public expenditure, good governance provided the policy environment to effectively implement public policies that would lead to economic growth (Evans and Rauch, 1999).

The IFIs and the EU have been very influential in shaping the good governance agenda as well as serving as channels for its transfer to national decision-making mechanisms. In this cyclical process of economic crises and public administration reform, the Turkish governments introduced short-term measures without having an overall strategy for the adjustment of the Turkish economy to a globalizing world. In search of financial support, they received loans on the basis of conditionality from the IFIs. In line with the argument of Haktankaçmaz (2009: 187), the main elements for coercive policy transfer, social, political or economic crises and the loan conditionality of the IFIs, were present for an introduction of the good governance agenda in the Turkish context. Nevertheless, we do not see a real transfer of good governance principles into the Turkish Public Administration in general and in the Turkish Public Financial Management in particular. This is mainly due to the unmatching domestic and external conditions. First of all, the IFIs themselves were going through a transition process in the 1980s and 1990s seeking to shape their conditions in line with the newly emerging good governance agenda.[41] Therefore, PFM as a part of structural reforms started to be requested mainly in the 1990s. The EU was going through a significant widening and deepening process, which delayed the emergence of the good governance agenda as a priority item. Furthermore, there was little by way of structured conditionality mechanisms in place between the EU and Turkey. Customs Union failed to provide a sufficiently powerful external anchor to be able to trigger a significant transformation in the Turkish public administration without offering the perspective of EU membership (Öniş, 2009:414). Although it provided for limited conditionality in some sectors, it did not have a direct impact on many others, one of which was the PFM area.

[41] It is for this reason that during the 1990s the Washington Consensus is replaced by the more institutionally-minded "post-Washington Consensus". The extent to which there is substantial difference between the two is a matter of debate.

Secondly and in the absence of an accession prospect, the only anchor for policy reform was the IFIs whist the orientation of the reform efforts were adjustment to the globalizing world. In this respect and by use of our proxy utilization we could argue that the influence of globalization on the Turkish Public Administration was considerably higher than that of Europeanization. Nevertheless, it should be noted that the IFIs became more involved in the Turkish reform efforts in the period of analysis simultaneously or right after a significant milestone in EU-Turkey relations. For instance, the World Bank PFMP coincided with the Customs Union Decision; the 1999 stand-by arrangement with the IMF was signed 12 days after the Helsinki European Council. Therefore, we can argue that the *rapproachment* with the EU served as a "credibility device" (Bronk, 2002) for the IFI involvement in Turkey even before the pre-accession process.

Despite the conviction of the author that the processess of globalization and Europeanization reinforce each other and the outcome of their influence in the domain of PFM is convergence on a sound PFM mechanism based on the principles of good governance, the relative salience of these two processes is key in igniting sustainable reform. Although their policy recommendations on PFM are complemetary, the EU seems to be a more influential anchor for convincing the citizens than the IFIs about the desirability of reform.

Thirdly and due to concerns related to obtaining domestic approval, governments of that era sought to introduce minimal structural reforms as a prerequisite for the IFI loans. Applying the policy transfer network of Evans and Davies, there was a policy "pull" towards economic liberalization reinforced by globalization and by the process of Europeanization in the European continent. These processes were pushing the governments towards adopting the good governance agenda, which was already a moving target. This was followed by the technical consultations between the IFIs and the beneficiary country on analysing the problems and offering solutions.

In the case of the adjustment-oriented reform period in Turkey, the elements for coercive transfer through conditionality were in place through the Stand-by Arrangements and Loan Agreements. However, domestic conditions were not conducive to complete the policy transfer process. The process was halted at the stage where the "decision enters the policy cycle" and implementation starts. Although structural deficiencies in PFM were already addressed in 1995 by the World Bank, they were not translated in the reform strategies of the governments. A clear evidence for this is the non-existence or very limited coverage of public financial management in the development plans issued in this period.

CHAPTER 5

TURKISH PUBLIC FINANCIAL MANAGEMENT FROM 1999 ONWARDS: ACCESSION-ORIENTED REFORM

5.1. TWIN ECONOMIC CRISES AND REFORM ATTEMPTS

The twin crises of November 2000 and February 2001 were "the deepest crises in the history of the Turkish economy" (Ataç and Grünewald, 2008:46). The 2000 currency crisis revealed massive open positions and unfunded liabilities, mainly stemming from unbudgeted quasi-fiscal activities of the banks operating under treasury guarantees and state economic enterprises. In 1999, the functional losses of the state-owned banks and the state economic enterprises were TL 4 quadrillion and TL 1.6 quadrillion respectively (SPO, 2000:34). Amounting to nearly 40 per cent of GDP, these losses were recuperated by the government (Gönenç *et al*, 2005: 6). The currency crisis in November 2000 "first revealed itself as a warning signal and erupted in full scale" in February 2001 as a banking crisis (Yeldan, 2002: 2). During the 2001 crisis -the deepest recession since 1945- the Turkish economy shrank by 9.4 per cent (IMF, 2002) and stock markets, employment, production, finance and the Turkish Lira went into a downward spiral (Cizre and Yeldan, 2005). The probability of Turkey's financial fragility, which was estimated at 41 percent -nearly three times that of the industrialised countries- indicates the vulnerability of the economy at the time (TOBB cited in Koch and Chaudhary, 2001) That is to say, the crisis was nothing less than a "real rupture in the history of the Turkish economy", which affected all sections of the society (Öniş and Bakır, 2007: 147-148).

The economic crises revealed the main weaknesses of fiscal and public management institutions in Turkey, which were [the lack of] "macro-fiscal control, effective prioritizing of scarce resources and performance improvement in the delivery of services by the state" (Scott, 2007: 58). Moreover, the year 2001 was the peak point

for foreign loans mainly stemming from the IMF, which led to an increase in foreign debt and interest payments. Uncertainty in exchange rates and monetary policy increased, significantly reducing demand for foreign exchange and for market acquisitions (Demircan and Ener, 2007). Therefore, the economic policy in this era aimed at decreasing public expenditures via reducing interest repayments and achieving a net, non-interest budget surplus. Within this context, Turkey sought to apply a comprehensive agenda of reform to enhance the investment climate, improve its medium term growth prospects, and lower unemployment whilst strengthening its international reserve position for ensuring endurance to external shocks (Karagöl, 2008:3). It should be noted that realizing such reforms was a function of prevailing political dynamics. Table 8 provides an overview of governments in office since the crises.

Table 8 Governments (1999-2012)

Prime Minister	**Period**	**Political Parties Making Up the Government**
Bülent Ecevit (5th term)	28.05.1999-18.11.2002	DSP-ANAP-MHP
Abdullah Gül	18.11.2002-14.03.2003	AKP
Recep Tayyip Erdoğan	14.03.2003-29.08.2007	AKP
Recep Tayyip Erdoğan	29.08.2007-06.07.2011	AKP
Recep Tayyip Erdoğan	06.07.2011-	AKP

Source: Compiled from http://www.tbmm.gov.tr/kutuphane/e_kaynaklar_kutuphane_hukumetler.html

5.2. THE 2001 PROGRAMME OF "TRANSITION TO A STRONG ECONOMY"

Although the coalition government formed in 1999 initially “displayed a unified front” and seemed committed to reform, it became apparent later on that there was no cohesion among them regarding key aspects of structural reforms (Arpac and Bird, 2009: 141). Under these conditions, the government missed structural benchmarks and appeared to be back tracking on structural reform, which significantly reduced market confidence in the program. As stated by the then Minister of Finance Sümer Oral in an interview: “There was a government coalition with three parties with quite different perspectives on how the economy should be run. This sort of government could not execute a single-handed economic implementation” (Arpac and Bird, 2009: 146) In the aftermath of the crises, the Prime Minister Bülent Ecevit, leading the coalition government formed by DSP-MHP-ANAP (Democratic Left Party-Nationalistic Movement Party-Motherland Party), invited Kemal Derviş, Vice-Director of the World Bank to Turkey and appointed him as the State Minister in charge of the economy (Koch and Chaudhary, 2001: 473). Derviş and a group of bureaucrats embarked upon the preparation of a new programme of actions regarding legal and structural reforms, which were not adequately addressed in the previous stability programmes (*Ibid*.). Consequently, the coalition government announced the Programme of "Transition to a Strong Economy" on 14 April 2001. Evolved around the priority of monetary-oriented macro-economic stability and aiming at the transformation of state–economy relations, the Programme also targeted political commitment, transparency and accountability in resource allocation, deterring “irrational” state intervention in economy, reinforcing good governance and the fight against corruption (Sakal cited in Demircan and Ener, 2007). The strategy focused on ensuring strict fiscal discipline and debt reduction as a means of establishing macroeconomic stability; and on improving the quality of government spending and taxation to make fiscal adjustment sustainable and easier to implement (Karagöl, 2008: 3). The ultimate aim of the programme was “removing distortions in the Turkish economy, restructuring the financial system and changing the dynamics of

the economy to achieve price stability, sustainable public finances and hence sustainable growth in the long run" (Turhan, 2008: 257). The Programme was also used as a basis for the first Pre-Accession Economic Programme (PEP) that Turkey submitted to the EU in October 2001 in line with the requirements of the Accession Partnership (EC, 2001: 37).

As reflected in *table 8*, the post-crisis era entails a radical economic and political transformation in comparison to the earlier phases of reform initiatives since 1980 (Ataç and Grünewald, 2008: 46). Policies and measures which were put into practice in the aftermath of the 2001 crisis went beyond the conventional (short term) crisis management. Unlike the previous ones, this stability programme was "more decisive about the implementation of the *structural reforms*", which involved targeting *long term* sustainability of the fiscal adjustment and the improvement of public sector governance (Turkish Central Bank, 2002: 53). Steps were taken to restructure the dynamics of the economy *as a whole* based on sustainable public finance, price stability, and private sector driven sustainable growth, to remove persistent distortions in the economy, and to restore a sound financial system. The most significant of all was that institutional restructuring was also addressed in a comprehensive way. As argued by Turhan (2008: 268-270), the main success factors of these policies were disciplined fiscal policy, which was the cornerstone of the program, enabling the debt ratios to decline, facilitating disinflation, and reducing real interest rates; fiscal consolidation accomplished thanks to high primary surplus, and resulting reduction in interest rates, which encouraged private capital formation that would build the foundation of sustainable growth. Furthermore, the Central Bank of the Republic of Turkey attained autonomy and was tasked primarily with achieving and maintaining price stability after having experienced thirty years of high and chronic inflation and massive dollarization.

Table 9 Comparative Analysis of Reform Programs

	Structural Changes	**Public Sector Discipline**	**Institutional Framework**
1980- 84 Program	Opening of the economy Liberalization	Missing	Poor
1994 Program	Stabilization	Some, but not sustained	Poor
1999 Program	Stabilization Banking reform	Aimed but not realized	Quite enough
2001 Program	Transformation of economy as a whole	Achieved	Comprehensive

Source: Turhan, 2008: 277.

The Eighth Development Plan (2001-2005) was a reflection of this change in the attitude as public administration reform was addressed in more detail and the term "restructuring" was used for the first time. The Eighth Five Year Development Plan covering 2001-2005, devoted one chapter to the issue of administrative reform under the chapter entitled “Enhancement of Efficiency in Public Services”. The chapter highlighted “the need for a holistic, radical and lasting change including human resources, administrative principles and functioning in the public administration” and identified the priorities as “elimination of existing deficiencies and breakdowns in the objectives of public institutions, their duties, distribution of the duties, structure of the organization, personnel system, resources and the way they are used, present public relations system” (SPO, 2000). Furthermore, public financial management was seen as a pillar of this restructuring and "enhancing effectiveness in public financial management" was considered as a part of the "structural adjustment" (SPO, 2000: 220). Moreover, it was indicated that comprehensive legislative reforms would take place in a number of areas including public financial management (SPO, 2000:

27). Both as a part of this priority indicated in the Eighth Development Plan and in line with the programmes and principles of the IMF and the World Bank, a number of legislative acts, which would reshape distribution relations, social security mechanisms, financial system, economic infrastructure and public administration, were enacted in the 2000s (Boratav, 2003: 182-183).

The "crisis-induced technocratic episode" did not live long (Güven, 2010: 12). The elections of November 2002, which brought the AKP as a single party government into power after a decade of short-lasting coalitions, revolved around the election campaigns "centred on realising the economic reforms proposed by the International Monetary Fund and the political reforms necessary for starting accession negotiations with the EU" (Ulusoy, 2007: 475). Taking into account the continued fragilities of the Turkish economy, the ruling Justice and Development Party (AKP) declared its commitment to reforms by signing consecutive agreements with the IFIs and following the EU Pre-Accession process closely (Güven, 2010: 12). At a time that the public support in Turkey for the EU was at its peak, remaining committed to the EU Pre-Accession process would provide the newly elected government with legitimacy (Interviewee 11). Until the AKP government, administrative reform was rather restricted, whilst the priority was given to structural reforms (Şener, 2008: 207).

Administrative reform was one of the priorities indicated in the government programme of the AKP and in the Urgent Action Plan (Demircan and Ener, 2007). As a result, Turkish public administration has been radically transformed under the government of the Justice and Development Party (AKP) (Sezen: 2011:329). Within this framework, a number of draft laws restructuring the public administration and local governments were submitted to the TGNA. This period, filled with accelerated reform initiatives, turned the westernization reform drive which was historically present in the Turkish political history "into a more concrete process of Europeanization" (Eralp, 2006).

5.3. ADOPTION OF THE KEY LEGISLATION: LAWS ON PUBLIC FINANCIAL MANAGEMENT and TURKISH COURT OF ACCOUNTS

Reform of budgetary institutions started in 2000 by means of abolishing extra budgetary funds and consolidating government accounts. Some measures were taken to expand the scope of the budget and improve financial control with the aim of rationalizing public expenditures and revenues. In May 2000, Parliament adopted Law 7805 on the Abolition of some of the Extra-Budgetary Funds. In order to maintain financial sector stability, Turkey introduced a new Banking Law, which required the banks to maintain proper internal and risk controls as well as management systems in line with Basel II, Banking Core Principles and banking norms of the EU, in May 2001. The Central Bank Law adopted in 2001 secured the independence of the Bank by limiting its role to focus merely on monetary discipline and price stability, no longer having to respond to the needs of the government for fiscal policy purposes (Atiyas and Emil, 2005: 27).

On 12 January 2002, the Council of Ministers approved the Action Plan for Increased Transparency and Efficient Public Administration, which introduced live broadcast of parliamentary sessions, publication of draft legislation, which are subject to the budgetary scrutiny of the Parliament. The Law No. 4749 on Regulating Public Finance and Debt Management, which was enacted in March 2002 eliminated legislative disarray concerning borrowing and debt management. On the basis of this Law, a number of regulations were issued to address payment, recording and reporting of financial obligations undertaken by the Treasury, to discipline the loans and guarantees given by the Treasury, to introduce a risk accounting system and to ensure transparency, accountability and to discipline borrowing transactions (SPO, 2006c: 28). Another key step was the adoption of the Public Procurement Law No. 4734 of 2002, which established a Public Procurement Authority to ensure transparency and fairness in public tenders. In 2002, the Law No. 4982 on the

Freedom of Information for Citizens, sought to assure maximum accountability in public transactions.

The Draft Law on Public Financial Management and Control was submitted to the Turkish Grand National Assembly (TGNA) in August 2002 and became obsolete in the run-up to the general elections in November 2002 (NPAA, 2003: 759). It was resubmitted to Parliament and adopted in December 2003. Consequently, the public finance management system, in operation since 1926, was annulled and replaced with the law on Public Finance Management and Control (Law No. 5018) (Güven, 2010:20). The Public Financial Management and Control Law No. 5018 incorporated the principles of fiscal transparency and bureaucratic accountability to Turkey's public expenditure regime; and strengthened both pre- and post-spending control mechanisms with increased legal liability for fiscal authorities at all levels. In that sense, it constituted a revolutionary change compared to the *status quo*.

The draft laws, particularly those concerning the new status of local authorities and the mandate of the central government, evoked a controversy among the government and opposition (Sözen, 2005: 212). Among the most controversial draft laws were the Framework Law on Public Administration and the Law on Special Provincial Administrations, which were vetoed by the then President Necdet Sezer. The Framework Law on Public Administration, which entailed elements of decentralization of power, delegation of provision of services such as health and environment to local authorities, a local ombudsman for conflict resolution, strategic planning, civil society participation and transparency, was shelved. Although it was not enacted as such at the time, referring to it is significant in terms of setting out the overall inclinations behind the reform initiatives in the late 2000s. Being highly influenced by NPM principles (Sobacı, 2009: 198), the majority of the content of the legislation was eventually enacted through a number of sectoral legislation. The Special Provincial Administration Law was enacted on 4 March 2005 followed by

the laws on Municipalities and the Metropolitan Municipalities. Municipality Law and the Metropolitan Municipality Law were also enacted.

The Turkish Court of Accounts Law was revised in line with the PFMCL and was submitted to the TGNA in 2005. This law was eventually adopted in December 2010 with a transition period of one year. The new law represents a major change in the responsibilities of the TCA and is a significant step forward in the public financial management reform as it expands the mandate of the TCA to include municipalities; public corporations, including those established by municipalities; and EU funds (OECD SIGMA, 2012: 14). It also incorporates the responsibilities and the staff of the High Auditing Board of the Prime Ministry.

5.4. PUBLIC FINANCIAL MANAGEMENT FROM A GOOD GOVERNANCE PERSPECTIVE

Although high real interest rates have been among the major factors giving rise to the national debt, uncontrolled public expenditures have also increased the need of additional borrowing in the 1990s (Koch and Chaudhary,2001: 475). Control of public expenditures became more and more difficult as a result of corruption and rent-seeking activities, resulting in a rapid accumulation of government expenditures incurred out of extra-budgetary funds and revolving funds, expenditures made by local administrations and expenditures to meet the duty losses of banks (*Ibid.)* The Turkish Court of Accounts findings demonstrate that the expenditure extra-budgetary spending, which was not subject to parliamentary oversight, was almost $16 billion in 2000 *(Ibid.).* This significant accountability concern was reinforced by low level of transparency in public expenditure management estimated as 50-60 out of the maximum grade of 100 applying the Transparency Code of the IMF to Turkey (Hürcan, Kızıltaş and Yılmaz, 1999).

In comparison to the 1990s, the 2000s was the decade of significant restructuring through structural reforms to improve public financial management system under the influence of good governance principles. Consequently, far-reaching public financial management reforms revolving round the enactment of the laws on debt management, public financial management and control as well as on external audit have improved budget coverage, formulation, execution, accounting, audit, and procurement, providing a new legal framework for modern public expenditure management and accountability (World Bank, 2006b). The aim of these initiatives was clearly indicated in the 2003 NPAA as "enhanc[ing] transparency and accountability in public financial management". These efforts will be analysed from transparency and accountability perspectives in detail below.

5.4.1. TURKISH PUBLIC FINANCIAL MANAGEMENT FROM A TRANSPARENCY PERSPECTIVE

As discussed above, extra-budgetary funds and revolving funds were one of the main impediments to fiscal discipline and thus transparency of the budget. The possibility to spend public resources outside the budget framework increased the discretion of the governments and reduced the transparency of the budget in the 1980s and 1990s. The governments in the 2000s, particularly in the aftermath of the twin economic crises, started to take crucial structural measures to improve the transparency of public expenditures.

Inadequate tracking of quasi-fiscal activities has been one the reasons for the economic crisis in 2000 (Gönenç et al, 2005: 22). In 2001, more than 60 extra-budgetary funds dealing with quasi-fiscal activities were abolished (Cangöz, 2010: 64; European Commission, 2004a: 63). The remaining quasi-fiscal activities came under better scrutiny and quasi-fiscal losses began to be explicitly budgeted and reported (OECD, 2008a: 5).

In the same year, the Ministry of Finance initiated the Project of "Continuous Quality Improvement and Restructuring [of] the Public Budgeting System" with the aim of introducing performance based budgeting in six pilot public institutions. Within this context, these institutions carried out performance based related activities, drafted strategic plans for 2003-2007 and prepared the 2003 performance plan (Ministry of Finance, 2004: 2). The High Planning Council (HPC) decision of June 2001 provided a macro-fiscal framework for the preparation of the 2002 budget and established indicative ceilings for recurrent and investment budgets for ministries and line agencies (World Bank, 2006:183).

The Law Regulating Public Finance and Debt Management no. 4749 adopted in March 2002 provided a comprehensive framework for central government borrowing and debt management under the mandate of the Treasury (IMF, 2002: 30). Seeking to address the problem of contingent liabilities, issuance of Treasury guarantees were restricted and the financing of the public investments, materialised through external loans, was also reflected in the budget (Cangöz, 2010: 65).

As part of the structural benchmarks for the IFI loans, the scope and classification of general expenditures and revenues were gradually transformed to analytical classification on the basis of the GFS and ESA 95 standards as of 2002 (Cangöz, 2010: 73). The government also adopted the PIFC Policy Paper, which set out the milestones for the improvement of the financial control system in the Turkish administration, in 2002 (European Commission, 2003c).

The Public Financial Management and Control Law No.5018 of 2003 completely replaced the General Accounting Law (Muhasebe-i Umumiye Kanunu) no.1050 of 1927. The justification[42] attached to the draft legislation, when submitted to the Parliament, referred to weaknesses in the system, which gave rise to the drafting of

[42] Letter of the Prime Ministry Directorate General of Legislation and Decisions to the Turkish Grand National Assembly, number.4735, date. 23 October 2003.

the PFMCL. These weaknesses were a failure to relate the budget to the development plans, the absence of some of the fiscal activities in the budget, budget application restrictions with a single fiscal year, the absence of a multi-year budget framework, the failure of the incumbent budget code and accounting system to provide detailed information regarding public revenues and expenditure. On the basis of these findings, the law sought to establish a more efficient and effective public expenditure management system in line with international standards. It restructured the Turkish public finance management and control system in terms of a more effective, economical and efficient acquisition and use of public resources; ensuring accountability and financial transparency; reorganizing the administrative structure and functions of public financial management structures; preparing and implementing government budgets; accounting, reporting and monitoring of all financial operations. As stated in the first article, the purpose of the PFMCL[43] was:

> to regulate the structure and functioning of the public financial management, the preparation and implementation of the public budgets, the accounting and reporting of all financial transactions, and financial control in line with the politics and objectives covered in the development plans and programs, in order to ensure accountability, transparency and the effective, economic and efficient collection and utilization of public resources.

The principle of transparency is explicitly mentioned in article 7 of the PFMCL: "The public shall be informed timely in order to ensure supervision in the acquisition and utilization of all types of public resources". The following measures are introduced for ensuring transparency: a) clearly defining the duties, authorities and responsibilities b) preparing government policies, development plans, annual programs, strategic plans and budgets; to negotiate them with the authorized bodies; to carry out their implementation and to make the implementation results and the relevant reports available and accessible to the public c) publicizing the incentives and subsidies provided by the public administrations within the scope of general

[43] Law no. 5018 Public Financial Management and Control Law promulgated in the Official Gazette on 10 December 2003.

government, in periods not exceeding one year d) establishing public accounts in line with a standard accounting system and an accounting order in accordance with generally accepted accounting principles.

Within this context, the main novelties in the Law, which has a direct impact on improved transparency of public financial management, are: i) gradual elimination of extra budgetary funds and collection of income, expenditure, assets and liabilities for all public-spending centres under a single national budget ii) aggregate fiscal discipline through political commitment to a comprehensive and transparent medium term fiscal framework by shifting from a single year to multi-year budgeting iii) adoption of performance based budgeting iv) introduction of strategic planning principles within public administration units to ensure that their resource requests are aligned with policy objectives and key performance goals of such units v) gradual transition from a fully centralised to a decentralised system of financial management and control vi) shift from cash based to accrual accounting system.

As demonstrated in the previous period, narrow scope of the budget, substantial amount of extra-budgetary funds established as a means of going around the rigid expenditure procedures, duty losses of state owned enterprises exacerbated by an ailing banking sector were elements reducing transparency of PFM in Turkey and were the main impediments in maintaining fiscal discipline. The initiatives to address these shortcomings in the post-crises era reached a peak level with the adoption of the PFMCL. Aiming at increasing fiscal decentralization, integration with global markets and introducing good governance principles into the Turkish PFM, the PFMCL sought to increase efficiency and accountability (Cangöz, 2010: 74). Furthermore, it reflected the impact of global developments on the national "budget reform initiatives and actions" (Cangöz, 2010: 74). Kapucu and Palabıyık (2008: 244) compare the Turkish Public Financial Management and Control Law to the American Government Performance Results Act (1993), which was developed mainly under the influence of the New Public Management Reform.

Aiming at "consolidating *all* fiscal operations of the government in an integrated general government approach, from the preparation to the closing stages of the budget", the PFMCL brought in a number of significant changes to budget formulation, execution and monitoring. Within this context, the scope of the budget was significantly broadened to cover the central government budget, the budgets of social security institutions, and the budgets of local administrations. This new budget classification system included a functional classification – based on the Classification of Functions of Government (COFOG) – and an economic classification of expenditures compatible with the Government Financial Statistics (GFS) standards (OECD, 2008a: 10). The new budget code made it possible to extract statistical data to analyse how much financial transaction was carried out each year (Öz and Kaplan, 2005: 249), providing the decision-makers with a comprehensive and reliable overview of the revenues and expenditures.

The PFMCL confirmed the abolishment of all but five extra-budgetary funds. The previously earmarked revenues and expenditures of these funds were moved into the budget starting in 2004 (World Bank, 2008: 48). In July 2004, the Extra-Budgetary Funds Law was adopted and became applicable as of January 2005. The revolving funds, which are concentrated in health and education sectors, were to be abolished by 2007 in the original version of the PFMCL. However, the government later on decided to restructure them, amending the PFMCL in 2005. In 2010, there were more than 1000 revolving funds with a financial value of 1.7 per cent of the GDP (Cangöz, 2010:65).

The multi-annual budgeting system, replacing single year budgeting, revolves around the Medium Term Program (MTP) prepared by the Turkish State Planning Organization (in line with the article 16 of the PFMCL) and the Medium Term Fiscal Strategy (MTFS) prepared by the Turkish Ministry Of Finance. The MTP outlines macro policies, principles, and economic figures as targets and indicators in line with the development plans and strategic plans of the institutions and the requirements of

general economic conditions. The MTFS indicates targeted deficit and borrowing positions, total revenue and expenditure projections for the following three years. It envisages that the budgets of public agencies are prepared for a three-year period in compliance with strategic plans, including performance indicators. Resources will be allocated to agencies based on their performance. Spending agencies are to disclose the realization of their targeted performances and deviations in their annual reports.

Furthermore, the High Planning Council determines the ceilings of appropriation proposal of the public administrations. The law originally envisaged the MTP and the MTFS together with the HPC decision to be issued by May and fifteenth of June respectively so as to guide the spending agencies in their budget proposals. These deadlines were revised later as "by the first week of September" and "by the fifteenth of September" respectively.[44] The multi-year budgeting system started with the preparation of the 2005 budget, which was prepared in line with macroeconomic and political priorities, defined principles and fund request limits determined in the MTP and MTFS (Kesik, 2005a: 101; European Commission, 2006b).

One of the main goals of the PFMCL was to introduce strategic management and performance based and result oriented budgeting as a means of ensuring fiscal discipline (Demircan, 2006b). These concepts are highly related and reinforce each other. The main elements of performance based budgeting are strategic plan, performance programme and accountability reports. Article 9 of the PFMCL establishes a link between budget and plan and indicated that public administrations shall base their budgets and their program and project-based resource allocations on their strategic plans, annual goals and objectives, and performance indicators so as to provide public services at the required level and quality. In this context, strategic plans provide an analysis of strengths and weaknesses, mission, vision and main principles, purposes, objectives defined related to each objective, performance indicators of the concerned public institutions; as well as include the strategies

[44] By the decree-law number 659 of 26.9.2011 article 17.

adopted for materialising the purpose and objectives and indicative financial cost tables. (SPO, 2006c: 9). Strategic plans and performance programmes enable the public institutions to relate their main policy objectives with available public resources. Performance programmes are vital for ensuring a linkage between strategic plans and budgets (Sobacı, 2009: 210). Accountability reports are key documents in this framework for informing the public about the actual outcome of the planning and expenditure exercise. In this respect, they are tools for the transparency of public expenditure management. Performance related novelties in the Law, which is a key requirement of new public management, were fiscal discipline, allocation and use of resources in accordance with strategic priorities, provision of effectiveness and efficiency in delivery of public goods and services (Kapucu and Palabıyık, 2008: 242). Strategic planning or strategic management in broad terms is a participatory and flexible management approach that refers to the process in which the institutions will have a vision for their future activities on the basis of their existing situations, missions and basic principles. They will set objectives in conformity with this vision and define targets and develop strategies to reach these objectives. They will also monitor and evaluate their performance by utilizing measurable criteria. In this way, the link between the development plans and the budget is established (Arcagök *et al*, 2004: 6).

These changes and fiscal decentralisation are applicable not only at the central administration but also at the local level. Constituting a major change in the Turkish public financial management, local administrations are to prepare their own budget and manage it in line with their priorities. As another aspect of this decentralised mode of financial management, the law confirms administrative and financial autonomy of the regulatory authorities, and requires submission of the budgets of the municipalities and social security institutions directly to the Parliament, whilst submitting a copy to the Ministry of Finance.

The PFMCL also brings in important features of a modern accounting framework, including an accrual-based accounting system and consolidated reporting

requirements for the general government; and it establishes an official body for setting government accounting standards (World Bank, 2006b, 192). Furthermore, it introduces reporting requirements for public administrations' activities and their statistical information and aims at developing and maintaining a public accounting system in accordance with International Accounting Standards.

The contribution of performance based-budgeting to fiscal transparency is indicated in article 10: "Ministers shall inform the public within the first month of every fiscal year about the goals, objectives, strategies, assets, liabilities and annual performance programs of their administrations". The analytical budget code, which is stipulated in article 17, is another key change in the Turkish system for enhancing transparency:

> The expenditure and revenue proposals shall be prepared in line with the classification system, which is defined by the Ministry of Finance in line with international standards, to enable economic and financial analysis and to ensure accountability and transparency.

The Turkish Court of Accounts Law no. 6085[45] also provided an explicit reference to transparency in the first article stating its purpose and scope. Accordingly, the Turkish Court of Accounts would "carry out the duties of examining, auditing and taking final decision stemming from laws, in the framework of accountability and fiscal transparency in the public sector". Another significant step for transparency was taken regarding the publication of the TCA audit reports (audit opinions), except for the cases forbidden to be announced by laws, within fifteen days as of the submission of reports to the Turkish Grand National Assembly and related public administrations.

All in all, the post-crisis period was a turning point for the Turkish PFM owing to a number of crucial steps to restructure the whole system in a more transparent way. As reflected in the reports of the IFIs and the EU, alignment with international

standards and EU practices were taken into account whilst determining these steps. The legislative framework bringing about this change referred explicitly to the principles of good governance and sought to incorporate them into the newly established procedures and structures. The policy change that was reflected in the legislative framework was also reinforced with new structures. For instance, the Government Accounting Standards Board was established to determine the accounting and reporting standards applicable to general government agencies (OECD, 2008a: 3). Ever since the 1960s, research, planning and coordination units were created in public institutions so as to prepare their intra-organizational plans in compliance with national development plans. Nevertheless, these services were not used effectively (Sezen, 2011: 332). The PFMCL has transformed these units into strategy development directorates tasked with conducting research on the prioritisation of expenditures, preparation of strategic plans and conduct of internal control in each spending agency replacing the budget officer, who were employed by the Ministry of Finance in the previous system. Line ministries received full responsibility for managing their budgets. Other institutional structures were established in the MOF (performance based budgeting department) and in the SPO (strategic planning department) to prepare guidelines and the secondary legislation, undertake the piloting activities, provide training, and better respond to the newly defined structure. These structures can also be seen as concrete elements of the policy of fiscal decentralisation that was put into place through the PFMCL. Furthermore, Central Harmonization Unit for Financial Management and Control was established with the prime responsibility for developing the legislation and guidance on financial management and control as well as for handling queries from other administrations. Furthermore, more comprehensive and reliable fiscal data became available with the publication of the monthly release of budget realisation figures to the policy makers as well as to the citizens on a regular basis.

[45] Law no. 6085 on Turkish Court of Accounts, promulgated in the Official Gazette on 19 December 2010.

5.4.2. PUBLIC FINANCIAL MANAGEMENT FROM AN ACCOUNTABILITY PERSPECTIVE

The preliminary steps for enhancing accountability were taken with the Law on Public Finance and Debt Management no. 4749 in 2002. The law required the government to submit quarterly reports to the Parliament about the public debt stance and to brief the Plan and Budget Committee at least once a year of the Treasury's debt operations, which was a significant attempt to strengthen accountability (Atiyas and Emil, 2005: 27). Nevertheless, this step did not lead to a significant outcome in terms of accountability of the PFM as the limited scope of the budget and weakness of the accounting system continued to restraining compilation of reliable data. Therefore, the adoption of the PFMCL in December 2003 was a crucial milestone for accountability purposes as it addressed these structural weaknesses as well as establishing a clear line of accountability. Furthermore, it "introduced a clear separation of audit duties between budget centres, the Ministry of Finance and the Court of Accounts, and extended external audit to the remaining extra-budgetary funds".(European Commission, 2004b: 156)

Bringing in a well defined framework of responsibility and accountability for all relevant aspects of public finance management and control, the PFMCL refers to the principle of accountability in article 8:

> Those who are assigned duties and vested with authorities for the acquisition and utilization of public resources of all kind are accountable vis-à-vis the authorized bodies and responsible for the effective, economic and efficient acquisition, utilization, accounting and reporting of the resources on the basis of law, as well as for taking necessary measures to prevent the abuse of such resources.

The new public expenditure management system introduced by the PFMCL broadened the scope of audit in a number of dimensions (Gönenç *et al*, 2005: 48). Primarily, broadened scope of the budget through consolidation of extra-budgetary and quasi-fiscal spending also widened the scope of audit towards general

government activities. By creating wider categories of budget institutions, the law ensured the unity of the Budget. Secondly, the shift towards results-oriented budgeting moved the focus of audit from "*conformity of spending with appropriations"* to "*compliance of policies with objectives"*. Thirdly, the system envisages execution of internal control and audit within the framework of administrative accountability in the spending agencies. To this end, it sets the legal framework of internal control, risk management and audit of administrative processes. Fourthly, the TCA was tasked with the mandate of conducting external audit on behalf of the TGNA.

The financial control framework based on *internal control*, *internal audit* and *managerial accountability*- under the influence of the COSO/INTOSAI framework model and the PIFC concept of the European Union- was established in the Turkish PFM system. The objectives and coverage of internal control are set out in the PFMC Law as well as in the related secondary legislation. These documents cover both financial and other controls, relate to all officials involved in the transaction process, and are based on the five components of the COSO/INTOSAI standards (control environment, risk management, control activities, information and communication, and monitoring) (OECD-SIGMA, 2008: 2). With regard to internal audit, the fundamental requirements and tasks of internal audit, as well as the qualifications and appointment of internal auditors, are set out in the PFMC Law and in the relevant implementing legislation. Complementary to these functions, the Central Harmonisation Unit on Financial Management and Control, which is part of the PIFC framework, was established to regulate and co-ordinate internal control matters by providing guidance materials, developing training, and monitoring progress though the evaluation of reports provided by the administrations. Furthermore, the Internal Audit Coordination Board has been established to adopt internal audit guidelines and manuals for the full implementation of internal audit practices in Turkey. The Board also has served as an independent Central Harmonisation Unit to guide the process of introducing functionally independent internal audit. With regard to managerial accountability, the Law stipulates that the heads of public administrations are

responsible for the preparation and implementation of the strategic plans and budgets of their administration in conformity with the development plan, annual programs as well as with the strategic plan and performance objectives and service requirements of the administration; for effective, economic and efficient acquisition and utilization of the resources under their responsibility; for the prevention of losses and abuses of such resources; for monitoring and supervising of the operation of financial management and control system; and for the accomplishment of the duties and responsibilities defined in the Law (PFMCL, Article 11).

Concerning all these responsibilities mentioned above, the heads of administrations are accountable to the Minister, and to their local councils in local administrations. This is a major improvement, as the previous legislation did not identify who was accountable for expenditures of the spending agency. This is also a significant improvement in terms of striking the right balance between authority and responsibility (Sobacı, 2009: 212). Identification of the line of accountability is not only important for enhancing public accountability but also for more effective and efficient use of public resources. Internal control, internal audit and managerial accountability are concepts that reinforce each other. For a manager to ensure proper functioning of the system that he is accountable for, there should be a fully operational audit structure in place. Through audit findings, the manager can identify the weaknesses of the system and seek to resolve them on time. Effective internal financial control and audit improves the operational efficiency of public administrative units and enables greater flexibility in managing resources and a greater performance orientation in resource allocation.

Concerning external audit, Law No 4963 of July 2003 had already expanded the scope of the TCA external audit. As envisaged in this law, the circulars on "Addressing the General Audit Requests of the Turkish Grand National Assembly Presidency" and "Principles and Procedures for Assignment of Experts from outside of TCA" were issued in order to establish the auditing procedures within the

extended scope. The PFMCL has increased parliamentary control –to be carried out by the TCA on behalf of the Parliament- over the budget by clearly defining the concept of external audit and extending the mandate of the TCA. Based on the article 160 of the Constitution grants the mandate of auditing all accounts related to revenues, expenditures and properties of the government departments financed by general and subsidiary budgets to the Turkish Court of Accounts, article 68 of the PFMCL indicates that the TCA may audit all general government organisations (central government, local administrations and social security funds). Laying the basis for external audit not only in terms of compliance with the rules but also in terms of performance assessment, the *ex ante* control (right of control prior to expenditure) and *ex post* audit (right of audit only after expenditure) mandate of the Turkish Court of Accounts was abolished whilst the scope of its external audit mandate was extended to cover general government administrations including audit of military stocks, presidential accounts, as well as of accounts of the Parliament.

The constitutional amendment adopted in May 2004 with Law No: 5170 was another positive development enhancing transparency and accountability in the public sector, as it eliminated the principle of confidentiality in the audit of state property acquired for military purposes. The Constitution was also amended in 2005 explicitly mandating the TCA to audit social security institutions and local administrations. A draft law revising the Turkish Court of Accounts Law in line with these amendments and the new public financial management structure was submitted to Parliament in February 2005 and was eventually adopted in December 2010. The delay in adoption and the shortcomings of this delay was indicated in a number of technical reports such as the Annual Progress Reports of the EU from 2006 to 2009, the Accession Partnership Document of 2008 as well as in the reports of the IFIs. Eventually adopted in 2010, the new TCA Law expanded the audit mandate of the TCA to all public sectors and provided a legal basis for expanding the scope of the TCA to include the performance and financial audits along with the compliance audit (World Bank, 2006b, 188). As part of the extended mandate, TCA is to provide audit

opinions to the Turkish Grand National Assembly (TGNA) on the financial accounts for each public administration as well as on the activities of “state economic enterprises”, whilst continuing to produce an “opinion” on the General Conformity Statements.

Furthermore, the performance based budgeting has an impact on accountability. As indicated in the previous section on transparency, the Public Financial Management and Control Law introduces functional budgeting in all areas of public spending. As a result, the Government, the Parliament and the public are provided with a clear description of the policy objectives pursued by expenditures for both *ex ante* deliberations on budget priorities and arbitrages, and *ex post* discussions on achievements. "The introduction of accountability reports breaks with a long tradition of providing Parliament with financial reports only". (World Bank, 2006b: 197). Apart from serving as tools for transparency, accountability reports are also important for ensuring the accountability of the financial decisions of public institutions (Sobacı, 2009:212). Following the end of the fiscal year, the Turkish Court of Accounts audits the budgetary expenditure and issues a statement of conformity, which evaluates the extent to which actual expenditures are realized according to laws and regulations, including the budget law. As the TCA carries out this audit on behalf of the Parliament, the statement of conformity is the means through which the Parliament examines whether the government has deviated from what it has declared in the budget about how it is going to use public funds (Atiyas and Emil, 2005: 8). The Parliament then passes a final accounts bill that finalizes the fiscal year’s financial accounts and clears the government. As stipulated in article 41 of the Law, the heads of public administrations and authorizing officers to whom appropriations are allocated in the budget are to issue accountability reports each year. Public administrations within the scope of central government and social security institutions submit a copy of their administration accountability reports to the Court of Accounts and to the Ministry of Finance. Except for the reports of local administrations, the TCA shall submit to the TGNA the administration accountability

reports, the general accountability report on local administrations and the general accountability reports, which present its own opinions considering external audit results. Within the framework of these reports and evaluations, the Turkish Grand National Assembly monitors the public administrations' management and accountability with regard to the acquisition and utilization of public resources. Submission of these reports accompanied by the Turkish Court of Accounts' audit reports to the Parliament and publication of these reports are important steps for reinforcing the Parliamentary and civic oversight of the budget as well as for strengthening the role of the Parliament in the process of accountability (Sobacı, 2009: 213).

As in the case of transparency, the legislative framework adopted in the post-crises period bringing about change in the PFM explicitly referred to accountability as a principle of good governance and sought to incorporate it into the newly established procedures and structures. The policy change that was reflected in the legislative framework was also reinforced with new structures.

5.5. ANALYSING THE FACTORS FOR POLICY CHANGE: CHANNELS OF POLICY TRANSFER IN ACCESSION ORIENTED REFORM

5.5.1. ENDOGENOUS FACTORS FOR REFORM

5.5.1.1. State-Market-Society Relations

Although this phase of neo-liberalism in Turkey was seen as a process of re-building state capacity in line with the requirements of a globalized market economy, it was rather the emergence of a "regulatory state" or a "competition state"(Öniş, 2009: 429). Similar to many other emerging market economies, the transition from the import-substitution model to neo-liberal reforms was "not accompanied by a parallel transition and institutional adaptation from an inward-oriented developmentalist state to an outward-oriented competition state" (Öniş, 2009: 411). The Washington Consensus assumed that, legal and institutional reinforcement by way of reforms

would naturally follow market liberalization. Nevertheless, it did not hold true in Turkey mainly due to the weakness of state capacity, which did not enable the achievement of macroeconomic stability and resulted in consecutive crises (Öniş, 2009: 411).

In the late 1990s, the fiscal crisis of the Turkish state had "reached its limits, forcing the politicians and the public at large to seriously reconsider the feasibility of continuing on a populist trajectory" Öniş (2003b: 10). This consensus was one of the reasons for the government to adopt a three-year disinflation program in 1998, engage in a staff monitoring program and eventually sign a stand-by arrangement with the IMF without a recent economic crisis.

The devastating crises in 2000 and 2001 revealed that "not only the size of the state in the overall economy but also the [very] existence and capability of the state to change the rules of the game" in a timely and effective way was also very important (Central Bank, 2002: 64). As a result, the policy-makers in Turkey started to emphasize strong regulatory institutions. This was also in line with the emerging Post-Washington consensus, which gave more of a role to the state, in the late 1990s. As a part of the Post-Washington consensus, the IFIs started to attach more importance to institutional reforms than before and revised their conditionality with a greater emphasis of institutional and regulatory reform (Öniş and Şenses, 2005). Consequently, the role of the state in Turkey was based both on de-regulation[46] and some form of re-regulation[47], despite the fact that the basic parameters of the Washington Consensus' deregulation bias never went away. In this period, the regulatory role of the state was supported and strengthened by the EU reforms (Şener, 2008: 7), not least because a strong regulatory capacity for the state is a precondition for EU accession. In such a consensus environment, efforts for ensuring

[46]De-regulation seeks to reduce the role of the state in economic affairs including elimination of controls over key relative prices.

[47] Re-regulation refers to the development of regulatory capacities of the state, both in terms of setting up new institutions and of increasing their powers of implementation.

"fiscal discipline improving the transparency and accountability of the budgetary process" as the elements of re-regulation (Çanakçı, 2005) could be materialized.

One of the first steps towards reinforcing the regulatory role of the state was the adoption of the "Transition to a Strong Economy" Programme", which aimed at short-term stabilization and restructuring the relation between the state and economy. The overall strategy of the 2001 "Transition to a Strong Economy" Programme was that the government would take significant measures to reduce uncertainty in the financial markets; to stabilize the monetary and foreign exchange markets; to establish macro-economic balances (Central Bank, 2002: 53). These measures were not only for enhancing the functioning of domestic markets but also for accelerating the integration of national markets into global market structures.

Although the government that adopted the Transition to a Strong Economy Programme was no longer in power within a year, its successor declared its adherence to the commitments of the Programme and continued to build on the regulatory role of the state. It can thus be argued that market forces put an implicit pressure on governments to maintain the momentum of economic recovery process and this pressure also became an instrument of political reform (Öniş and Bakır, 2007: 155).

On the other hand, the patrimonial state and its reflection on state-market-society relations in the form of "patronage politics" were dominant in the Turkish framework up until the overwhelming crisis in 2001. Atiyas and Emil (2005: 11) explain this in game theoretic terms: "distributive politics is an equilibrium that is very difficult to move away from. In the Turkish case, what triggered movement away from this equilibrium, or more correctly, what disrupted the equilibrium was the crisis that finally made distributive politics financially unsustainable". The crisis and the unavailability of public funds provided the government with new incentives for the government to conduct political competition less on the basis of distributive politics

and more on the basis of promises of better public policy and governance (Atiyas and Emil, 2005: 27). The banking system and the budget execution were reflecting the dominant distributive policies as the Turkish financial sector functioned more as a finance house to accommodate the ever-increasing government borrowing, than an intermediary between the firms and the households (Central Bank, 2002: 65) and the extra budgetary funds were the tools for disbursing rent. Consequently, the snowballing debt stock augmented by high real interest rates that the state had to pay resulted in bank failures and bank takeovers; thus public finance became unsustainable. Therefore, restructuring the banking sector and the public finance management became priorities of the reform agenda in the early 2000s.

The devastating earthquakes in August and November 1999, which led to a human toll of 18,000 people, 50,000 injured and 600,000 homeless, brought a massive phycial damage absorbed primarily by the public sector. This exceptional public spending was estimated at around three per cent of GDP (Gönenç et al., 2005: 10). Next to the financial aspect, the 1999 earthquakes were a turning point for a number of reasons. First, they revealed the vulnerability of the Turkish state apparatus to unforeseen disasters. More concretely, immediate action by governmental institutions was needed to build new schools and hospitals in the region. However, the rigid procedures for public expenditure to be made by the line ministries proved to be a significant factor hampering timely and effective measures.

The failure to provide such services in an organised and timely manner "was associated, in the public mind, with a failure of the state". (Sözen and Shaw, 2003: 118). Secondly, line ministries, faced with criticism by the people and manyNGOs, exerted pressure on the Prime Ministry and the Ministry of Finance to revise the procedures for public expenditure management (Interviewee 4). These kind of pressures coupled with the economic difficulties led the government to "recognize the need to strengthen fiscal transparency as part of its adjustment and reform program" (WB and the IMF, 2003). Thirdly, it revealed the importance of having

intermediate associations and a functioning civil society. Contrary to the inability of the public institutions, members of a voluntary organization - Search and Rescue Association (AKUT)- proved to be very efficient in rescuing the injured people (Sözen and Shaw, 2003: 118). It mobilized 150 rescuers immediately after the earthquake. As a result, AKUT was nominated as the most reliable institution in a survey conducted by TESEV in the aftermath of the disaster.[48]

The damage of the earthquakes in 1999 and the depth of the economic crises of 2000 and 2001 changed the balance of power in Turkey's political economy in favour of the "pro-reform coalition" (Öniş and Bakır, 2007: 153). Hermann (cited in Ataç and Grünewald, 2008: 34) (126) argues that the most important achievement of IMF and EU conditionality has been to build up a "fire-wall" between the state and the economy. Consequently, political resistance to structural reforms was broken and the IMF [as well as the World Bank and the EU] started to gain power (Cangöz, 2010: 189). Eventually, the "pro-reform coalition", the nucleus of which was formed by the epistemic community in 1995 comprised of the national and international officials, academics, and consultants experienced in PFM, started to expand towards other interest groups and civil society organisations. Domestic business groups (both large and small and medium-sized businesses) "were broadly in favour of the economic and political reforms promoted by the IMF and the EU" as the combination of political and economic reforms would lead to a rule-based economy, "transcending the highly unstable and perverse patterns of development of the previous era where economic success largely depended on clientelistic political ties and easy access to state favors" (Öniş, 2009:419). Furthermore, the impact of the crisis on all segments of the society gave rise to emergence of a "vocal pro-EU coalition" and broader public.

This "pro-reform coalition" corresponds to the "advocacy coalition" defined by Sabatier. The overlap between the analyses of the SHAC on Restructuring Public

[48] http://www.akut.org.tr/?sf=icerik&icerikktg=45 retrieved on 8 January 2013.

Financial Management and Fiscal Transparency, (former) senior officials and the ones provided by the IFIs and the EU in this period verifies the very existence of this advocacy coalition, which has a consensus of the weaknesses and is convinced that there is "no alternative apart from restructuring the PFM" (Interviewee 8). The business community as a whole, representing big as well as small and medium-sized interests, considered the IMF and the WB conditions as a means of integrating with world markets. The EU process, moreover, was seen as a way of ensuring economic stability, attracting foreign investments and ensuring the conditions for competitiveness (Ülgen, 2006: 5). The position of TÜSİAD overlapped with the reform demands of international organizations (Sezen, 2011: 338). Furthermore, TOBB as well as a number of NGOs such as the Economic Development Foundation (İKV) and the Turkish Economic and Social Studies Foundation (TESEV), which are supported by the private sector also supported reforms by means of their publications and reports (*Ibid.*) The trade unions also agreed with the government on the need for structural reforms (European Commission, 1999: 22). TOBB issued the Public Administration Reform Review in 2001. Likewise, TÜSİAD published the Findings of the Public Sector Reform Survey in 2002. It is also noteworthy that although the governments since 2002 have failed to reach consensus with the opposition parties on public administration reform, public financial management reform was not seriously contested in the political arena. Likewise, the party programmes of CHP, DYP, MHP and DTP for 2007 and 2011 elections were either supportive of the implementation of the Public Financial Management and Control Law or silent about it, indicating tacit acceptance of the government's proposals.

In the aftermath of the crises, the advocacy coalition exerted pressure on the government to reform public financial management "from a centrally managed rigid decision-making structure to a transparent and pluralist policy-making and execution mechanism (Cangöz, 2010: 189). The improved relations with the EU in the early 2000s reinforced this advocacy coalition even further. The coalition continued with a

“bipartisan” nature as there was consensus among the ruling and the opposition parties regarding EU accession (Eralp, 2009: 155).

Although the pluralist budgeting approach has not been fully operational in the Turkish context, Turkey’s integration with global economic and financial infrastructure has brought in external pressure to address the demands of various segments of the society, which has eventually increased awareness among civil society organisations about the significance of budget and participatory budgeting (Cangöz, 2010: 192). TESEV analysed the fiscal institutions in Turkey and published a book on transparency in the public finance in 2000. Parallel to the adoption of the PFMCL, it carried out projects on the status of fiscal management in Turkey, the need for improving fiscal transparency, and the main areas where international best practices could be adopted. Based on the indicators of the IMF Code on Fiscal Transparency, TESEV established a fiscal transparency index in 2003. The index focused on the transparency of boundaries between fiscal and non-fiscal organisations; the accessibility of fiscal information; the transparency of the budget preparation and approval cycle; the effectiveness of budget implementation and control; the efficacy of Parliamentarian auditing and surveillance; and the administrative autonomy in the production of fiscal data (Gönenç *et al*, 2005: 25). Based on this index, TESEV issued fiscal transparency monitoring reports. This function was later on taken over by another think tank, Economic Policy Research Foundation of Turkey (TEPAV). TÜSİAD Published a report entitled "Turkish Economy in 2008- Public Finance" in 2008.

Another civil society organization active in this domain is the Transparency International Turkey Chapter, which regularly publishes a Corruption Perceptions Index. Comparing 178 countries in terms of various aspects of corruption, this index draws on surveys and assessments from 10 institutions, which are the African Development Bank, the Asian Development Bank, the Bertelsmann Foundation, the Economist Intelligence Unit, Freedom House, Global Insight, International Institute

for Management Development, Political and Economic Risk Consultancy, the World Economic Forum, and the World Bank. Apart from providing citizens with a regular feedback on how public expenditures are managed, these initiatives are significant in two respects: first, they demonstrate the increased involvement of the civil society organizations in the improvement of public financial management. Secondly, they are good examples of voluntary policy transfer between the international and civil society organizations.

"The accession process lost its bipartisan nature" and the advocacy coalition loosened up as of 2006 as the EU accession negotiations slowed down following the 2006 Brussels EU Summit decision[49] to freeze negotiations on eight chapters and not to close any chapters, until the Turkish government meets its commitments regarding the Additional Protocol (Eralp, 2009:163). This atmosphere had an impact on the public financial management reform drive accelerated by the EU pre-accession process, which can be seen in the pending of adoption of the TCA Law in the TGNA for five years. The fact that it was pending in the Parliament for so long, despite being part of IFI conditionality, verifies the importance of the accession perspective. When the accession perspective is clear, the reform efforts accelerate. When this perspective gets blurred, the reforms can be delayed regardless of other forms of conditionality involved.

In this period, the relation between state and society in terms of Checkel's framework moved from an absolute "state above society structure" towards a "corporatist structure", in which political elites still enjoy a significant role in bringing about normative change; however, the societal actors can exert pressure on them through various policy networks. Nevertheless, this does not mean that populism and clientism have completely disappeared. On the contrary, populism, clientism and opportunism have been an impediment to the creation of the idea of a common good among the members of the civil society which did not enable the

development of a dynamic consensus (Heper and Yıldırım, 2011: 12). As the state remained "too strong for flourishing an egalitarian relationship between itself and civil society", civil society could not develop enough to act as "an efficacious countervailing power vis-à -vis the state" (*Ibid*.) This can also be seen in the fact that although civil society organisations are numerous in Turkey in this period, "their qualitative impact on political life is relatively trivial" (Şimşek, 2004: 46). There is not a structured consultation mechanism between public institutions and civil society organisations, within which the latter's feedback can be channelled into the decisions taken by the former (Interviewee 10).

Despite the visibly increasing and strengthening civil society organizations, their participation in the decision-making mechanisms has not yet been structured. What made the difference in this period with regard to the materialization of the PFM reform was the emergence of an epistemic community, which also gave rise to the formation of an advocacy coalition. This coalition mainly comprised of key bureaucrats from the Ministry of Finance, Undersecretariat of Treasury, State Planning Organization, civil society organizations such as TESEV, business associations such as TÜSİAD. This advocacy coalition was influential with the visible help of the accession prospect. Through various tools such as the SAHC on Restructuring Public Financial Management and Fiscal Transparency, reports issued by the IFIs and the EU, the advocacy coalition produced a stimulus for policy change.

Even after the accession prospect became less clear and the advocacy coalition for reform has weakened as a result of this, the genie is out of the bottle regarding increased interaction between the state and society. Therefore, we can see efforts to maintain a link between the state and the civil society organizations even after 2006. For instance, the Communication Strategy adopted by the Ministry of EU Affairs in 2010 is a significant step to this end, as it envisages working with civil society

[49] Council of the European Union, Brussels European Council 14/15 December 2006, Presidency

organizations on a regular basis (interviewee 6). Moreover, CSOs and market actors are represented in decision-making bodies of some of the independent regulatory agencies, which were established in the 2000s primarily “as a result of international organizations’ requests and changes in state economic functions” (Sezen, 2011: 333).

Nevertheless, the process of maturation in state-society relations is far from complete. Acquiring the characterisitics of a liberal, pluralist polity and if one hypothesizes that this is the desired policy goal would mean further deep changes in state-society relations in Turkey. Above everything else, there is a need of raising awareness among society about the concept of "taxpayer's money" in the sense that the taxpayers would monitor how their tax is spent; and of “a civil society collaboration convinced that corruption is a disease damaging the social and political as well as economic and fiscal structures” (Barun, 2007: 24).

5.5.1.2. Relations between the Executive and Bureaucracy

Despite the crises and broadly shared opinion that there was an urgent need for reform, initially in 2001 there was lack of leadership and coherence across the range of reforms which required integration (Scott, 2007: 71). What was put in place instead were *ad hoc* ministerial committees, mostly established due to the conditions attached to the loans of the IFIs, and focusing on particular issues (*Ibid.*). This situation started to change following the appointment of Kemal Derviş as Economy Minister, who had been a senior official in the World Bank during the 1990s. Together with a group of bureaucrats, he drafted and started the implementation of the “Transition to a Strong Economy Programme”. Being a member of a transnational policy community and having worked in the World Bank like Turgut Özal, he was a significant actor in enabling policy transfer. He translated policy ideas and policy paradigms into domestic policy, as well as facilitating policy formulation and implementation (Öniş and Bakır, 2007: 154). He worked with a team of

technocrats, who enjoyed a certain degree of autonomy, in close cooperation with the IFIs (Öniş and Bakır, 2007: 154). Similar to the Özal period, there was a re-concentration of power around Derviş and his economic team, playing a key role in the transition to regulatory neo-liberalism. (Öniş, 2010: 49) Unlike the Özal period, which involved "a re-concentration of power in an authoritarian environment", the re-concentration of power around Derviş "occurred within a democratic environment, as he was "a transnational technocrat armoured with extraordinary ministerial powers" (*Ibid*.). The presence of Derviş did not only facilitate the policy transfer process but also proved to be crucial for securing a large scale sustained assistance from international financial institutions (Öniş, 2009: 418).

Although there was a technocrat like Derviş and an advocacy coalition for reform in place, the politicians did not show a clear ownership of the IMF-supported "Transition to a Strong Economy" Program and the reforms were pushed through by a group of technocrats in the absence of political cohesion (Arpac and Bird, 2009: 147). As the then Minister of Economy Kemal Derviş indicated in an interview, there was a "pro-reform bureaucracy already in existence [when he took up his position] and they were waiting for [the] reforms" and one of his tasks was to "convince politicians on the necessity of implementing reforms" (Arpac and Bird, 2009: 149). Nevertheless, "politicians owned only certain parts of the program and were prepared to blame bureaucrats and the IMF for the other parts" (Then Undersecretary of the Treasury Faik Oztrak quoted in Arpac and Bird, 2009: 147). Furthermore, there was also resistance among some other bureaucrats to the draft PFMCL (Interviewees 1, 3 and 4, 9) despite the existence of a core group of bureaucrats in favour of reform. The then Minister of Finance Sümer Oral at a conference in December 2001 stated openly that reform was difficult due to the resistance from various groups (Scott, 2007: 61). As a result, the steps taken in 2001-2002 towards improving the public financial management in line with the good governance agenda remained pilot projects and could not be translated into major policy change up until the adoption of the PFMCL in December 2003. The drafting of the PFMCL started in 2001 and was

adopted after two years (Interviewee 9). Even after the adoption in 2003, it entered into force mostly in 2006 due to opposition from the bureaucracy as well as from within the government itself; since then, it has been amended a number of times (Güven, 2010: 20).

In 2001, two years before the enactment of the PFMCL, the Ministry of Finance launched the Project "Continuous Quality Improvement and Restructuring the Public Budgeting System", which was a piloting exercise on performance based budgeting. In May 2002, The Ministry of Interior submitted a letter to the local administrations - entitled "Improving Good Governance"- informing them about the launch of the Programme of "Transition from Bureaucratic Culture to Citizen Oriented Public Services Culture" (Ministry of Development, 2012: 29). This programme entailed measures encouraging participatory decision making and strategic management. Although the impact of these initiatives was very limited, they are significant in terms of demonstrating how the epistemic community established in 1995 incrementally pursued the necessary steps for introducing the principles of good governance in public financial management. The phases of voluntary transfer such as "elite and cognitive mobilisation", "interaction" and "evaluation" occurred, although the evaluation could not be translated into a decision binding for all public administration. These initiatives failed to bear result as they could not secure an overall commitment to carry on these efforts.

The reform could only be materialised once the commitment of the executive was secured (Interviewee 2). The agreements signed with the IFIs and EU requirements in the pre-accession process in this period were also important parameters for public financial management reform (Sobacı, 2009: 228) and encouraged the executive to take into account the policy recommendations of the advocacy coalition. As mentioned under the previous period, the IFIs and the EU were instrumental in accelerating the policy transfer processes between the bureaucrats and the executive.

The AKP government, which assumed power with a comfortable majority in 2002, showed commitment and willingness to continue the policies agreed with the IMF and the EU as it was "critical in terms of generating confidence among key elements of domestic and external capital and was instrumental in generating a relatively smooth... recovery process" (Öniş, 2009: 428). Apart from the credibility secured through these anchors, the compliance between people's complaints and reform discourses (reduction of bureaucracy, transparency, accountability, etc.) as well as the support provided by the media and by business circles for reforms enabled the government to take bold reform initiatives (Sezen, 2011: 339). In doing so, the AKP government referred to the reform processes in the developing world in its discourse and justified the reform initiatives as: "Shall we stay behind the developed world?" (*Ibid.*) The adoption of this particular discourse verifies the argument made above about the government's modernization credentials and desire to see Turkey among the core group of developed states.

With the adoption of the PFMCL, the concept of "change management" also entered the public administration system in Turkey. The PFM reform involved a dramatic change in the budgeting culture, which required time and technical capacity for sustainable outcomes (OECD, 2008a: 11). As a result, the Prime Ministry issued a circular on the course of action to be taken for the implementation of the Public Financial Management and Control Law in April 2005. The Prime Ministry Circular 2005/10[50] established a "Steering Committee for Change" to manage the change process under the co-ordination of the Ministry of Finance with the participation of the Undersecretaries of the Ministry, as well as the participation of senior managers from the relevant administrations. In parallel, all public institutions falling under the category of general government were to establish "change management teams". As of May 2005, the Committee would hold regular meetings to ensure that the change initiatives in the public sphere would be carried out in a harmonious manner with the knowledge, guidance and support of senior management. Apart from bringing in a

[50]The circular was published in the Official Gazette on 21 April 2005.

new approach to the Turkish public administration, this structure also serves as a voluntary policy transfer channel among the bureaucrats of various administrations to ensure reform sustainability. Apart from the domestic mechanisms of policy transfer, the circular also refers to the twinning project on "Alignment of the Turkish Public Internal Financial Control System with International Standards and EU practices" between the Turkish Ministry of Finance and the French Ministry of Economy, Finance and Industry. This project was also indicated in the 2003 NPAA and was carried out in 2005 as part of the efforts for harmonisation of the legislation with the EU *acquis* and the establishment of the necessary institutional set-up. The explicit reference in the Circular to the twinning project can be interpreted as the official acknowledgement of twinning projects as a means of policy transfer between the bureaucrats in EU Member States and in Turkey. Taking into account the recommendations provided and experiences acquired during these twinning projects, the PFMCL was amended on 22 December 2005 by Law no. 5436 and on 25 April 2007 by Law no. 5628. The amendment in 2005 to "eliminate expected implementation problems" was also a performance indicator under the PFPSAL III with the World Bank. For instance, Law 5436 redefined the structure and functions of Strategy Development Departments and Head of Departments, financial service experts and their assignment and training process.

All in all, the endogenous factors for policy change in this period had different elements than the previous period of analysis. The state-market relations had improved with the institutionalisation of the liberal economy and as a result of the re-regulatory role of the state. The state-society relations also improved as a result of strengthening civil society organizations, reduced possibilities to pursue patronage politics. The relations between the executive and bureaucracy have become more efficient with the evolution of a group of bureaucrats who had studied in reputable universities and are in regular contact with the international organizations and counterparts in other national administrations. With the strengthening of these actors, the governments both felt the pressure to reform but also received support from these

actors to bring about the actual changes to the PFM. The earthquakes in 1999, the consecutive economic crises triggered the endogenous actors to take action.

5.5.2. EXOGENOUS FACTORS FOR REFORM

5.5.2.1. Relations with the International Financial Institutions

The involvement of the IMF and the World Bank in the post-1999 period was mainly on financial and public sector reform. In line with the division of labour between these two institutions, the IMF had the mandate to promote macroeconomic stability and financial stability ; the WB on the other hand had the task of encouraging economic development, increasing productivity, and thus raising the standard of living. In other words, the IMF was mainly concerned with short-term policy recommendations whilst the World Bank was in charge of ensuring the sustainability of these policy changes in the medium and long-term (Interviewee 8). Turkey requested the IMF to carry out a fiscal ROSC in 1999 and the World Bank to conduct a Public Expenditure and Institutional Review (PEIR) in early 2000, which also entailed a Country Financial Accountability Assessment (CFAA), which were well noted in the EU Progress Report (2000: 68-69). Despite the absence of an economic crisis which has traditionally been one of the main triggering factors for reform in the public sector, the government took the iniative to look for alternative means to reform the public expenditure management system already in 1999. As part of a World Bank project, an *ad hoc* team of Treasury, SPO and MoF officials was established in 2000 with the aim of producing comprehensive general government accounts for the period 1995-2000. The International Monetary Fund (IMF) has also established a monitoring system of the fiscal stance in ge*neral government terms,* which focused on the key and fiscally most risky components of public finances. (Gönenç et. Al, 2005: 20). In this context, one can talk about a voluntary policy transfer iniative for this period. The reasons for this pro-active handling, which is rarely seen in the reform history of the Turkish Public Administration, may be identified with the Earthquakes raising awareness about the importance of sound

public financial management mechanism, increasing the conviction and determination of the bureaucratic elite about the necessity of permanent solutions (interviewee 8) and the prospect of EU membership. The majority of the senior officials attending a workshop organized by the World Bank in December 2001 confirmed that the findings of the PEIR reflected this reality (Scott, 2007: 62) and there was no alternative but reform (Interviewee 8). Following the shortcomings of the crises, the senior bureaucrats were convinced about the need for PFM reforms (Interviewee 9). Based on the analysis of the PEIR, the slogan of the pro-reform coalition at the time was "mismanagement should be replaced by good governance" (Interviewee 11).

This conviction among the bureaucrats, which was not restrained by the executive, provided the government with "leadership in public expenditure work" (WB and the IMF, 2003: 22), which had a positive impact on the content and relevance of the reports of the IMF and the WB in two aspects. First and upon the request of the government, the result of the reviews by the WB and the IMF was a consistent analysis and a set of recommendations, reflecting the consensus between these organisations. Within this context, the Deputy Undersecretary of the Treasury was heading a working group comprised of officials from the World Bank and the Turkish administration. The World Bank was *de facto* the lead agency on public expenditure issues whilst ensuring close collaboration with the IMF (Interviewee 3). For instance, the PEIR ensured consistency with the IMF fiscal ROSC report regarding the budget system. Furthermore, the Bank provided the government and the IMF with policy notes on expenditure issues in key sectors, which enabled the design of a fiscal framework consistent with appropriate expenditure programs in those sectors (WB and the IMF, 2003: 22). Despite the consistency between the policy analysis and recommendations between the IMF and the WB, their priorities in terms of conditionality sometimes differed, leading to cross-conditionalities (Interviewee 8). Nevertheless, this problem was resolved through the establishment of regular communication channels. Secondly and although the government had

already carried out a review of the budget system, it requested these reviews "to build an internal consensus on the identification of key problems and a reform strategy" (Interviewee 8). Eventually, the PEIR Working group became a vivid platform for policy discussion and the Turkish officials used PEIR as a leverage for working with the WB more comfortably (Interviewee 4).

Eventually, the twin economic crises in 2000 and 2001 made the public financial management reform a building block under the IMF-Supported Program (Interviewee 3). Thus, the type of policy transfer has shifted towards the coercive end of the continuum. The main goals of the Stand-By agreement in 2001 was identified by the then Chairman of the IMF as combating corruption and separating economics from politics (Cizre and Yeldan, 2005). In a statement made after the approval of a stand-by credit to Turkey, Anne Krüger, First Deputy Managing Director of the IMF underlined the need of structural reforms in the PFM: "To be sustainable, the achievement of the overall budget targets will need to be underpinned by decisive reforms in public employment and budget mechanisms" (Scott, 2007: 59).

Following the publication of the PEIR and CFAA reports in 2001, cooperation between Turkey and the WB continued within the framework of Bank's Programmatic Financial and Public Sector Adjustment Loan (PFPSAL), assisting the Turkish authorities in implementing policy reforms in the area of public management including public financial management and control, law, justice and finance sectors.[51] Tukey signed the PFPSAL -1, PFPSAL -2 and PFPSAL-3 agreements with the World Bank in 2001, 2002 and 2004 respectively. In line with the conditionality of the Loan, Turkey committed itself to initiating public expenditure reform, improving policy- making capacity, introducing strategic planning in the public sector (Ministry of Development, 2012: 6), reducing the extent of off-budget operations, increasing transparency and accountability of the remaining extra-budgetary funds, improving the management of the SEEs, and introducing a

[51] http://web.worldbank.org, retrieved on 8 January 2013.

medium-term budget framework (IMF, 2002: 19). Consequently, Turkey received the Programmatic Public Sector Development Policy Loan (PPSDPL) from the World Bank in 2006 and 2008.

The loan in 2006 provided support in the area of macro-economic framework which would ensure sustainability of growth, social security and social support reform, public financial and expenditure management reform, public administration and governance reform (World Bank, 2006a). The 2008 loan focused on the implementation of the PFMCL and the secondary legislation, strategic planning, accrual-based accounting in the public institutions in terms of public financial and expenditure management, strengthening the judiciary system concerning public administration and governance reform, decentralisation and regional development (World Bank, 2008). The submission of the TCA Law, which identifies TCA as supreme audit institution and changes its focus from pre-approval of expenditures to financial and performance audit, to the Parliament was one of the conditions for the release of the first tranche of the PFPSAL II (World Bank, 2008: 34).The submission of the Extra-Budgetary Funds Law to t Parliament was one of the performance benchmarks for release of the (first tranche) of the PFPSAL III and its enactment was one of the conditions for release of second tranche core conditions of the PFPSAL III (World Bank, 2008: 37). In addition to these loans, the World Bank published a Public Expenditure Review in 2006, the year in which the PFMCL was almost fully in force.

The IMF provides policy advice on public expenditure either in form of surveillance or through Fund-supported programs, which entails conditionality by means of prior actions, performance criteria, or structural benchmarks. The form of relations between Turkey and the IMF was based on surveillance of the IMF Staff over the Turkish fiscal management after the 1994 Stability Programme. Taking into consideration the effects of high inflation and interest rates on Turkey's economic performance over the last 25 years, the government focused on an economic program

which aimed to "free the country from inflation and enhance the prospects for growth and for a higher standard of living for all parts of society"[52]. Thus, a disinflation and fiscal adjustment program was initiated on 22 December 1999, which was supported by a Standby arrangement with the International Monetary Fund.

When Turkey applied to the IMF in 2001, it came across with a new approach, according to which the entire assistance was conditional upon the government's provision of the necessary legal framework and political system reforms *in advance* (Turhan, 2008: 266, emphasis added). As a result, all stand-by arrangements ever since entailed similar conditionality. The main condition under this scheme was compliance with fiscal benchmarks. Accordingly, a primary surplus (primary revenues minus non-interest expenditures of central government) objective was set as a performance criterion to monitor the development of the fiscal position at general government level in general and the bottom-line fiscal position through a primary surplus of the consolidated government sector in particular. The structural conditions required in the IMF facilities were mainly related to taxation, public expenditure management, and financial sector reform (Independent Evaluation Office, 2007: 4).

Turkey carried out the 17th stand-by program between 1999 and 2002. Next, Turkey launched its 18th stand-by program on 4 February 2002. From December 1999 to 2004 and with the exception of 2001, output grew significantly while inflation fell to single digits. The government restored the confidence of citizens and investors by introducing structural changes in economic policymaking and management of public finances, the most important of which was ensuring fiscal discipline[53]. The first Letter of Intent outlining the 18th SBA entailed for the first time a comprehensive reform process in the field of public finance, which involved agriculture reform, social security reform, public financial management and taxation (Yılmaz, 2010:

[52] Letter of Intent submitted by the Turkish Government to the IMF, 9 December 1999.

[53] Interview with Kemal Derviş by Uğur Koçbaş published in Vatan daily, 26 September 2012.

221). The steps for these structural reforms were clearly indicated and the level of conditionality related to the fulfilment of these structural benchmarks remarkably increased. The submission of the "Public Finance and Debt Management Law" became a structuctural benchmark in the Letter of Intent of 22 June 2000[54] with the deadline of end-June 2001, although it was finally adopted in March 2002. The submission of a draft law on "financial management and internal control" to Parliament by mid-2002 apperared as a structural benchmark in the Letter of Intent submitted to the IMF on 20 November 2001.[55] This deadline was revised in the Letter of Intent of 3 April 2002[56] as end-June 2002. In July 2002, the submission of this law to Parliament became a "prior action for the [third] review under the SBA".[57] Eventually and as the November 2002 elections took place in between, it was submitted to Parliament on 23 October 2003.

Another example of policy transfer through conditionality could be found in the Letter of Intent of 25 July 2003[58], which indicated that the draft of the Public Financial Management and Control Law was approved at a Ministerial meeting on July 17, "taking into account Bank/Fund comments". The fiscal reform was a clear requirement for underpinning the fiscal adjustment and reducing the public debt overhang (Interviewees 3 and 4), reestablishing confidence in the international markets by showing that the fiscal adjustment was permanent and also by fulfilling the requirements of the EU within the framework of accession (Interviewee 4). The relevance to the EU framework was explicitly mentioned in the Letters of Intent. For instance, it was stated that "a seminar was organised in March [2002] to ensure

[54] http://www.imf.org/external/np/loi/2000/tur/02/index.htm retrieved on 9 February 2013.

[55] http://www.imf.org/external/np/loi/2001/tur/05/index.htm retrieved on 9 February 2013.

[56] http://www.imf.org/external/np/loi/2002/tur/02/index.htm retrieved on 9 February 2013.

[57] http://www.imf.org/external/np/loi/2002/tur/04/index.htm retrieved on 9 February 2013.

[58] http://www.imf.org/external/np/loi/2003/tur/02/index.htm retrieved on 9 February 2013.

consistency with EU practices"[59]. Likewise, the Letter of Intent of 19 June 2002[60] stated that the governmet would "send [Public Financial Management and Internal Control Law] to parliament after consulting with the relevant domestic agencies and the World Bank, IMF, and EU".

To support the reform program, Turkey requested a new three-year stand-by arrangement with the Fund (May 2005–May 2008). Therefore, a month before the end of the program, the due date was extended to 10 May 2008 with the 19th stand-by agreement. The programme aimed at further structural reforms such as restructuring the political and social life through medium-term budgeting and financial reforms in relation to social security, pensions and general health insurance, which would in general imply privatisation of those services (Sönmez, 2009: 62). It was also "in line with the Pre-Accession Economic Programme, which was submitted to the EU Commission in December 2004" (Başçı, 2007: 77).

As a background document ahead of this SBA, the IMF conducted a second ROSC in parallel to the WB-PER in 2006. The 19th SBA was the first one that Turkey successfully completed without any interruption. Following the completion of the 19th SBA, the IMF launched post-program monitoring immediately after the end of the stand-by program. Entitled as "Article IV consultations", these analyses serve as the main tool for exercising surveillance over members' policies. In this post-program monitoring, an IMF delegation visits Turkey periodically, as in a normal stand-by program, and prepares reports about Turkey's economic situation and performance. The difference is that the result of this analysis does not involve access to credit. These reports are monitored by international investors and corporations and they play an important part in determining Turkey's global financial credibility.

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[59] Letter of Intent of 3 April 2002 http://www.imf.org/external/np/loi/2002/tur/02/index.htm retrieved on 9 February 2013.

[60] http://www.imf.org/external/np/loi/2002/tur/02/index.htm retrieved on 9 February 2013.

In the period of 1999 and 2008, Turkey emerged as the biggest client of the IFIs in the decade preceding the global crisis with a combined IMF-WB portfolio of more than USD 50 billion (Güven, 2010: 3). Unlike the previous period of analysis, there was a continuous relationship between Turkey and the IFIs in this period. In the case of the IMF, this was mainly shaped by the SBAs and continued with article IV consultations after the completion of the SBAs. The relations with the WB, which were essentially inaugurated in 1995 developed further under the loan agreements complementary to the SBAs with the IMF. The analysis and the recommendations of the WB provided in the 1995 PFM Project were similar to the ones in the PEIR in 2000, which is a clear indication that there was not a change in the situation ever since. In the 2000s, there were channels of discussion between the exogenous actors and the government. As a result, we observe a number of key reform initiatives born out of these contacts.

5.5.2.2. Relations with the EU: Pre-Accession and Conditionality

Following the 1999 Helsinki Summit, which granted EU candidacy status to Turkey, the 2002 Copenhagen Summit signalled the opening of accession negotiations on the condition that Turkey meets the Copenhagen criteria by December 2004. This generated strong political will and public support for institutional reforms (Öniş and Bakır, 2007: 156). The laws on debt management and public financial management were adopted within this context. The Brussels Summit in December 2004 confirmed the EU's commitment to start off the process of accession negotiations. Following a significantly high number of legal and institutional changes up until 2004, the December 2004 Brussels Summit concluded that Turkey fulfilled the Copenhagen political criteria "sufficiently". Upon the adoption of the Negotiating Framework, the accession negotiations were launched on 3 October 2005, marking a new period in the relations between Turkey and the EU. Within this framework, the accession negotiation under chapter 32-financial control was launched in June 2007.

Ever since the 1999 Helsinki Summit, the relations between Turkey and EU attained a new dimension with the prospect of EU accession and significant increase in the availability of the funds, which introduced a completely different conditionality mechanism and leverage. Whilst analyzing how this process affected the relations and how influential it was in accelerating the reform efforts, it is also important to see how the conditionality attached to the EU enlargement policy operates and how/under what conditions it enables policy transfer.

5.5.2.2.1. EU conditionality

As was mentioned earlier, Europeanization is an important concept for member states and candidate countries alike. In fact, in some respects candidate states are more exposed to its potential effects than the Member States, and the principal reason is conditionality. As EU conditionality considerably affected the dynamics for policy change in the Turkish case, it should be analysed in detail.

The 1993 Copenhagen Summit set out a set of explicit criteria that future candidates would have to fulfil in order to become EU members. This was a milestone in conditionality, since it made the accession criteria explicit and created a reference point for all future candidates. The "Copenhagen Criteria" were spelled out in the Conclusions of the Presidency. The document read as follows:

> Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities including a stable democracy; (2) membership requires the existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the Union; and (3) membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union, competitive market economy, and a capacity to implement EU laws and policies.[61]

[61] http://ec.europa.eu/enlargement/enlargement_process/accession_process/criteria/index_en.htm retrieved on 10 January 2013.

The 1994 Essen European Council approved a pre-accession strategy comprising three elements: multilateral structured dialogue, re-oriented PHARE program and the White Paper. The White Paper of May 1995 provided candidate countries with details of the legislative and economic changes they needed to put in place. The Madrid European Council in 1995 added the requirement of administrative harmonization, in the sense that candidates were expected to not only transpose legislation into their domestic legal framework but also make sure that new legislation would be effectively implemented. This would then require both judicial and administrative structures capable of living up to the task set out by the EU. The 1997 Luxembourg Summit concluded that a further strengthening of institutions was required so as to improve them and make them more reliable. The 1999 Helsinki Summit declared that all candidates must share the values and objectives of the European Union as set out in the Treaties. Göksel (2001: 208) argues that the third Copenhagen criterion, namely "the ability to taken on the obligations of membership" followed by the Madrid, Luxembourg and Helsinki Council requirements "turns out to be a tool of Europeanization" as the explicitly set out requirements for the modification of national public administrations, a policy area traditionally monitored and modified exclusively by national authorities.

The ability of the EU to influence the policy direction of candidate countries in style as well as substance gets manifestly bigger through conditionality. According to Schimmelfenning and Sedelmeier (2004: 670), "the dominant logic underpinning EU conditionality is a bargaining strategy of reinforcement by reward, under which the EU provides external incentives for a target government to comply with its conditions". Conditionality is undoubtedly strong regarding the ability of the EU to exert pressure on states to change their policy. In other words, it is an important means for obligated policy transfer. That is the result of the highly asymmetrical relationship between the Union and the candidate states (Vachudova 1995). Despite the official proclamation of the EU conducting "negotiations" with the candidate country, the reality is that the candidate country ought to comply fully with the terms

of the *acquis* as specified by the Union and its room of manoeuvre is therefore very limited.

When we look at how conditionality was shaped particularly on financial control, we see that the first critical juncture for the Central and Eastern European Countries, which joined the European Union under the Eastern Enlargement round, was the demise of communism in 1989. The second one occurred with the crisis of governance in the mid 1990s. This crisis was primarily fiscal in nature. Escalating budget deficits provided a clear demonstration of the inability of governments to match their policy choices to adequate budgetary resources. The level of fiscal crisis varied: it was most severe in Bulgaria, grave in Hungary and Poland, and relatively modest in the Czech Republic. At the same time, the EU accession process further helped to focus attention on the coordination capacities of central governments (Grabbe, 2001). As the EU Commission and the Council of Ministers made clear, both the accession negotiations, and in particular, the efficient and effective transposition of the EU *acquis communautire* into national legislation and programmes required a degree of co-ordination that had thus far been absent in the weak core executives of most of the applicant countries. The crisis of governance of the mid-1990s served as "a catalyst that could set a new path for executive development, while the accession context helped to identify one of the key causes of the fiscal crisis, namely the relative weakness of co-ordinating devices within government" (Goetz, Dimitrov and Wollmann, 2006: 106).

In the words of Goetz *et al (2006)*, the importance of good governance came to the fore "once accession turned from an almost universally shared aspiration to an imminent reality" and "readiness for Europe" became more narrowly defined. "The virtual imposition of the Accession Partnerships on the candidate countries provides an illustration of the fundamental change in approach in the provision of EU assistance, from a demand-driven to an accession driven approach" (Verheijen, 2002: 255). Adoption of this particular reform agenda as defined by Brussels- from creating democratic governance to ensuring effective linkage and compliance- could be

explained in several ways. The incumbent member states were exerting pressure on the European Commission to ensure that pre-accession funds made available to the accession countries were used as intended. Coined as "protection of EC financial interest" under the negotiation chapter 28 (currently 32) - Financial Control, this request implied the efforts to increase the absorption capacity of prospective members (such as the creation of an institutional infrastructure for effective and efficient utilization of funds) and to guarantee financial probity (i.e. avoid financial mismanagement and irregularities) (Goetz, Dimitrov and Wollmann, 2006: 120).

Conditionality works through a series of different ways and tools. Grabbe (2001) summarizes those tools in a very succinct, self-explanatory manner. The tools are : a) *gate-keeping*, that is, the EU being the arbiter as to whether a country will be able to move to the next step in its accession process or whether more reforms need to be undertaken first; b) *models*, which stands for the Union providing templates of legislation as well as institutions that the candidates are invited – indeed encouraged– to adopt as their own; c) *financial power* through pre-accession funding which itself, in terms of size and duration, is a reflection of the candidate's progress in aligning closer with the EU; d) *advice and twinning*, which entails the transfer of expertise on the part of EU/member state administrative staff to the colleagues in the candidate country. This then allows candidates to strengthen their administrative capacity and become accustomed first-hand with modes of operation in the member states. Finally, Grabbe mentions e) *benchmarking and monitoring*, with the EU issuing regular Accession or Progress Reports. These are compiled by experienced EU staff and entail the annual assessment of candidates' performance in terms of EU requirements in all the different policy fields of the *acquis*. Publicly available and often a point of media and scholarly analysis, these Reports serve the purpose of close scrutiny of candidates' performance and complement other conditionality tools.

All of these tools have been applicable to Turkey in the case of public financial management. Following the screening meetings on 18 May 2006 and on 30 June 2006, the Negotiating Position of the Republic of Turkey was submitted to the

Commission on 13 April 2007. Consequently, the European Council concluded to open the chapter without any opening benchmarks on 26 June 2007 and determined the closing benchmarks.[62] This can be considered as an example for the gate-keeping role of the European Union. Although there is no hard *acquis* on financial control, the European Union promotes the PIFC concept and requires the candidate countries to adopt it. The concept envisages the establishment of structures such as the central harmonization units.

Regarding financial power, the amount of pre-accession funds granted to Turkey has incrementally increased since 1999. Being funded under the Turkey-EU Financial Cooperation Programmes, twinning projects serve as a means of harmonization with the EU *acquis* or EU practices. The EU-funded project "Alignment of the Turkish Public Internal Financial Control System with International Standards and EU's Practices"[63] composed of a twinning and a supply components had the following conditionality: "Signature of the contract on the supply of IT equipment and software will be subject to adoption of the law as amended with the comment provided via this project on Public Financial Management and Financial Control by the Parliament" (European Commission, 2003c: 13). The twinning component was carried out with the French Ministry of Economy, Finance and Industry. The Purpose of the project was to assist the Government of Turkey in establishing an efficient and effective public internal financial control (PIFC) system based upon international standards and EU practices. This was complemented by the twinning project "Strengthening the Public Financial Management and Control System in Turkey" [64] with the

[62] The website of the Ministry for EU Affairs of Turkey: http://www.abgs.gov.tr/index.php?p=97&l=2 retrieved on 14 March 2013.

[63] European Commission web-site: http://ec.europa.eu/enlargement/fiche_projet/document/TR%200302.04%20Public%20internal%20financial%20control.pdf retrieved on 15 February 2013.

[64] European Commission web-site: http://ec.europa.eu/enlargement/fiche_projet/work/TR%2007%2002%2009%20Public%20Financial%20Mgt&Control%20System%20in%20TK.pdf?CFID=21606332&CFTOKEN=56701af1c4f7f07f-700C00A9-B0AA-753E-791DE59A3235BC2E&jsessionid=0601accbcb601b332344 retrieved on 15 February 2013.

National Audit Office and the HM Exchequer of the United Kingdom. Furthermore, the project "Capacity Building for the Compilation of Accounting Data in All Institutions and Agencies within General Government Sector in the Context of E-Government"[65] with the Italian Ministry of Economy and Finance enabled Turkey to align its publishing of government financial accounts with the ESA 95 standards.

Likewise, the EU funded the Twinning Project "Strengthening the external audit capacity of the Turkish Court of Accounts"[66], which was carried out with the National Audit Office of the UK, and which supported the TCA in adequately assessing the quality of public sector management, accountability, control and audit and helped the TCA obtain an adequate response to its recommendations for improvement as well as ensure the effectiveness and efficiency of the public financial control systems in Turkey. The supply part of the project was conditional: "The signature of contract on supply of the IT equipment and software except for the part allocated for the training is subject to submission of the draft law on the Framework law of TCA to the Parliament". Furthermore, the adoption of the TCA Law has been one of the closing benchmarks for the negotiation chapter 32-financial control (Barun, 2007: 21). The practice of linking the release of funds to adoption or submission of legislation to the Parliament was abandoned in the 2005 Programming on the basis of experiences under previous programming cycles. In terms of benchmarking, the pre-accession process was guided by the Pre-Accession Strategy[67]

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[65] European Commission web-site: http://ec.europa.eu/enlargement/fiche_projet/work/PF%202005%2003.15%20Capacity%20building%20for%20the%20compilation%20of%20accounting%20data.pdf?CFID=573818&CFTOKEN=17162401&jsessionid=06019a1e6421303b632e retrieved on 15 February 2013.

[66] European Commission web-site: http://ec.europa.eu/enlargement/fiche_projet/work/TR%200302.05%20Strengthening%20audit%20capacity%20of%20Turkish%20Court%20of%20Accounts.pdf?CFID=21606332&CFTOKEN=56701af1c4f7f07f-700C00A9-B0AA-753E-791DE59A3235BC2E&jsessionid=0601accbcb601b332344 retrieved on 15 February 2013.

[67] The EU Glossary indicates that "The pre-accession strategy offers a 'structured dialogue' between the candidate countries and the EU institutions throughout the accession process, providing all the parties with a framework and the necessary instruments". http://europa.eu/legislation_summaries/glossary/preaccession_strategy_en.htm retrieved on 29 December 2012.

for Turkey to stimulate and support its reforms in the accession process and the Accession Partnership Document providing a map of required reform areas for the *acquis* alignment.

In line with the Pre-Accession Strategy for Turkey, the Commission prepared an Accession Partnership Document for Turkey in November 2000, and the European Council adopted the document on 8 March 2001. In line with the Accession Partnership Document, Turkey prepared and submitted its National Programme for the Adoption of the EU Acquis in March 2001. The Accession Partnership was updated in 2003, 2006 and 2008 and the NPAA was updated in 2003 and in 2008. These documents present the most ambitious programme of Europeanization in Turkey with clearly stated objectives (Müftüler-Baç, 2005: 20).

The 2003 Accession Partnership indicated a desire for the "adopt[ion of] legislation on public internal financial control in accordance with EU practice and internationally agreed control and audit standards and ensure its effective implementation" as well as the "Full harmoniz[ation] of government finance statistics with the ESA 95 requirements" as short term priorities whilst referring to the "adopt[ion of] new legislation to reform the external audit function in accordance with INTOSAI rules, to ensure the independence of the Court of Accounts, to abolish the ex ante control functions of the Turkish Court of Accounts, and to develop the mechanisms of systems-based and performance audit" as a medium term priority (European Council, 2003). The 2006 AP, which was issued after the adoption of the PFMCL stated that Turkey should "ensure the timely implementation of the Law on Public Financial Management and Control" and "adopt new legislation to reform the external audit function in accordance with International Organisation of Supreme Audit Institutions rules and in compliance with the law on public financial management and control, to ensure the independence of the Court of Accounts" in the short term (European Council, 2006).

The "adopt[ion] and implement[ation of] legislation on the Court of Accounts" was repeated in the 2008 AP (European Council, 2008). Furthermore, the 2008 AP indicated that Turkey should "pursue reform of public administration and personnel policy in order to ensure greater efficiency, accountability and transparency and adopt an updated Public Internal Financial Control (PIFC) Policy Paper and derived PIFC legislation" (European Commission, 2008b). In response to the requirements in the AP documents, the 2001 NPAA indicated that in the medium term, "all necessary legal amendments have to be completed and strategies to deal with problems that may arise at the implementation stage should be identified"; and "the fragmented nature of the financial control system [would] be transformed into independent units performing to the same standards and using modern auditing methods". “Adoption of the public internal financial control legislation in accordance with international control and audit standards and EU practice” and “legislation amendment in the external audit field compatible with EU and international external audit standards” were indicated as priorities in the 2003 NPAA.

The 2008 NPAA, which was published in the aftermath of the PFMCL, determined the “adoption of an updated public internal financial control (PIFC) policy paper and derived public internal financial control legislation” as a priority in full compliance with the 2008 AP. Regarding external audit, the 2008 NPAA stated that “adoption of pending legislation to guarantee the functioning of the Turkish Court of Accounts in line with the International organisation of supreme audit institutions (INTOSAI) standards and guidelines” would take place in 2009, which was materialized in December 2010.

With regard to monitoring, the European Commission’s Annual Progress Reports on Turkey in 1999, 2000, 2001 and 2002 indicated that budgetary practices, accounting standards and the transparency of the budget system needed improvement, while internal and external audit functions should be reviewed. From the 2004 Progress Report onwards, the EU analyzed the progress and weaknesses regarding the

implementation of the PFMCL, and pointed out the need to adopt the legislation on external audit to complement the newly created PFM mechanism. These analyses were reflected in detail under section 5.4 Public Financial Management from a Good Governance Perspective.

5.5.2.2.2. The EU as a Commitment Device

As discussed earlier, the EU conditionality occurs in the cases of both development cooperation and EU accession, whereas this thesis is concerned with the latter. Domestic change in member states and candidate countries does not come about the same way, and the set of expectations surrounding candidates' perception is different. As the reward for introducing change is associated with EU membership, the incentive on the part of candidates to comply with EU prescriptions is markedly higher (Vachudova 2005). Yet conditionality is a rather active form of EU leverage that follows on what Vachudova has described as the EU's passive leverage.

The term attaches less importance to conditionality but its salience should not be underestimated. Passive leverage entails those EU attractions related to economic benefits (the internal market and EU transfers) as well as political ones (the protection afforded by the Union's clear rules and the ability to influence policy direction by sitting on the EU table). These exist independently of conditionality and relate to the obvious benefits of membership that make it a pole of attraction for Central and East European states, as well as for the western Balkans, Turkey as well as aspiring candidates such as Ukraine and Georgia. There is a series of reasons according to which the ability of the EU to act as a pool of attraction entails additional benefits for candidate states or at least entices them to reform some of their governance structures. First, EU leverage enhances domestic stability and offers all principal political actors the safety net of Europe in their handling with one another as well as the outside world (Bronk, 2002). This then, allows for the rules of the domestic political game to be designed in a way conducive to the long-term goal of membership and therefore be characterized by a certain degree of moderation and

consensus-seeking. Moreover, the stability of rules and subsequent political moderation "locks in" such benefits, in the sense that the state in question enhances its international reputation and builds up a relationship of trust with the international financial community (Ibid.) There is hardly a better example in the recent enlargement literature than Turkey.

After the 1999 Helsinki Summit and as the EU anchor became entrenched in the domestic political environment of the Republic of Turkey, foreign direct investment rose significantly. In the eyes of international investors, Turkey was not only a developing economy, but also a country whose EU prospect guaranteed that progress in legislation and policy implementation would continue in the foreseeable future. Moreover, the possibility of reversing progress would gradually get diminished (Grabbe 2002) and the framework within which policy was taking place would remain stable regardless of other changes that could occur. This is particularly true for economic policy and particularly in light of the global economic consensus on the need to maintain a liberally-minded macroeconomic policy framework. EU conditionality was thus a critical variable in influencing the path of post-crisis adjustment in Turkey (Öniş, 2009:417). The importance of economic growth for candidates is an important aspect in this discussion, and the Turkish example verifies the importance of the EU anchor in enhancing economic performance in the medium term.

Another very significant aspect of this issue and the ability of the EU to function as a commitment device is the effect it has on domestic groups opposing reform. In this respect, the EU served as a long-term institutional anchor for promoting stability and breaking down long-standing resistance to reform in Turkey (Öniş, 2009:417). It created "opportunities for re-building state capacity and emerging from a deep financial crisis in a relatively smooth manner" (Öniş, 2009:412). Justifying the reform process as a requirement imposed by external factors, the pre-accession process enables governments to engage in "externalisation" (Uğur, 2003: 176), which can initiate a strong reform process reinforcing policy transfer mechanisms.

“The EU membership target alleviates the acceptance of some reforms that would otherwise have been faced with keen resistance of social opposition”. (Turhan, 2008: 271). They will over time see their power base diminish and the need to maintain their legitimacy increasingly questions whether they should oppose reforms in domestic policy favoured by the EU (Duman and Tsarouhas, 2006). With reduced legitimacy they will over time lose a large part of their power base and eventually be unable to resist change. Veto players (Tsebelis 2000) against the EU have little chance in this environment, even if they are able to use some of their tools for a while. Moreover, the very function of the EU offers incentives to not only minimize change but instead accelerate it further, thus enhancing the pace of dissolution of domestic veto players.

Contrary to arguments that the EU enlargement is only a one-way relation from the EU to the candidate country (Bulmer, 2000), the accession process brings in opportunities for candidate countries to initiate reforms (Şener, 2008). Domestic reformers will use the EU, not least in rhetorical and discursive terms, to diminish the influence of the opposition and enhance their credibility in the eyes of the international community. What is important to stress here is that this is not necessarily always reflecting a *genuine* commitment to EU-like reforms; it suffices to claim to introduce reform in the name of the EU, even if the eventual policy goal is not necessarily in agreement with the Union’s aims and objectives. For instance, the eighth development plan, which addressed the major reform period, had a special section on "relations with the EU" which was not maintained in the ninth development plan.

As discussed in detail in the previous section, the government coordinated the technical support from the Bank and the Fund. These reviews were complemented by the European Commission, with a view to enabling the government to meet the European Union’s (EU) financial management related requirements both for the use of pre-accession funds and within the scope of the negotiation chapter 32-financial

control[68]. On 19 September 2001 (de Koning, 2007: 113), six years before the start of accession negotiations on this chapter, the Ministry of Finance of Turkey and the Directorate General of Budget of the European Commission (DG Budget) signed the Administrative Cooperation Agreement (ACA) (European Commission, 2006b: 3). Being a declaration of intent to cooperate, the purpose of ACAs is "to support the national authorities in continuing their internal reforms" in the area of PIFC (de Koning, 2007: 113). As a part of the ACA, Turkey received technical guidance from DG Budget whilst drafting the Public Financial Management and Control Law; and adopted a Public Internal Financial Control (PIFC) Policy Paper outlining the future development of its public internal control systems (Interviewee 9). Therefore, it would not be wrong to assert that the pressure for change of the public financial management came not only from the line ministries but also from the EU, as the EU had a particular interest on a possible revision in the Budget Law, financial management and control system in Turkey (Interviewee 4). Apart from ensuring a well-functioning PFM, Turkey needed to have a sound and transparent financial management and control system to absorb the EU funds during the pre-acession phase as well as the Structural Funds upon accession (Interviewee 4).

The Helsinki European Council provided a powerful incentive for undertaking both political and economic reforms in Turkey (Öniş, 2003b: 9) as the EU entered into the picture as a second anchor. Despite the problems encountered in the accession process, “the accession process itself has already contributed to institutional change and structural reforms by both serving as a concrete target to attain and a benchmark to satisfy” (Turhan, 2008: 271). In this respect, the EU did not only serve as policy transfer network by providing experiences and examples for the Turkish reform initiatives, but also accelerated the policy transfer. The policy process was completed more smoothly as the form of this policy transfer was obligated, which was less coercive than the IFI-led policy transfer; and the process was reinforced by the official discourse referring to the EU as a commitment device.

[68] At the time, this chapter was numbered as Chapter 28-financial control.

5.5.3. INTERACTION BETWEEN THE ENDOGENOUS AND EXOGENOUS FACTORS FOR REFORM

The reform efforts in PFM started in 2000 by means of abolishing extra-budgetary funds and consolidating government accounts. Reducing the number of extra-budgetary funds were structural benchmarks in the Letter of Intents. These measures, however, were far from bringing a sustainable solution to the surmounted problem of the system, which could not be financed any longer. On the other hand, the devastating earthquake in the Marmara region revealed the weaknesses of the state in addressing the needs of the citizens in a timely manner, raised civil society awareness about the need for pressurizing the government to reform public expenditure management not only in an effective and efficient, but also in a transparent and accountable way.

As a result, the governments came to realize that they could no longer resort to quick-fixes and had to introduce structural reforms to introduce fiscal discipline, adjust fiscal tools and structures with the domestic and global changes, and increase transparency and accountability in PFM. Contrary to the previous one which was the one of "deviation from the fiscal discipline", this period was the "surge for fiscal discipline". The crucial elements that made a difference between these two periods were the *magnitude of the crisis*, which is identified in table 10, *consensus among the domestic actors regarding the need for a sustainable reform*, *involvement of the EU as a second anchor owing to the EU accession prospect* and the *convergence between the policies of the IFIs and the EU in determining the change*.

Table 10 Characteristics of Economic Crises in Turkey in 2000s (adapted from Öniş, 2003b: 4-5 and Öniş, 2010: 59)

	2000-2001
Nature of the Crises	Balance of payments crisis caused by successive speculative attacks and massive outflows of capital leading to the collapse of growth and heavy unemployment in 2001. Both internal and external imbalances are important.
Source of the Crises	Predominantly domestically generated crises although negative external shocks also had some impact.
International Actors in the Post Crisis Context	IMF is the critical actor both in the pre- and post-crisis era; the role of the EU is decisive for the first time. IMF and EU anchors are increasingly interrelated. World Bank is also involved as a secondary actor.
Nature of Post-Crisis Recovery	Typically quite rapid due to a combination of previously delayed major policy adjustments and significant external financial assistance. A decisive turning point; the impact of the changed international environment and the presence of a powerful EU anchor are significant.

The consecutive crisis in 2000 and 2001 paved the way for political change and economic transformation by revealing the inherent deficiencies of "Turkish version of neo-liberalism during the 1990s" (Öniş, 2009:410). Thereafter, the speed and scope of structural reforms have substantially increased (European Commission, 2001a: 36).

Whilst referring to the consensus among the domestic actors, it should be noted that the organisation and influence of these actors were not the same in both periods. In comparison to the previous period, civil society was now more developed. With the initial fiscal measures to introduce fiscal discipline, the governments could no longer resort to clientism and patronage politics as much as they used to do. On the other hand, the economic crises created "opportunity space" for the governments to introduce radical changes (Öniş, 2009:410). Following the crises, there was a widespread desire across all sections of society to take whatever measures were necessary to avoid similar crises again (Arpac and Bird, 2009: 147). The bureaucrats, market forces and a large part of civil society broadly shared the view that substantial restructuring was essential. There was support from the public to these views as a result of the increasing awareness among society about corruption and the importance of efficiency in public services. In the words of Scott (2007: 64), there was "a sea change in willingness to finally tackle long-standing, widely accepted, well-researched and serious weaknesses in fiscal policy and fiscal institutions".

The convergence of political and bureaucratic will, as well as a high degree of domestic societal mobilization for institutional reforms in the direction of strengthening state capacity was already in place (Öniş and Bakır, 2007: 149). With the involvement of the external actors, namely the IFIs and the EU, the consensus became more structured. Beside internal insufficiencies of the Turkish public administration system, there were a number of external factors accelerating the need for reform (Kapucu, 2006). The global expansion and liberation policies within economic and commercial fields and the capital market, proposals for structural change from the global actors such as the International Monetary Fund, the World Bank and the World Trade Organization, the expansion of human rights and political participation in democratic societies throughout the world, candidacy for the European Union Membership and the requirements of the EU *acquis* for restructuring in the social, economic, political and administrative domains.

Combined with the financial crises, the EU anchor, which entered the Turkish political seen in this period as indicated in *table 9*, helped to create a suitable environment for the restructuring of the accepted neo-liberal model to make it more compatible with the objective of sustained economic growth (Öniş, 2009: 411). The reform efforts were both triggered and justified with the EU accession process. Therefore, we can identify this period as the one of accession-oriented reform.

In this period, the endogenous actors were more willing but also more at ease in promoting a reform process. The IFIs and their conditionality mechanisms were also present like in the previous period. However, it was the EU factor, which served as a commitment device with a set of predetermined and time-bound requirements. In this sense, the EU factor was crucial in creating an environment conducive to substantial reform accompanied by restructuring in the aftermath of the crisis, which was naturally followed by the SBA conditions to achieve fiscal discipline.

The orientation towards good governance was strengthened by the overwhelming public support for EU membership, which already required significant improvements in the policy-making capacity of the state (Atiyas and Emil, 2005: 27). Therefore, it would not be wrong to say that "the EU is a powerful external actor inducing internal change" (Müftüler Baç, 2005: 20). Consequently, the Turkish government adopted a "major package of financial and economic reforms," which was "intended to overcome the crises and to help meet the economic criteria for EU membership" in the aftermath of the November 2000 and February 2001 crises (European Commission, 2001a: 14). Unlike the previous stabilization programmes, this one entailed structural reforms with a focus on PFM.

From the 1999 Helsinki Summit up until the 2001 economic crisis, the EU was much more focused on the political side of the reform process leaving the economic side mostly to the IMF as there was an ongoing IMF programme (Öniş and Bakır, 2007: 155) and as part of "an implicit division of labour" between them (Öniş, 2009:415).

In the early 2000s, there were consultation meetings between the EU and the IFIs although there was not an established consultation mechanism (Interviewees 9 and 10). Afterwards, the EU became more prominent both in the public appearance and in the official discourse. Öniş (2009: 423) explains this change as the "shifts of power among the key actors", which also reflects the difference between the adjustment-oriented reform, which is highly influenced by the IFI conditionality, and the accession-oriented reform, which is dominated by EU conditionality. The OECD SIGMA provided expertise in drafting of the new PFM legislative framework which also involved the IMF, World Bank and the EU (Interviewee 11). Although "the IMF and the World Bank were also in the kitchen during drafting, it was presented as a part of the EU requirements by the government (Interviewee 8). In a nationally organized discourse, references to external actors would be very rare, whilst one can see many references to the European level in Europeanised public discourse (Diez et al.: 2005:7). In the case of Turkey, the official discourse hardly entails references to the IMF and the WB. One of the exceptions was the interview given by the former Prime Minister Ecevit as he mentioned that most of laws enacted in the late early 2000s had the quality to "meet the demands of the IMF, The World Bank and the EU" (Cumhuriyet, 2002: 5). With regard to the EU, however, there have been various references to the Maastricht Criteria in the national development plans (eigth and ninth), in the announcements of the annual fiscal performance figures although Turkey, as a candidate country, is not bound by these criteria. These references can be seen in the speeches of the then Finance Minister Unakıtan, the current Finance Minister Şimşek and the Deputy Prime Minister Babacan.[69] The 2005 Pre-accession Economic Program document indicated that securing price stability, reducing the public sector deficit and debt to GDP ratios must be priorities if the macro-economic policies are to converge with the Maastricht criteria (World Bank, 2006b: 183). More specifically, EU requirements have found place in the justifications of the legislation

[69] Former Minister Unakıtan's speech on 07 January 2008; the press conference of Minister Babacan on 2 April 2004; Minister Şimşek's speech on 5 Deecember 2010.

(Sobacı, 2009: 228). The justification document attached to the PFMCL[70], when submitted to Parliament, indicated the purpose of the draft law as "changing the current system to make it more effective, establishing a public financial management and control system in line with the EU norms and international standards, as envisaged in the National Plan for the Adoption of the Acquis and the Policy Paper". The justification of the Turkish Court of Accounts Law no. 6085 also indicates that "audit is considered as a primary element of a sound and accountable system. These elements were already indicated in the eighth and ninth development plans as well as the policy documents related to the alignment with the European Union".[71] It is also observed during negotiations among public agencies that when one claims that "this or that is an EU request', objections often diminish (Sezen, 2011:339).

The requirements of the EU accession process and the IFI conditionality were in compliance with the regulatory role of the state and thus did not change the direction of Turkish administrative reform. On the contrary, they reinforced it. The IFIs and the EU continued to provide channels to transfer good governance principles into national decision-making mechanisms. Contrary to the previous period, these channels were used efficiently to complete the process with the transfer of good governance principles into the Turkish Public Administration in general and in the Turkish Public Financial Management in particular.

The EU and the IFIs "played a significant and complementary role" in accelerating political and economic transformation (Öniş and Bakır, 2007: 147). The EU encouraged the reforms determined as a prerequisite for IMF and WB loans (Sezen, 2011: 332). Moreover, most of the economic reforms foreseen under the IMF program coincided with the requirements for fulfilling the EU economic criteria. (Eder, 2003: 219). The IFIs and the EU have mediated the domestic policy change in

[70] Letter of the Prime Ministry Directorate General of Legislation and Decisions to the Turkish Grand National Assembly, number.4735, date. 23 October 2003.

[71] www.sayistay.gov.tr/.../6085/6085_Gerekce.pdf retrieved on 26 January 2013.

PFM in Turkey to the extent that their requirements in this domain mutually reinforced each other (Göksel, 2011: 365). The economic agenda set out in the Commission's progress report considerably overlapped with that of the IMF (Ataç and Grünewald, 2008: 31; Eder, 2003: 227; Göksel, 2011: 317; Öniş and Şenses, 2007: 271). Therefore, the majority of the Turkish public considered the IMF style reforms as an instrument for attaining EU membership (Öniş, 2009: 420). In this respect, the law of public financial management and control is an example of convergence between the EU and the IMF requirements. It was explicitly indicated in the Letter of Intent of 20 November 2001[72] that Turkey would enact the Public Finance Management and Internal Control Law by mid-2002 to comply with the EU economic criteria and "to enhance public sector resource management more generally". Likewise, the Pre-Accession Economic Programme submitted by Turkey to the European Union in 2006 adhered to economic policy agreed in particular in the stand-by arrangement with the IMF and in the Country Assistance Strategy with the World Bank, revised in 2006 (EC, 2007: 26). Moreover, the 2003 Accession Partnership Document acknowledged the IMF orientation and stated that Turkey should "ensure the implementation of the current disinflation and structural reform programme agreed with the IMF and the World Bank, in particular, ensure the control of public expenditure" (European Commission, 2003d: 13).

The 2005 Accession Partnership reiterated that Turkey should "continue to implement the current structural reform programme agreed with the IMF and the World Bank, in particular, ensure the control of public expenditure". The institutional reflection of this EU-IMF convergence occurred in the status of the Minister of State for Economic Affairs was combined with the status of the Chief Negotiator under the personality of Ali Babacan between 2005 and 2007 (Şener, 2008:7).

[72] http://www.imf.org/external/np/loi/2001/tur/05/index.htm retrieved on 9 February 2013.

We also see convergence between the IFI and the EU in terms of their financial assistance provided to Turkey. The 2001 Accession Partnership indicated that "the grant resources available under the Accession Partnership served as seed money and a catalyst for larger amounts of development finance from the IFI", in particular the World Bank, with a view to facilitating the co-financing of projects relating to pre-accession priorities (Göksel, 2011: 317). The 2003 Accession Partnership indicated that the financial support of IMF and the World Bank was considered to complement the EU's pre-accession financial assistance to Turkey. Moreover, the WB- as a part of the agreement between the World Bank and the EU[73]- provided Turkey with USD 17 billion to assist in her efforts to meet the EU accession requirements.

With the presence of an accession prospect, there were two anchors for policy reform whist the orientation of the reform efforts were towards the EU accession rather than adjustment to the globalizing world. On the latter front, Turkey had already taken some steps previously. Within the context of our proxy utilization, we could argue that the influence of Europeanization on the Turkish Public Administration was considerably higher than that of globalization. Nevertheless, it should be noted the EU accession process was also used as a commitment device to meet the IFI conditions. Therefore, we can conclude that Europeanization served as an enabler of globalization regarding policy change in the domain of PFM. Moreover, there was convergence between globalization and Europeanization as their policy recommendations were reinforcing each other.

As mentioned earlier, the level or degree of transfer may differ based on the actor(s) dominating the process of policy transfer (Dolowitz and Marsh, 2000) Politicians may opt for quick-fixes which would tend to be in the form of copying or emulation; whereas bureaucrats are more likely to be more interested in combinations, which

[73] The World Bank and EU Integration, retrieved on 1 October 2012. http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EUEINPEXTN/0,,contentMDK:20408902~menuPK:590774~pagePK:141137~piPK:141127~theSitePK:590766,00.html#MOU

entail mixtures of several diverse policies. Being more of a bureaucrat initiative, we can argue that the level of policy transfer in the PFM domain in this period was mainly in the form of combinations between the IFI and the EU requirements, which shaped the good governance agenda.

Both of the exogenous factors, namely the IFIs and the EU, helped domestic policy-makers reverse resistance stemming from some of the domestic interest groups to tight fiscal discipline and accompanying structural reforms (Öniş and Bakır, 2007: 148). However, it should be noted that the recommendations of the IFIs were already on the table as a result of their analyses from 1995 onwards. Furthermore, they were almost identical to the ones in 2000s, revealing that the governments had not addressed them in the mean time. Therefore, it would not be plausible to relate these reforms only to the international actors. Reality is more complicated as the very interaction between these international factors and national factors deferred or paved the way for the eventual materialization of the reform initiatives. As argued by Güven (2010: 2), IFI-guided institutional restructuring needs a number of pre-conditions for success such as "a propitious environment marked by powerful international norms, widely accepted design templates, bureaucratic preparedness, and endorsement from key domestic players". In this regard, the economic crisis, which affected almost all segments of the society, and the EU membership perspective were very instrumental in "generating a broad consensus on the need to achieve macroeconomic stability and making a clean break with the clientism and corruption, which had characterized the previous era" (Öniş, 2009: 428). As the former Minister of Finance Sümer Oral points out: "while the conditionality included in IMF programs did not change, the crisis unambiguously revealed the need for the policies to be carried through" (Arpac and Bird, 2009: 149). Therefore, economic crises should be seen as the "trigger" while the EU and the IFIs can be regarded as an "anchor" for administrative reforms. Without these factors, it would not have been easy to pass a significant number of legislation on a number of crucial issues. That is to say, "a combination of domestic and external dynamics" was instrumental in

changing the political and economic landscape in Turkey in the aftermath of the crisis (Öniş, 2009: 410).

The main driving forces behind the reform in this period were firstly the epistemic community already in place ever since 1995, the advocacy coalition formed by the bureaucrats, civil society organisations, academics supported by the IFIs and the EU and secondly the change in the perceptions of the domestic actors towards external actors, which were seen as crucial anchors for macro-economic stability in the aftermath of the crises (Göksel, 2011: 317). In this context, the IMF was seen as an anchor for macro-economic stability and the EU for political and regulatory reforms (Ülgen, 2006: 3). When the reform initiatives were oriented towards accession, the endogenous factors enabled the exogenous factors to guide the process of reform owing to the opportunity structures offered by the accession prospect. The endogenous factors used the EU requirements, which complied with their perception of national needs as well as the IFI conditions, as a commitment devise. The EU anchor also helped the IMF in surpassing the resistance of anti-reform forces (Öniş and Bakır, 2007: 155). In this respect, the EU was the enabler of the substantial policy change in PFM. The very interaction of the endogenous and exogenous factors for policy change also enabled the policy transfer networks to function. As a result, the policy transfer process was completed and the PFMCL and the TCA Law, which were drafted under the influence of the international standards and best practices, were enacted. What is also worth underlining is that although IFI conditionality, which was present in both of the periods, is more coercive, the policy transfer could only be completed after the involvement of the EU. The latter's form of conditionality is characterized by an obligated policy transfer, which is much less coercive than that of the IFIs. This being said, it should also be underlined that the proximity to the accession prospect is also very crucial in accelerating reform initiatives. When the accession perspective is clear, the reform efforts accelerate. When this perspective gets blurred, the reforms can be delayed regardless of other forms of conditionality involved, as observed in Turkey as of 2007.

CHAPTER 6

CONCLUSION

Most countries started reforming their administrations in the 1980s so as to cope with the demand of a globalising world. The goals of these reforms were increasing effectiveness, efficiency and productivity in the public sector, limited government, de-bureaucratization, as well as enhancing transparency and accountability. These goals were initially part of the New Public Management approach, which is strongly connected to the formulation of the Washington Consensus. Based on the lessons learnt from the implementation of this approach, and the negative distributional and economic implications that the "limited government" approach had in particular, there was a re-appreciation of the regulatory and beneficial role of the state. However, this re-appreciated state was not the one of the Old Public School, but more of a regulatory one. This inaugurated the Post-Washington Consensus period. The reform agenda was eventually coined as "good governance", and was actively shaped by the international organizations and the EU. For the purposes of this thesis, good governance is defined as the overall framework of principles and standards developed as a yardstick and promoted by the IFIs and the EU for both development and accession oriented reform.

Turkey was one of these countries that went through different phases of economic and administrative modernization ever since the 1980s. Seeking to analyse the dynamics against or behind policy change in Turkey in the area of Public Financial Management, which is a core component of public administration reform, this thesis sought to contribute to the literature primarily through an approach that integrates domestic (endogenous) and external (exogenous) factors in explaining domestic policy change. Endogenous factors were identified as state-market-society relations and the relations between the executive and bureaucracy. Exogenous factors, on the other hand, were the processes of globalisation and Europeanization, promoted by

the IFIs and the EU respectively. Secondly, the thesis has sought to contribute to the literature on policy transfer as well as the relationship between Europeanization and globalization. There is a growing literature on both issues, and the case study of Turkey and Public Financial Management offers useful insights into their further elaboration and understanding. Nevertheless, this study is likely to be one of the first case studies in the field of public financial management combining policy transfer approach with a process tracing methodology. It is also one of the few studies analyzing PFM in Turkey from a public policy and Europeanization-Globalization points of view.

The starting point of this analysis was that the relative salience of endogenous and/or exogenous factors depends on the type of reform undertaken by a particular country. Based on this hypothesis, the author categorized the type of reform as "adjustment" and "accession" oriented. A complementary hypothesis was that the IFIs and the EU shared the key elements of good governance and promoted it in various ways. Therefore, the analysis took place at two levels: (1) interaction *between* the domestic and external factors (2) interaction *among* the external factors. Whilst the first level provided us useful insights regarding the causes of change in public financial management policies and the structure of Turkish public administration, the second level enabled us to exemplify the relationship between the IFIs and the EU in shaping the "good governance" framework, which also gave us strong indications regarding the direction of relations between Europeanization and globalization.

Within this framework, *chapter 2* provided the research outline, methodology and theoretical framework. Public finance was determined as the policy domain to be analysed for policy change in Turkey. Within this framework, the policy transfer approach enabled us to identify the independent, dependent and mediating variables. The independent variable of this thesis was good governance as defined and conceptualized by the international organizations, whilst the dependent variable was domestic policy change in public finance. The mediating variables were the very important endogenous and exogenous factors for reform. With these variables in

mind, the thesis analyzed the very existence of convergence in Turkey's PFM with international standards and EU practices and the interaction of endogenous and exogenous factors in stimulating this change. In doing so, it sought to explain and analyze the evolution of Turkey's public financial management under the periods of adjustment-oriented and accession-oriented reform, which were determined as 1980-1999 and 1999 onwards respectively.

Adjustment-oriented reform began in 1980 and coincided with the start and subsequent embedding of economic liberalization in Turkey, which opened up and then consolidated major changes in the perception, understanding and operationalization of public financial management. The crunch point was the 1999 EU Helsinki Summit, which granted Turkey the candidacy status. The focus of the thesis was on the change and the interaction of the factors paving the way for change, but not the actual impact of this change. Doing so, the thesis embedded the analysis in the wider political and economic context within which reform had been delayed or undertaken. As a result, the thesis combined the exploration of a particular case study with the comparative method of looking at the twin set of factors, endogenous and exogenous, responsible for reform in two different periods. The role of these factors in influencing the direction as well as the content of reform in Turkey was explored through a process tracing methodological approach.

Chapter 3 helped us in identifying the evolution and scope of the independent variable, which is good governance as defined and conceptualized by the IFIs and the EU. With the same token, we referred to the processes of Europeanization and globalization, which have been promoted by the EU and the IFIs. This chapter started with identifying the definition and utilization of these processes and the literature focused on the relationship between them. Next, the emergence of the good governance as a multi-purpose reform agenda and its interpretation by the IFIs and the EU were discussed. Eventually, good governance was analyzed as both a point of convergence between Europeanization and globalization and a framework for policy transfer on public financial management.

Within this context, the analysis was geared at providing explanations to a series of research questions stemming from our original focus: How has Turkey's public financial management evolved since the 1980s? How influential was the good governance agenda in the evolution of public financial management in Turkey? Which factors enabled the transfer of good governance principles and led to domestic policy change in the field of public finance in Turkey? Did they act in isolation or was there a policy transfer from and/or interaction with the external actors? How have domestic factors influenced the reform initiatives? How do the IFIs and the EU interact in promoting/supporting good governance? Does this process lead to a form of convergence between their modes of operation, or do they maintain operational autonomy despite ideological similarities?

As analysed in *chapter 4*, the 1980s was the decade which led to the transformation of Turkish politics and economics, with important repercussions on society and the relationship between state, market and society. Starting with 24 January 1980, Turkish authorities embarked on a process of step-by-step economic liberalization that replaced the import substitution model and led to the adoption of an export-led model of economic growth. Although there were many efforts in the 1980s and the 1990s aiming at fully integrating Turkey to the world economy, the domestic economy could not adequately benefit from this integration (Central Bank, 2002: 58) and enjoy the stability associated with such integration. The underlying reasons for this, *inter alia*, can be identified as the "short-term orientation of economic policies by frequently changing coalition governments" and delayed structural reforms, particularly in the areas of banking, public finance and public management (Central Bank, 2002: 59). Furthermore, the "premature liberalization" of capital accounts in August 1989 without ensuring the necessary financial and administrative structures led to an "incomplete stabilization", making the Turkish economy more vulnerable to external shocks.

Table 11 Interaction of Factors for Policy Change in Turkish Public Financial Management

	Endogenous Factors for Policy Change	**Exogenous Factors for Policy Change**	**Interaction between these Factors**	**Outcome of the Interaction**
1980-1999 **Period of Adjustment Oriented Reform**	Economic liberalization Patronage politics "State above society" (Checkel, 1999) Formation of an Epistemic Community in 1995 Limited channels of cooperation between the executive and bureaucracy	IFI conditionality in place, though not reflected in the political discourse Relations with the EU is limited to the Customs Union- the EU is not an "anchor" Adjustment-oriented recipies without strict deadlines	Domestic policy actors do not feel the pressure to introduce long-term measures Domestic policy transfer channels are limited, international policy transfer channels are open Coersive Policy Transfer Endogenous factors are more dominant than the exogenous factors in determining the reform priorities	Quick-fixes to the problems No major structural refom in PFM The policy transfer process is halted where the decision enters the policy cycle and implementation starts

Table 11 (continued)

Endogenous Factors for Policy Change	Exogenous Factors for Policy Change	Interaction between these Factors	Outcome of the Interaction	Endogenous Factors for Policy Change
1999 onwards **Period of Accession Oriented Reform**	A (re)regulatory state Stronger civil society and market forces vis-à-vis the state Quasi form of a "corporatist system" (Checkel, 1999), a more aware and active society "epistemic community" in 1995 gave rise to formation of a consolidated advocacy coalition Improved relations between bureaucracy and executive especially under Kemal Derviş.	IFI conditionality in place, though not reflected in the political discourse EU accession conditionality in place, reflected in the political discourse EU emerges as an influential anchor EU as a commitment device Accession-oriented requirements with deadlines or pre-requisites	Domestic actors become more conducive/ more pressurized to change Economic crises as "triggering factor for reform" in both periods, but both the IFIs and the EU emerge as "anchors for reform" only in the second period The EU accession process offers a favourable opportunity structure to endogenous actors to realize radical reform by enabling the exogenous factors to guide the reform process Obligated Policy Transfer	Structural reform in PFM with a holistic approach Adoption of key legislation with new tasks and mechanisms The policy transfer process is completed and gave rise to enactment of key legislation

When we look at the dynamics leading to this delay based on the empirical data,which is also reflected in table 11, we see the influence of a series of domestic factors, not least patronage politics, a feeble civil society, and limited channels of cooperation between the executive and bureaucracy. Patronage politics reduced transparency in public accounts and enabled the politicization of economic decision-making (Eder, 2003: 223). Bringing in a substantial revision of the budget and financial control could have had a negative impact on the clientele networks through which political parties were accustomed to operate. In the absence of a strong civil society, politicians did not feel under pressure to introduce long-term measures so as to improve public financial management. Successive economic crises, themselves resulting from the insecure steps towards liberalization taken in an uncertain and highly volatile domestic environment, triggered some modifications in the PFM, although they did not entail a long term, comprehensive perspective. The state was above society and was the ultimate source for shaping the reform. Particularly under the leadership of Turgut Özal, the decisions were taken by a group of bureaucrats around a strong leader.

In the post-Özal period, short-lived coalitions lacked the opportunity or willingness to take bold steps towards restructuring the PFM in Turkey. The main characteristic of the limited initiatives in this period was reorganization with a rather short-termist attitude, which was replicated in the quick-fixes approach adopted towards the problem, rather than addressing the overall system to ensure sustainable outcomes. Secondly, the reform initiatives were prepared and "carried out on principles of a closed, *Weberian*, hierarchic management understanding of the industry age" (Kapucu and Palabıyık, 2008: 194). What was in other words witnessed was an Old Public School mentality and approach that attempted to go hand in hand with a completely new economic approach, sharpening the distinction between the economy and public administration to the detriment of both. Thirdly, there was neither a serious theoretical foundation underpinning an approach to reform nor a holistic approach for addressing all dimensions of the existent and multifaceted problems.

The remedies to the problems were determined in a rather piecemeal fashion. Last but not least, the public administration system was considered as aloof from the surrounding social, economic, political and cultural systems and developments in the international arena. The economic and political crises and the controversies between politicians and bureaucrats did not only derive from the inefficiencies in these fields, but also from an insufficient understanding of the need for change (Dinçer and Yılmaz, 2004). For instance, the underlying reasons for extensive expansion and centralisation, crisis and debt management in public finance, public personnel regime, counteraction of public audit system, inefficient expenditures, as well as widespread corruption were not analysed before determining the priorities outlined in successive reform packages.

In terms of external factors, there were close relations with the IFIs through the SBAs and staff monitoring assessments as well as loan agreements. The relations with the European Union evolved around the Customs Union axis and were thus primarily of a technical and economic nature. Hence, the involvement of the EU was limited and could not be described as a meaningful anchor in this period. Although the IFIs highlighted the shortcomings of a weak PFM in their reports, domestic actors had the upper-hand in setting reform priorities (based on their own criteria highly influenced by patronage politics) in the absence of a time-bound adjustment agenda. In other words, good governance principles and the international standards derived from these principles as well as the IFI conditionality, which is very close to the coercive end of the continuum, were already in place in the 1990s. The policy transfer channels from the IFIs towards Turkey were operational, although the domestic channels of policy transfer were very limited. In that context, governments did not feel the urge to facilitate the completion of the policy transfer process for improving the PFM system as a whole. Domestic conditions were not conducive in completing policy transfer. The process was halted at the stage where the decision entered the policy cycle and implementation had to start. Although structural deficiencies in PFM were already addressed in 1995 by the World Bank, they were

not translated in the reform strategies of the governments. Clear evidence for this is provided when observing the non-existence, or very limited, coverage of public financial management in the development plans issued in this period.

As reflected in *chapter 5*, Turkey embarked on a substantial reform in the area of Public Financial Management in this period. Both as a means of responding to the requirements of a global economy and as part of the EU pre-accession process, Turkey adopted key legislation on debt management in 2002, the public financial management and control law in 2003 and a law on external audit in 2010. With these pieces of legislation, the Turkish public sector met with a major transformation, undoubtedly the most substantial since the establishment of the Turkish Republic. The reform efforts in the Turkish public administration in the 2000s differ from the previous ones in a number of respects.

First, one of the main drivers of change was to address the needs arisen from the requirements of the information age and globalisation (Kapucu, 2003). This is to say that the intention was to put in place fundamental principles of good governance such as decentralised management, respect for human rights, accountability, transparency, participation as well as effective and efficient use of resources in the public administration system. Furthermore, the functioning of the administrative structures was reinforced with strategic management, performance management and effective audit practices with horizontal organisation structures. Secondly, the Turkish government launched a number of complementary projects with the IFIs and the EU in parallel with the 2001 Stabilization Programme. These projects were geared at making public expenditures more transparent and directed towards clear policy objectives, objectives that could be scrutinized and evaluated in an independent way.

The main driving forces behind the reform in this period were firstly the epistemic community already in place ever since 1995 and the advocacy coalition formed by the bureaucrats, civil society organisations, and academics supported by the IFIs and

the EU. Secondly, the involvement of the EU as a more active actor and thirdly the change in the perceptions of the domestic actors towards external actors, which were seen as crucial anchors for macro-economic stability in the aftermath of the crises, especially the 2000 and 2001 crises (Göksel, 2011: 317).

When analysing the dynamics behind this policy change, we observe significant changes in the second period of analysis in both domestic and external factors. In the aftermath of the devastating economic crises in 2000 and 2001, an advocacy coalition evolved asking for structural changes in public sector management. The earthquakes in 1999 and the consecutive economic crises raised reactions among the public about the ever more apparent mismanagement of public resources. By that time, the evolving role of the state as a regulatory body, coupled with the deepening of liberal economic principles in Turkish political economy, in comparison to the previous period, had changed the relations between the state and the market. In this new balance, market forces and the private sector were acquiring a more powerful role vis-à-vis the state.

This new configuration had societal consequences too. As Turkey moved from a military regime to civilian government, the process of liberalization gathered pace over time and spilled over to the political field as well. Powerful economic groups, which emerged as a part of liberalization, NGOs, which were particularly supported under the EU pre-accession process, came to play a serious role in influencing the direction of policy and were increasingly listened to by political authorities. Organizations such as TÜSİAD, TOBB, TEPAV and TESEV enhanced their public profile through research, data analysis and the publications of influential reports which were on occasion commissioned by state authorities, and which attracted high media publicity thus becoming part of the evolving political discourse in the country. Moving from a "state-above-society" structure towards a quasi form of a "corporatist system", state-society relations acquired a new balance, although the patrimonial state remained in existence. In the post-crisis environment, relations between the

executive and bureaucracy started to improve, particularly during the period of Kemal Derviş and his assumption of the role of Economy Minister. Within this framework, domestic factors became more conducive to change and the old resistance to the full absorption of policy transfer lessons broke down to a great extent.

Although the EU was present in the first period, it was not influential as an anchor as such. Only after the Helsinki Summit did Turkey's significant and ambitious adjustment to European norms become possible (Müftüler Baç, 2005: 18). The 1999 EU Helsinki Council provided a list of requirements to be fulfilled for the start of accession negotiations. As a result, the EU became a second anchor next to the IMF (Öniş and Bakır, 2007; Öniş, 2009). The implications of this change can be explained as follows: First is the normative element. The Union acts from the point of view of upholding commonly espoused principles and pushes member states and candidate countries to adhere to them in a persuasive manner. Conditionality principles are taken seriously and are expected to influence the direction of public policy in all candidate countries so as to facilitate alignment with EU principles and practices. This is true not merely on the political field and the established EU agenda concerning human rights, but also on the rule of law and the respect for minority rights (European Council 1993). It also runs through its approach to economic policy, and in particular its espousal of good governance as a key element in public financial management and in the context of making sure that member states operate under the principles of a functioning market economy. A second related mechanism for EU influence is the discursive one. Due to the long list of requirements necessary for accession and the often transformative character that membership to the Union entails for new member states, the EU is a regular interlocutor with national authorities once a candidate status is granted to a country and even more so after the commencement of accession negotiations. Ministry officials, civil servants and experts from the Union and national authorities find themselves in constant dialogue over both technical and political matters. Inevitably, the EU becomes a semi-

permanent feature of the domestic political scene and is able to influence the direction of the political discourse in the country. This has been clearly evident in the Turkish case too. Once Turkey became a country eligible for membership in 1999, its political class incorporated the EU as a key element in its statements, perceptions and reactions to domestic political developments, often in anticipation of EU expectations, which was not the case (at least at a discursive level) with regard to the IFIs. Moreover, due to the Union's normative and discursive influence societal actors at the domestic level found themselves empowered vis-à-vis the state and became involved in the policy-making process in a way that has hardly had a precedent in Republican history.

This does not mean that the IFIs were any less influential in the reform process. In effect, both of the exogenous factors, namely the IFIs and the EU, helped domestic policy-makers to reverse resistance stemming from some of the domestic interest groups to tight fiscal discipline and accompanying structural reforms (Öniş and Bakır, 2007: 148). Particularly in the area of PFM, the IFIs were the main points of reference in guiding the reform agenda towards the adoption of international standards with a good governance perspective. However, it should be noted that the recommendations of the IFIs were already on the table as a result of their analyses in 1995 and afterwards. Furthermore, they were almost identical to the ones in 2000s, revealing that the governments had not addressed them in the mean time. As Güven (2010: 2) argues, IFI-guided institutional restructuring needs a number of pre-conditions for success such as "a propitious environment marked by powerful international norms, widely accepted design templates, bureaucratic preparedness, and endorsement from key domestic players".

In this regard, the economic crisis, which affected almost all segments of society, and the EU membership perspective were very instrumental in "generating a broad consensus on the need to achieve macroeconomic stability and making a clean break with the clientism and corruption, which had characterized the previous era" (Öniş,

2009: 428). As the former Minister of Finance Sümer Oral pointed out: "while the conditionality included in IMF programs did not change, the crisis unambiguously revealed the need for the policies to be carried through" (Arpac and Bird, 2009: 149). Therefore, economic crises should be seen as the "triggering factor" whilst the EU and the IFIs should be regarded as "anchors" for administrative reforms. Without these factors, it would not have been easy to pass a significant number of legislation on a number of crucial issues. That is to say, "a combination of domestic and external dynamics" was instrumental in changing the political and economic landscape in Turkey in the aftermath of the crisis (Öniş, 2009: 410). Within this context, the IMF was seen as an anchor for macro-economic stability and the EU for political and regulatory reforms (Ülgen, 2006: 3). When the reform initiatives were oriented towards accession, endogenous factors enabled the exogenous factors to guide the process of reform owing to the opportunity structures offered by the accession prospect. The endogenous factors used EU requirements, which complied with national needs (as perceived by the dominant actors) as well as the IFI conditions, as a commitment devise. The EU anchor also helped the IMF in overcoming the resistance of anti-reform forces (Öniş and Bakır, 2007: 155). In this respect, the EU was the enabler of the substantial policy change in PFM.

After the involvement of the EU as an anchor, conditionality became interlocked in the sense that the incentives provided by the EU in the direction of eventual membership rendered the task of implementing IMF disciplines easier (Öniş, 2009:417).

> The EU agenda is mostly compatible with that of the IFIs, which has itself been criticised for being overly neo-liberal; indeed, EU conditionality reinforces that of the IFIs: implementation of agreements with the development banks is part of Romania's Accession Partnership, for example, and the IMF's focus on macroeconomic stability is reinforced by AP priorities for maintaining internal and external balance (Grabbe, 1999:5).

All in all, economic crises triggered public administration reform in Turkey, whilst the scope, pace and effectiveness of the reform has been determined by the interaction between endogenous and exogenous factors. The principles of good governance remain the same both in the adjustment-oriented and accession-oriented reform periods. However, policy implementation and methodology differs on the basis of the reform orientation adopted by policy actors. Although the exogenous factors are present at any time in an ever globalising world, the decision to incorporate the demands of external actors into the domestic policy framework depends on the willingness of the domestic actors to do so. The willingness of these actors, in turn, depends on a number of factors, namely the relations among the state, society and the market and the relations between the executive and bureaucracy.

The type of government in office and its approach towards reform is also important. A weak coalition government may face difficulties in introducing and/or sustaining the reform, whilst a strong majority government may take bold steps for reform and maintain the momentum of reform by sidelining resistance to it. At this point, commitment and ownership are key in determining the sustainability of any reform process. Any legislative amendment or administrative reorganisation without sufficient ownership of the executive and the bureaucrats may be amended soon after enactment in a regressive way, or became void in the implementation phase. As the main focus of the thesis has been to analyze the dynamics behind policy change and to provide definitions for the milestones in this process, it was mainly concerned with what happened, why and how it happened. The thesis did not evaluate the impact or sustainability of these changes. By way of summary and without getting into the details of this aspect of the debate, it is important to mention that there seem to be difficulties in implementation, and some form of delays and even reversals in the PFM area in Turkey. As indicated in the Public Expenditure Review conducted by the World Bank (2006: 180), "some regressive tendencies in the implementation of the PFMC law tend to perpetuate old problems of budgetary fragmentation". For instance, the Medium Term Programme (MTP) and the Medium Term Fiscal

Strategy (MTFS) are no longer issued in May and June respectively, but in September and October[74] which is quite late to establish a linkage between policy-planning and budgeting. Therefore, this can be "considered as a step backwards with regard to line ministries' responsibilities in budget management" (OECD SIGMA, 2012: 17).

An amendment to the TCA Law adopted in July 2012 "severely limits the competences of the Court and invalidates some of the...developments, taking the level of alignment back to below the standards of the International Organisation of Supreme Audit Institutions (INTOSAI) and EU best practices" (European Commission, 2012: 90). Seeking to maintain a focused analysis of a process in a given period of time, the thesis did not look into the record of implementation of these initiatives. This record could be the subject of another thesis from a purely public finance perspective. Progress is needed in improving the accounting and reporting systems of local administrations. Another remaining challenge is improving the efficiency and financial performance of the SEEs. The finances of some of these companies have deteriorated as a result of increases in input costs and unpaid bills.

This being said, a dimension that should be taken into account whilst analyzing such reversals and delays in accession-oriented reform is the degree of proximity to eventual EU accession. When the accession perspective gets blurred, the impact of the EU anchor may weaken substantially, potentially even leading to reversals in the reform process. When the accession prospect is clearer and closer on the other hand, the influence of the EU anchor becomes higher as seen in the examples of Bulgaria and Romania. The Accession Treaty with Bulgaria and Romania was signed in April 2005 with the target of eventual accession set for the year 2007. Bulgaria updated its

[74] The deadline for publication of these documents were amended by the Decree Law no. 659 of 26 September 2011.

Policy Paper on Public Internal Financial Control[75] in September 2005 and adopted three crucial pieces of legislation in line with the priorities stated in the Policy Paper. In the period between 2005 and 2007, the Bulgarian Parliament adopted the Financial Management and Control Act, introducing managerial accountability and the framework of financial management and control on the basis of the COSO model. It enacted the Internal Audit Act in the Public Sector regulating the establishment of independent internal audit at the organizations in the public sector in accordance with the International Internal Audit Standards and Public Financial Inspection Act. Finally, it enacted the Public Financial Inspection Act, setting out the order and the way for seeking the administrative penalty liability and property liability for violations.[76] In the case of Romania, although the 2002 Law on Internal Public Audit set out the functions required under the PIFC framework, the system was not fully operational in the presence of high levels of corruption. Following the postponement of accession, Romania adopted the Development of the Internal Public Financial Control Strategy[77] in July 2005. In line with this strategy, which corresponds to the PIFC Policy Paper, the Romanian government took a number of measures, such as the adoption of the internal control standards, to improve its financial control mechanism.

In the light of these examples, clearly demonstrating the effect of accession credibility as a key variable of conditionality, we can envisage acceleration in the PFM improvement efforts in Turkey, within the framework of accession-oriented reform when and if the accession prospect becomes clearer. A potential stimulus for such an acceleration has recently been provided by the Positive Agenda, which is an initiative endorsed by the European Union and Turkey to reinvigorate the country's

[75] The PIFC Policy Paper of the Republic of Bulgaria: www.minfin.bg/document/1931:1 retrieved on 30 March 2013.

[76] The PIFC Policy Paper of the Republic of Bulgaria: www.minfin.bg/document/1931:1 retrieved on 30 March 2013.

[77] The Development of the Internal Public Financial Control Strategy of the Republic of Romania: http://pdc.ceu.hu/archive/00002938/01/policy_paper_2005_English.pdf retrieved on 30 March 2013

accession process after a prolonged period of stagnation. The chapter on financial control is indeed one out of the eighth chapters covered within this framework.

The policy transfer approach has proven particularly useful, showcasing the way in which practical expertise as well as ideational influence has contributed to the shaping of the PFM agenda in Turkey. The lessons drawn from the thesis is that policy transfer is indeed a useful framework. Nevertheless, the impact of this approach is closely connected to the formation of an enabling policy environment, which depends on the precise constellation of factors, endogenous as well as exogenous, and their interaction through time. Appropriate use of policy transfer can yield crucial lessons in understanding the type as well as mode of transformation, not only in public financial management but in public policy more generally. It is clearly observed in the majority of countries that went through public administration reform as of the 1980s that policy transfer has been very influential (Sobacı, 2009: 231). This paved the way for convergence between the objectives and the scope of the national public administration reform processes (Sobacı, 2009: 231). The interaction of endogenous and exogenous factors for policy change has also been influential on the level of convergence as well as on functioning of the policy transfer networks.

As a result of this interaction in the Turkish case, the policy transfer process was completed in the 2000s and the Public Finance and Debt Management Law, PFMCL and the TCA Law, which were drafted under the influence of international standards and best practices, were enacted. The type of transfer that is observed in the context of reforms in Turkey is closer to the coercive end of the continuum (Sobacı, 2009: 231). Nevertheless, it should be underlined that EU conditionality is considered an obligated transfer, which is more distant to coercive policy transfer than IFI conditionality. However and as exhibited in table 12, although IFI conditionality, which was present in both of the periods, is more coercive, the policy transfer could only be completed and the structural changes were only introduced after the involvement of the EU and its associated conditionality. The latter is a form of

obligated policy transfer, and is less coercive than the mode of reform associated with the adjustment-oriented reform era. This dilemma can be explained with the fact that the EU is a more sustainable anchor with a long-term agenda and actual presence, whilst the IFIs are anchors for adjustment within the duration and framework of the bilateral arrangements and therefore, are provide a limited and short/medium-term agenda.

Table 12 Coercion Level of Policy Transfer in Turkey's PFM Reform

Period	**Mode of Reform**	**Type of Policy Transfer**
1980-1999 Reorganisation	Adjustment Oriented	More Coercive
1999 onwards Restructuring	Accession Oriented	Less Coercive

Although the challenges associated with EU accession are the same as those relating to globalization (Scott, 2007: 70), the EU impact seems to be higher. This is mainly down to the prospect of accession caveat offered by the EU. In this respect, the EU acts as a facilitator for the completion of the policy transfer process, as the transfer enters the decision-making sphere. In this respect, the data produced and analyzed in this thesis leads us to a particularly important finding. Accession-oriented reform is more likely to materialise and is more structured than adjustment-oriented reform, although the type of policy transfer is less coercive than the latter. Another significant element of this policy change as a result of policy transfer is that there is no specific EU legislation on PIFC and external audit apart from the "soft *acquis*" in the form of international standards and EU best practices. In this respect, the development of the PFM system in Turkey under the pre-accession framework similar to the other candidate countries is a good example, where soft law can also lead to policy change (Göksel, 2011).

Finally, the thesis has used the EU and IFIs as proxies for the wider phenomena of Europeanization and globalization and their relationship in particular. The debate on

the precise nature of the relationship between the two has been ongoing for quite a while. Through the concrete case study of Turkey and the reform of its PFM, the thesis argues that Europeanization is indeed a facilitator of globalization. The evidence in this case study supports the explanation provided by Rosamond (1999) on relations between globalization and Europeanization that the EU facilitates globalization. It does so by mediating between the state and globalization (Graziano, 2003). Therefore, we can assert that Europeanization is closely associated with globalization and they reinforce each other. Serving as a commitment device, the EU provides an incentive to the national decision-makers for change. It serves this role by intensifying the process of adaptation to international standards and best practice rules, whilst at the same time requiring changes in domestic policy structures in a way more immediate though less coercive than globalization. This is a particularly important finding, not least because of the implications it entails for EU candidate countries and the trajectory of change countries other than Turkey are likely to follow in their respective domestic political and economic structures. The content of desired change, however, is not prescribed solely by the European Union, but formulated in collaboration with the IFIs and other international organizations. This very process of formulation brings in convergence on a number policy areas including public financial management. In this context, good governance serves as the overarching body of principles that guide the determination of international principles as well as reform agendas.

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LIST OF INTERVIEWEES

Interviewee 1- Mr. Emin Dedeoğlu –Director of the Governance Institute, Economic Policy Research Foundation of Turkey –TEPAV, fmr. Senior official Undersecretariat of Treasury (14 September 2012).

Interviewee 2-Senior Official Ministry of Finance of the Republic of Turkey (17 September 2012).

Interviewee 3- International Monetary Fund Senior Official (16 October 2012)

Interviewee 4- World Bank fmr. Senior Official (22 October 2012).

Interviewee 5- Prof.Dr. Erdoğan Öner, Former Undersecretary of the Ministry of Finance (9 November 2012).

Interviewee 6- Mrs. Nilgün Arısan Eralp, Director of the EU Institute, Economic Policy Research Foundation of Turkey (TEPAV), fmr senior official SPO and EU Ministry (21 December 2012).

Interviewee 7- Sector Manager in the Delegation of the European Union to Turkey involved in the Customs Union preparations (24 December 2012).

Interviewee 8- Mr. Ferhat Emil, fmr. Deputy Undersecretary of the Treasury (3 January 2013) and lecturer at Bilkent University.

Interviewee 9- Mr. Robert de Koning, PIFC Team Leader (retired), DG Budget, European Commission (18 February 2013)

Interviewee 10- Senior Advisor, OECD-SIGMA (28 March 2013)

Interviewee 11- Mr. Hüseyin Zengin, Coordinator of Audit and Supervision in the EUD Turkey, who was involved in the consultations on the PFMCL (18 April 2013)

APPENDIX A

OECD SIGMA BASELINES

SIGMA Baselines — October 1999

PUBLIC SECTOR FINANCIAL CONTROL BASELINE

Introduction

The baseline has been prepared by SIGMA on request from the DG1A and in close co-operation with the Financial Controller of DGXX. Other Directorates have also contributed. The paper and the work related to it is meant to be complementary to and support all efforts carried out by DGXX in the area of Enlargement.

The Treaty does not specify any predetermined model of financial control to be applied by Member Countries but it establishes the general obligations of the Member States. It sets out the responsibilities of the Commission and establishes provisions for budget and financial management and for the European Court of Auditors. In particular Article 280 of the Treaty provides for the fight against fraud. Many other detailed requirements are set out in other regulations and directives, etc. on how the processes of management and control of EU funds and resources should be designed and function. Most of these are specified in the attached Annex I.

These regulations and directives give detailed provisions on how the processes of financial control should function. This is reflected in the baseline, but the baseline is also designed to reflect good or best European practices for the overall architecture of sound financial control.

Any assessment derived from this baseline should also seek to bring out the crucial links that exist to the results of assessments in the other areas (external audit, budget management, procurement and civil service).

The baseline may be used to focus on the parts of the public sector, which are/will be most essential in managing EU resources (mainly customs and agriculture levies) and EU funds (Phare, pre-accession, structural, and agricultural).

The primary focus of the baseline is on central government with an outlook to regional and local administration.

1. Introduction

The following data describe the current situation regarding financial control:

- Laws; basic laws as well as detailed financial and control regulations and directives etc.;
- number of staff;
- other resources;
- organisational charts; government and ministerial levels;
- financial systems used; general descriptions and flowcharts;
- financial reports; examples of annual and other reports.

Basic information about the organisational structures of public administration should be part of the introduction in order to understand the context and position of financial control institutions in the country in question.

2. The Baseline

2.1. A coherent and comprehensive statutory base defining the systems, principles and functioning of financial control (management/internal control) systems, including mechanisms for internal audit/inspectorates, has to be in place. (*Nota bene*; different solutions to internal audit such as Inspectorate General of Finances, the "northern" solution as in Netherlands or Sweden or other variants, could be used)

2.2. Relevant management control systems and procedures have to be in place. The following systems and procedures are seen as the most basic.

- Accounting and reporting standards/regulations;
- Accounting systems;
- A defined audit trail (showing the flow of funds from the national budget/the EU and the roles and responsibilities of the different national entities involved, including solutions to National Funds and Paying Agencies);
- Ex ante controls of commitments and payments;
- Procurement control (following Baseline on Public Procurement Management Systems);
- Control of state revenues (including future own resources).

2.3. A functionally independent internal audit/inspectorate mechanism with relevant remit and scope has to be in place. Could have the form of one or several organisational entities, but should meet the following criteria:

- be functionally independent;
- have an adequate audit mandate (in terms of scope and types of audit);
- use internationally recognised auditing standards.

It should also be considered if there is in place appropriate co-ordination and supervision of the applied audit standards and methodologies.

2.4. Systems must be in place to prevent and take action against irregularities and to recover any amounts lost as a result of irregularity or negligence. The criteria used here reflects:

- to what extent existing systems functions preventive; and
- make sure actions are taken; and
- if the existing laws/regulations make it possible to recover amounts lost following irregularities or negligence (as defined by regulation No 2988/95).

It should also be considered if there is in place appropriate structures for fighting fraud and corruption whether this is handled via the normal institutions of financial control or by a separate entity(s).

3. General Criteria for Assessing the Capacity for Upgrading Financial Control and Over-all Indicators of Effectiveness

In addition to the criteria described above, the capacity of a country to bring financial control into line with European standards and international best practice, and to maintain those standards, will depend on a number of factors of which three should be judged when possible:

- A capability and capacity to develop and make change.
- The existence of a strategy for development and change.
- The existence of a commitment to change and development.

A country may have all the required authority and powers to carry out its role and functions properly but is still not doing a good enough job on financial control. Where possible subjective and objective indicators should be assessed to sum up the impact and effectiveness of financial control. Objective indicators could be:

- Measures of productivity.
- Measures of effectiveness.
- Measures of quality (e.g. complaint/non-complaint ratio).

PUBLIC EXPENDITURE MANAGEMENT SYSTEMS BASELINE

Introduction

The Commission does not prescribe any particular model of public expenditure management for Member States and candidate countries. There are few explicit EC requirements in this area except in the field of the management of EU own resources and budget discipline. However, EC funds have to be allocated and used efficiently and in accordance with internationally accepted budgetary principles and good practice in EU Member States. Thus a baseline can be established defining the essential requirements of a well functioning public expenditure management system covering both EC funds and national money.

This baseline deals with public expenditure management issues only. It does not deal with issues relating to the management of public debt or with tax policy and tax administration. Issues relating to financial control and external audit are dealt with in separate baselines.

The Baseline Measures

1. Budget Legislation

There should be clearly defined principles set out in the Constitution, an Organic Budget Law (OBL) and/or related laws. These principles should:

- provide a clear and comprehensive definition of public money;
- determine that all public funds are managed within the law;
- establish the relationship between parliament and the executive in budgetary matters;
- define rules and procedures on intergovernmental fiscal relations;
- ensure the comprehensiveness of the budget;
- define the different classes of budgetary institutions, enterprises and agencies and the linkages of these organisations to the budget;
- provide a legal basis for the formulation and execution of the budget and the roles, responsibilities and powers of the Ministry of Finance.

2. Parliament/Executive Relationships

These relations may be determined by the Constitution, by the OBL and other laws, by rules of procedure of parliament, and by customary practice. One or more of these sources should provide a sound balance between the legislative and executive powers. Parliament's main role is to approve the annual budget and supplementary appropriations that may be voted during the year. In addition, the role of parliament in carrying out reviews of public expenditure policies can be important, e.g. early approval of macroeconomic and fiscal scenarios, investigations of efficiency in government spending programmes, etc.

3. Scope of the State Budget

For good macroeconomic management, controls need to be exercised over all revenues and expenditures. Activities placed outside the official budget (e.g. extra-budgetary funds) are not subject to the discipline of the resource allocation process. Where such funds exist, however, transfers to them should be efficiently managed. A comprehensive budget process promotes allocative efficiency because it forces a trade-off between the different ways a government uses financial resources. EU budget funds, e.g. pre-accession assistance channeled through the National Fund, should be integrated with the state budget.

4. Medium-term Expenditure Framework

Future EU Member States should be able to provide budgetary information within a medium-term framework, and set medium-term fiscal objectives. Once they become EU members, either within or outside the European Monetary Union, they will have to submit either stability or convergence programmes (EU Council Regulation n. 1466/97). Both programmes will have to specify the main elements of a medium-term expenditure framework that complies with certain methodological principles and standards (e.g. ESA 95 on national accounts statistics).

5. Budget Process

There should be a well defined, and widely understood, sequence of steps in the budget process, allowing sufficient time for each step to be implemented efficiently. The Ministry of Finance should provide – through an annual budget circular or regulation – the main budget policy priorities, a clear set of rules for the budget process and the main forms to be used by spending units in making estimates submissions. There should be an effective system through which the Council of Ministers can make policy decisions with budgetary implications, and clear objectives within public expenditure programmes. Also a well defined role for the Ministry of Finance in analysing and assessing estimates submissions, established rules and practices to guide the Ministry's negotiations with the line ministries and other spending units, and mechanisms for arbitration and conflict resolution. Does the Ministry of Finance — and the budget and finance departments of line ministries — have sufficient human resources, skills, training, computer systems, etc. to do this?

The draft budget presented to parliament should specify fiscal policy objectives, the macroeconomic framework and the policy basis for the budget, and identifiable major fiscal risks. It should provide a clear and comprehensive plan for all public spending; the linkages of expenditures to specific organisations, objectives and activities; funding that relates to new activities; the hierarchy of accountability amongst persons and organisations entrusted with public funds; and clearly defined appropriations to be voted by parliament. The language and format of the draft budget should be accessible to citizens and media as well as to legislators.

6. Budget Management of Public Investments

The European Commission expects that countries in central and eastern Europe prepare themselves for managing the assistance from the pre-accession funds (ISPA/SAPARD, etc.) so that, when they join the EU, they have the required budget instruments in place. In order to comply with this requirement, governments should have the capacity to present multi-annual development programmes involving careful co-ordination between partners at different levels of government, well designed co-financing procedures and sound technical and economic appraisal of such programmes. Procedures for preparing and approving budget proposals for capital expenditures should be integrated with those for recurrent expenditure.

7. Budget Execution and Monitoring

The Ministry of Finance should be able to set limits on public expenditure programmes and police those limits. It should monitor and control the flow of expenditures during the year on the basis of a unified system of financial accounts. Spending units (e.g. line ministries) should make regular reports to the Ministry of Finance (or the State Treasury) that compare actual spending with monthly forecasts based on the budget appropriations. Parliament and the Council of Ministers should have appropriate responsibilities for reviewing periodic reports on financial performance relative to the budget and for revising targets and/or policies as required by changed economic or financial circumstances. The cash management or treasury function should be strictly managed preferably through a Treasury Single Account under control of the Ministry of Finance.

8. Accounting and Reporting

Budget and accounting categories at the national level should have a common classification that facilitates policy analysis and promotes accountability. National accounting concepts need to be made compatible with concepts related to the disbursement of EC funds – commitments, payments, eligible expenditures, etc. Fiscal reporting should be timely, comprehensive, reliable, and identify deviations from the budget. Procedures for evaluating the efficiency and effectiveness of expenditure policies and programmes — including those funded from EC sources — should be established.

9. Capacity for Upgrading the Public Expenditure Management System

In addition to the criteria described above, the capacity of a country to bring its budget law and public expenditure management procedures into line with EU Member States standards will depend on a number of factors including:

- The existence (or not) of a coherent strategy for change.
- The existence (or not) of a sustained high level commitment to change.

Specific indicators of the willingness and capacity for change might include:

- Existence of a separately identifiable department or unit responsible for modernising the budget system, and integrating it with EU concepts and procedures.
- The location of any such unit and its potential level of influence.
- The number of professionals working in the areas described in this baseline, their level of skill, motivation and efficiency.

PUBLIC SECTOR EXTERNAL AUDIT BASELINE

Introduction

The nature and functioning of external audit is not as such part of the *acquis communautaire*. However, following the criteria laid down by the Copenhagen Summit, the new member states will need to adhere to the additional political and economic conditions which require, amongst others, that the candidate has achieved stability of institutions guaranteeing democracy and the rule of law. This includes the existence of an effective supreme audit institution (SAI). In a more practical manner, the EC Treaty is in fact implying the existence of such institutions and their capacity to co-operate with the European Court of Auditors (art 246-248). Moreover the general financial control standards for the management of EU-funds and own resources in the candidate countries as well as in the member states require an effective external audit of all public sector resources and assets, and that this should be carried out in a continuous and harmonised manner.

The external audit could also have a crucial role in the evaluation of and reporting on how the financial control systems are implemented and function.

1. Introduction

Sufficient background information should be provided to adequately describe the arrangements for external audit in the country concerned, covering:

- General arrangements and position in institutional landscape;
- Type and structure of SAI;
- The main legal and constitutional references;
- Size and budget of the SAI, no. of staff (professional, administrative, etc.);
- Annual and other reports made by the SAI;
- History and seniority.

2. The Baseline Questions

2.1. Does the SAI have clear authority to satisfactorily audit all public and statutory funds and resources, bodies and entities, including EU resources?

[If the SAI is not the sole provider of public sector external audit, then any assessment should also refer, as applicable, to the alternative arrangements made and in particular to any gaps in audit coverage.]

2.2. Does the type of audit work carried out cover the full range of regularity and performance audit set out in INTOSAI auditing standards (38-40)?

2.3. Does the SAI have the necessary operational and functional independence required to fulfil its tasks?

- Is the SAI free to decide what work it will carry out?
- Does the SAI have the ability to make the results of its work directly available to the public and the Parliament?
- Does the SAI have the means and capability to perform its mandate effectively?

2.4. Are the SAIs annual and other reports prepared in a fair, factual and timely manner?

2.5. Is the work of the SAI effectively considered by parliament e.g. by a designated committee that also reports on their own findings?

- Does the government have to formally and publicly respond to the published reports of the SAI?
- Does the SAI follow-up whether its and parliament's recommendations are implemented?

2.6. Has the SAI adopted internationally and generally recognised auditing standards compatible with EU requirements, and how far have they been implemented?

- Does the SAI have appropriate arrangements for planning and organising its activities, both at a business and detailed work level?

2.7. Is the SAI appropriately aware of the requirements of the EU accession process?

3. General Criteria for Assessing the Capacity for Upgrading the Public Sector External Audit and Overall Indicators of Effectiveness

In addition to the criteria described above, the capacity of a country to bring public sector external audit into line with European standards and international best practice, and to maintain those standards, will depend on a number of factors including:

- Is there a capability and capacity to develop and make change?
- Does a strategy for development and change exist? And how is it being implemented?
- Is there a commitment to the change and development process?

An SAI may have all the required authority and powers to carry out its role and functions properly but is still not doing a good enough job. Where possible subjective and objective indicators should be assessed to try sum up the impact and effectiveness of the SAI.

Source: OECD web-site (retrieved on 15 February 2013)
http://www.oecd.org/site/sigma/publicationsdocuments/35007180.pdf

APPENDIX B

IMF CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY

I. Clarity of Roles and Responsibilities

1.1. The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

1.1.1 The structure and functions of government should be clear.

1.1.2 The fiscal powers of the executive, legislative, and judicial branches of government should be well defined.

1.1.3 The responsibilities of different levels of government, and the relationships between them, should be clearly specified.

1.1.4 Relationships between the government and public corporations should be based on clear arrangements.

1.1.5 Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.

1.2. There should be a clear and open legal, regulatory, and administrative framework for fiscal management.

1.2.1 The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.

1.2.2 Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.

1.2.3 There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.

1.2.4 Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.

1.2.5 Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.

II. Open Budget Processes

2.1. Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.

2.1.1 A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.

2.1.2 The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly stated and explained.

2.1.3 A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be

provided of their current and future budgetary impact and their broader economic implications.

2.1.4 The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.

2.1.5 There should be clear mechanisms for the coordination and management of budgetary and extra budgetary activities within the overall fiscal policy framework.

2.2 There should be clear procedures for budget execution, monitoring, and reporting.

2.2.1 The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.

2.2.2 A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.

2.2.3 Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.

2.2.4 Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.

III. Public Availability of Information

3.1 The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.

3.1.1 The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extra budgetary activities of the central government.

3.1.2 Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the budget.

3.1.3 Statements describing the nature and fiscal significance of central government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.

3.1.4 Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.

3.1.5 The central government should publish information on the level and composition of its debt and financial assets, significant non debt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.

3.1.6 The budget documentation should report the fiscal position of sub national governments and the finances of public corporations.

3.1.7 The government should publish a periodic report on long-term public finances.

3.2 Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.

3.2.1 A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.

3.2.2 Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.
3.2.3 The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.
3.2.4 Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.
3.3 A commitment should be made to the timely publication of fiscal information.
3.3.1 The timely publication of fiscal information should be a legal obligation of government.
3.3.2 Advance release calendars for fiscal information should be announced and adhered to.
IV. Assurances of Integrity
4.1 Fiscal data should meet accepted data quality standards.
4.1.1 Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.
4.1.2 The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.
4.1.3 Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.
4.2 Fiscal activities should be subject to effective internal oversight and safeguards.
4.2.1 Ethical standards of behavior for public servants should be clear and well publicized.
4.2.2 Public sector employment procedures and conditions should be documented and accessible to interested parties.
4.2.3 Procurement regulations, meeting international standards, should be accessible and observed in practice.
4.2.4 Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.
4.2.5 Government activities and finances should be internally audited, and audit procedures should be open to review.
4.2.6 The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.
4.3 Fiscal information should be externally scrutinized.
4.3.1 Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.
4.3.2 The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.
4.3.3 Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.

4.3.4 A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.

Source: IMF web-site (retrieved on 15 February 2013)
http://www.imf.org/external/np/fad/trans/code.htm

APPENDIX C

THE PEFA FRAMEWORK

The PFM High-Level Performance Indicator Set

Overview of the indicator set

	A. PFM-OUT-TURNS: Credibility of the budget
PI-1	Aggregate expenditure out-turn compared to original approved budget
PI-2	Composition of expenditure out-turn compared to original approved budget
PI-3	Aggregate revenue out-turn compared to original approved budget
PI-4	Stock and monitoring of expenditure payment arrears
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency
PI-5	Classification of the budget
PI-6	Comprehensiveness of information included in budget documentation
PI-7	Extent of unreported government operations
PI-8	Transparency of inter-governmental fiscal relations
PI-9	Oversight of aggregate fiscal risk from other public sector entities.
PI-10	Public access to key fiscal information
	C. BUDGET CYCLE
	C(i) Policy-Based Budgeting
PI-11	Orderliness and participation in the annual budget process
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting
	C(ii) Predictability and Control in Budget Execution
PI-13	Transparency of taxpayer obligations and liabilities
PI-14	Effectiveness of measures for taxpayer registration and tax assessment
PI-15	Effectiveness in collection of tax payments
PI-16	Predictability in the availability of funds for commitment of expenditures
PI-17	Recording and management of cash balances, debt and guarantees
PI-18	Effectiveness of payroll controls
PI-19	Competition, value for money and controls in procurement
PI-20	Effectiveness of internal controls for non-salary expenditure
PI-21	Effectiveness of internal audit
	C(iii) Accounting, Recording and Reporting
PI-22	Timeliness and regularity of accounts reconciliation
PI-23	Availability of information on resources received by service delivery units
PI-24	Quality and timeliness of in-year budget reports
PI-25	Quality and timeliness of annual financial statements
	C(iv) External Scrutiny and Audit
PI-26	Scope, nature and follow-up of external audit
PI-27	Legislative scrutiny of the annual budget law
PI-28	Legislative scrutiny of external audit reports

	D. DONOR PRACTICES
D-1	Predictability of Direct Budget Support
D-2	Financial information provided by donors for budgeting and reporting on project and program aid
D-3	Proportion of aid that is managed by use of national procedures

Source: PEFA web-site (retrieved on 15 February 2013)

http://www.pefa.org/sites/pefa.org/files/attachments/PMFEng-finalSZreprint04-12_1.pdf

APPENDIX D

TURKEY'S ARRANGEMENTS WITH THE IMF: 1948-2005

	Date	Cancellation	Number of Months	Amount (SDR Millions)	Disbursed (SDR Millions)	Disbursement rate (%)	Arrangement type
	1948		12	5	5	100	Gold tranche
	1953		12	10	10	100	Gold tranche
	1954		12	20	20	100	Gold tranche
	1957		12	13.5	13.5	100	Gold tranche
	1958		12	25	25	100	Gold tranche
1	1961		12	37.5	16	42.6	Stand-By
2	1962		9	31	15	48.4	Stand-By
3	1963		11	21.5	21.5	100	Stand-By
4	1964		11	21.5	19	88.4	Stand-By
5	1965		12	21.5	0	0	Stand-By
6	1966		12	21.5	21.5	100	Stand-By
7	1967		11	27	27	100	Stand-By
8	1968		9	27	27	100	Stand-By
9	1969		12	27	10	37	Stand-By
10	1970		12	90	90	100	Stand-By
11	1978	1979	24	300	90	3	Stand-By
12	1979	1980	12	250	230	92	Stand-By
13	1980		36	1,250	1,250	100	Stand-By
14	1983		12	225	56.3	25	Stand-By
15	1984	1984	12	225	169	75	Stand-By
16	1994	1996	14	610	460	75	Stand-By
17	1999		36	1,5038	11,738	78	Stand-By and SRF
18	2002		36	12,821	11,914	92.9	Stand-By
19	2005		36	6,662	Continuing		Stand-By

Source: Arpac and Bird, 2009: 136.

APPENDIX E

CURRICULUM VITAE

PERSONAL INFORMATION

Surname, Name: ÖZDEMİR TSAROUHAS, Umut Evin
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Date and Place of Birth: 17 Şubat 1978, Ankara
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EDUCATION

Degree	Institution	Year of Graduation
MS	London School of Economics, European Studies	2001
BS	University of Ankara Faculty of Political Science, International Relations	1999
High School	TED Ankara College, Ankara	1995

WORK EXPERIENCE

Year	Place	Enrollment
2004- Present	Delegation of the European Union to Turkey	Sector Manager
2000-2004	Ministry of Finance	EU and Foreign Affairs Expert
1998 July	Hamburger Sparkasse	Intern

FOREIGN LANGUAGES

Advanced English, Fluent German, Upper-Intermediate French, Basic Grek.

PUBLICATIONS

1. "Strategic Planning in Good Governance" in *Main Principles of Good Governance*, Ministry of Finance, Ankara, April 2003.

2. “Corporate Governance”, *International Financial Standards*, Ministry of Finance, Ankara, 2002.

3. The 1995 Enlargement and the Progress of the European Union Common Foreign and Security Policy: An Obstructive Development? Unpublished Master’s thesis, London, 2002.

4. “Turkey-European Union Relations In the Wake of the Nice Treaty,” *Uluslararasi Iliskilerde Olaylar ve Yorumlar,* Issue: 37, Autumn, 2001.

5. “Kamuoyu Güveninin Tesisi: OECD Ülkelerinde Alınan Etik Önlemler”(Translation from the OECD Publication- Building Public Confidence: Ethical Measures in the OECD Countries), *Maliye Dergisi (Journal of the Turkish Ministry of Finance)*, I:138, September-December 2001.

HOBBIES

Fitness, Travelling, Dancing, Musicals.

APPENDIX F

TURKISH SUMMARY

Küreselleşmenin 1980lerden itibaren giderek hız kazanması ile birlikte, birçok ülke, yeni koşullara uyum sağlayabilmek amacıyla kamu yönetim felsefe ve sistemlerini gözden geçirme ihtiyacı duymaya başlamıştır. Klasik kamu yönetimi çerçevesinde şekillendirilmiş, oldukça hiyerarşik ve katı yönetim sistemleri, küreselleşen dünyadaki ticaret hızına, yeni ortaya çıkan hizmet ihtiyacına, hizmette saydamlık ve kalite beklentileri artan vatandaşlara cevap vermekte zorlanmaya başlamıştır. Bu bağlamda, birçok ülkede kamu yönetimi alanında reform süreçleri başlatılmıştır. Söz konusu reformların amacı, devleti öz faaliyet alanlarıyla sınırlamak yoluyla, kamu sektöründe etkinliği, verimliliği ve üretkenliği artırmak ve kamu harcamalarının saydam ve hesap verilebilir bir şekilde yapılmasını sağlamaktır. Bu hedefler, Yeni Kamu Yönetimi yaklaşımının büyük ölçüde etkisinde geliştirilen "Washington Uzlaşması" çerçevesinde belirlenmiştir. Bu çerçevede gerçekleştirilen uygulamalarda yaşanan aksaklıklar ve "sınırlı devlet" yaklaşımı sonucunda kaynakların dağıtımında ve ekonomide ortaya çıkan olumsuz gelişmeler nedeniyle, devletin düzenleyici rolü yeniden takdir edilmeye başlanmıştır. Ancak, takdir edilen bu rol "eski kamu yönetimi" çerçevesindeki klasik yapı değil, devletin düzenleyici fonksiyonuna dayalı bir yapıyı öngörmektedir. Bu döneme, literatürde "Washington Sonrası Uzlaşması" denmektedir. Bu çerçevede öngörülen reform çalışmalarını şekillendiren temel unsurlar, uluslararası örgütler ve Avrupa Birliği tarafından da aktif olarak gelişimine yön verilen "iyi yönetişim" gündemi kapsamında oluşturulmaya başlanmıştır.

Bu tezin odak noktası olan Türkiye’de de 1980'lerden itibaren ekonomik ve idari yapıda bir değişim ve dönüşüm süreci başlamıştır. Devletin korumacı bir ekonomi politikası yürüttüğü 1980'lere kadar, kamu yönetimi reformu personel rejiminin revize edilmesi, beş yıllık kalkınma planlarının hazırlanmasına yol açan merkezi ve yerel düzeyde ekonomik kalkınma, kamu hizmetlerinde tarafsızlık, eşitlik ve kalitenin sağlanması amacı ile Kamu İktisadi Teşebbüslerinin yapısının gözden

geçirilmesi ile sınırlı kalmıştır. Bu analizin başlangıç yılı olan 1980 itibariyle, liberal ekonomiye geçişle birlikte korumacılıktan uzaklaşan devlet yapısının bir sonucu olarak, kamu yönetimi reformu, merkezi ve yerel düzeylerin yanısıra bölgesel bir boyut kazanmaya başlamıştır. Bu dönemdeki reform öncelikleri kamu yönetiminde tarafsızlığın sağlanması, bürokrasinin azaltılması, yerel gelirlerin artırılması, devlet memurlarının sayısının azaltılması, kurumların yeniden düzenlenmesi, etkin ve verimli bir kamu mali yönetiminin oluşturulması olarak belirlenmiş, ancak bir çoğu hayata geçirilememiştir. 1999 yılından sonra kamu yönetimi reformu, merkezi, yerel ve bölgesel düzeyleri kapsamak suretiyle bu düzeyler arasındaki ilişkilerin geliştirilmesi, e-devlet, ombudsman hakkı ve esas olarak da kamu mali yönetim ve kontrol alanını geliştirme hedeflerine odaklanmıştır. Kubicek (2001: 38) gibi bazı yazarlara göre, Türkiye'de reform sürecinde gerçekleşen değişiklikler ya "yukarıdan" ya da "dışarıdan" gelmektedir. Güler (Sobacı, 2009 adlı eserde anılan) 2000'li yıllarda kamu yönetimi reformu çerçevesinde başlatılan reformların yurt dışı kaynaklı olduğunu ifade etmektedir. Aynı şekilde, Sezen (2011) mali reform girişimlerinin tamamen uluslararası aktörlerden kaynaklandığını belirtmektedir. Bu çalışmada, Türk kamu yönetiminde meydana gelen değişimin meydana geliş şekli ve nedenlerinin görünenden daha karmaşık olduğunu iddia edilmekte, değişimi geciktiren ya da destekleyen unsurlar incelenmektedir. Tezin amacı, Türkiye'deki kamu yönetimi reformu genelinde ve kamu yönetimin temel unsurlarından biri olan kamu mali yönetimi özelinde gerçekleşen değişimi ve bu değişimin altında yatan dinamikler ile bu dinamiklerin kendi aralarındaki etkileşimini ortaya koymaktır. Kamu mali yönetimi alanındaki politika değişikliğini açıklamak için, söz konusu dinamikler iç ve dış faktörler olmak üzere ikiye ayrılmaktadır. Bu çerçevede, iç faktörler devlet-piyasa-toplum ilişkileri ve siyasi iktidar ile bürokrasi arasındaki ilişkiler olarak gruplandırılmıştır. Dış faktörler ise, Uluslararası Finans Kuruluşları (UFK) ile Avrupa Birliği (AB) ile olan ilişkiler olarak belirlenmiştir. Bu bağlamda, UFK'lar ve AB tarafından tanımlandığı haliyle iyi yönetişim, bağımsız değişken, kamu mali yönetimi alanındaki politika değişikliği bağımlı değişken, iç ve dış faktörler altında incelenen unsurlar ise aracı değişkenlerdir.

Bu incelemenin çıkış noktası, iç ve dış faktörlerin göreli öneminin söz konusu ülke tarafından gerçekleştirilen reform türüne bağlı olmasıdır. Bu varsayıma dayalı olarak, kamu yönetimi reformu "uyum" ve "katılım" odaklı olarak ayrıştırılmaktadır. Uyum odaklı reform sürecinde, iyileştirme için gereken değişim unsurları, Uluslararası Finans Kuruluşları tarafından tavsiye edilmekte ve çeşitli uluslararası ve/veya ulusal politika transferi ağları aracılığıyla şekillendirilmektedir. Katılım odaklı reform sürecinde ise, iyileştirilme için gerekli koşullar, esas olarak AB veya üyelik imkanı sunan başka bir kuruluş tarafından belirlenmekte, söz konusu koşullar Uluslararası Finans Kuruluşları ve uluslararası örgütler ile büyük ölçüde tutarlılık göstermekte, çeşitli bölgesel ve / veya ulusal politika transferi ağları ile desteklenmektedir. Uyum odaklı reform sürecinde, ulusal hükümetler küreselleşen ekonomiye ayak uydurabilmek için kamu yönetimin kurumları, süreçleri ve politikalarının genel işleyişini geliştirmek amacıyla değişiklik yapma yoluna gitmektedirler. Söz konusu sürecin şekillendirilmesi sırasında, değişimin hızını ve yönünü belirleyenler ağırlıklı olarak iç unsurlardır. Katılım odaklı reform sürecinde ise, hükümetler kamu yönetimin kurumları, süreçleri ve politikalarının genel işleyişini geliştirmek yoluyla yaptıkları değişiklikleri, üye olmak istedikleri uluslararası veya bölgesel kuruluşun üyelik koşullarını yerine getirmek için yapmaktadır. Bu nedenle, ikinci reform türünde birincisine nazaran daha somut bir hedef vardır. Birinci reform türünde geçerli olan hedef, uluslararası piyasalara entegre olma veya kalkınma seviyesini artırmaktır. İkinci reform süresince ise, Avrupa Birliği genişleme sürecinde olduğu gibi iyi yönetişim ilkeleri daha ayrıntılı olarak kodifiye edilmekte ve ilkelere uygunluk daha sık bir izleme mekanizmasına tabidir. Ayrıca, üyeliğe kabul edilebilmek için gerekli değişiklikleri yerine getirmek zorunda olunduğu için katılım odaklı reform sürecinde, reformun hızını ve içeriğini daha çok dış faktörler belirlemektedir. Ancak, bu yetki onlara iç unsurlarca tanınmaktadır. Katılım odaklı reform sürecinde, üyelik imkanı sunan kuruluş, aday devletin koşulluluk ilkesi kapsamında gerekli şartları yerine getirmesini, tüm koşullara uyup uymadığının belirlenmesi için öngörülen bir dizi değerlendirme yapılmasını isteme gibi yasal ve/veya siyasi güce sahiptir. Her iki kamu yönetimi reform türünde ortak olan unsur ise, siyasi iktidarın reform gerekliliklerinin yerine getirilmesi için uluslararası ve

ulusal düzeyde mevcut olan politika transferi ağlarından faydalanabilmeleridir. 1980lerden itibaren her iki türdeki reformun ana hatlarını belirleyen ilke ve değerler iyi yönetişim kavramı etrafında gelişip, şekillenmektedir. Bu tez kapsamında, iyi yönetişim, Uluslararası Finans Kuruluşları ve AB tarafından bir kıstas olarak geliştirilen ve desteklenen, kalkınma ve katılım odaklı reform süreçlerine rehberlik eden ilke ve standartların çerçevesini çizen genel bir kavram olarak tanımlanmaktadır. Bu noktada, yönetişim kavramı idarenin genel anlamında bir değişikliği ifade etmektedir (Marsh ve Olsen, 1989 Jørgensen, 1993). Dolayısıyla, bu tezde yönetişim sadece karar vericiler ya da politika yapıcıların kapsamının ve sayısının artmasını değil, derin bir siyasi süreci ifade etmektedir. Öte yandan, iyi yönetişim küreselleşme ve Avrupalılaşma arasında bir yakınsama noktası olmasının yanı sıra, ulusal ve uluslararası aktörler arasında gönüllü, yükümlü veya zorlayıcı politika transferinin gerçekleşmesini sağlayan bir köprü vazifesi görmektedir. İyi yönetişimin kamu mali yönetiminde etkin olan temel ilkeleri ise saydamlık ve hesap verebilirliktir.

İkinci bir varsayım ise, UFK'ların ve AB'nin iyi yönetişimin temel unsurları konusunda birbirleriyle uyumlu bir çizgide olduğu ve iyi yönetişim gündeminin gelişmesini ve yaygınlaşmasını el birliğiyle desteklemekte olduklarıdır. Bu varsayımlar ışığında, analiz iki düzeyde gerçekleşmektedir: (1) iç ve dış faktörler arasındaki etkileşim (2) dış faktörlerin kendi aralarındaki etkileşim. İlk düzey, bize kamu mali yönetim politikaları ve Türk kamu yönetiminde meydana gelen değişimin nedenleri ile ilgili önemli bilgiler verirken; ikinci düzey, bize "iyi yönetişim" gündeminin şekillenmesinde UFK'lar ile AB arasındaki ilişkiye yönelik güçlü ipuçları vermekte, Avrupalılaşma ve küreselleşme arasındaki ilişkinin yönüne ilişkin çıkarımlarda bulunmamızı sağlamaktadır. Bu bağlamda, Türk kamu mali yönetimindeki değişimin ve değişime neden olan faktörlerin incelendiği bu vaka çalışması, uyum odaklı (1980-1999) ve katılım odaklı (1999 sonrası) olmak üzere iki dönemin karşılaştırılması yoluyla yapılmaktadır. Bunun yanı sıra, Uluslararası Finans Kuruluşları ve Avrupa Birliği'ni küreselleşme ve Avrupalılaşmanın

temsilcileri olarak değerlendirmek ve bu kuruluşların iyi yönetişim gündeminin gelişimine etkilerini incelemek yoluyla, söz konusu iki süreç arasındaki ilişki ile ilgili genellenebilir sonuçlara varılmaktadır.

Bu sorunsalın ve tezin bölümlerinin özetlendiği *giriş bölümünün* ardından, *ikinci bölümde* araştırmanın ana hatları, kullanılan araştırma yöntemi ve kuramsal çerçeve ortaya koyulmaktadır. Öncelikle, araştırmanın ana hatları ve araştırma soruları anlatılmaktadır. Bu bağlamda, tezin amacı ve bu amaca hangi yolla ulaşılacağının açıklanmaktadır. Araştırma soruları ve ek sorulara paralel olarak, bu tezin üzerinde yoğunlaştığı değişkenlere ilişkin ayrıntılı bilgi verilmektedir. Söz konusu araştırma soruları şunlardır: 1980'lerden günümüze kadar Türkiye'de kamu mali yönetiminin gelişimi nasıl olmuştur? İyi yönetişim gündeminin Türk kamu mali yönetiminin gelişiminde nasıl bir etkisi olmuştur? Türk kamu maliyesinde iyi yönetişim ilkelerinin etkisinde gerçekleştirilen politika transferinin gerçekleşmesine yol açan unsurlarlar nelerdir? Bu unsur ya da aktörler tek başlarına mı, dış unsurlarla etkileşim halinde mi hareket etmişlerdir? Politika değişiminde iç ve dış unsurların birbirleri karşısında göreli öneminin söz konusu dönemdeki reform odağına bağlı olduğu varsayımından hareketle, uyum ve katılım odaklı reform arasındaki farkları ortaya koymak açısından, bazı ek sorular da sorulmaktadır: İç unsurlar reform girişimlerini nasıl etkilemiştir? Uluslararası Finans Kuruluşları ve AB iyi yönetişim gündemini teşvik etmek için nasıl bir etkileşim içindedirler? Bu süreç, çalışma yöntemleri açısından küreselleşme ve Avrupalılaşma arasında bir yakınsamaya yol açmakta mıdır yoksa ideolojik benzerliklerine karşın bağımsız bir şekilde mi hareket etmektedirler?

Ayrıca, bu araştırmada neden vaka çalışması yaklaşımın benimsendiği, bu yaklaşımın avantaj ve dezavantajları üzerinde durulmaktadır. Buna ek olarak, bu çalışmada kullanılan süreç izleme yönteminin özellikleri ile artı ve eksileri incelenmektedir. Bir sonraki alt bölümde, Dolowitz ve Marsh (1996) tarafından geliştirilen, Evans ve Davies (1999) tarafından yapılandırılmış olan ve bu tezin

kuramsal çerçevesini oluşturan "politika transferi yaklaşımı" üzerinde ayrıntılı bir biçimde durulmaktadır. Bu çerçevede, söz konusu kuramın literatürde nasıl ele alındığı, politika transferinin kimler tarafından ve nasıl gerçekleştirildiği belirtilmekte; tezin varsayımları ile araştırma soruları politika transferi kuramı ile ilişkilendirilmektedir. Literatürde politika transferine ilişkin pek çok tanım olmasına karşın, en sık kullanılanı Dolowitz ve Marsh (1996) tarafından yapılandır: Politika transferi, herhangi bir siyasi sistem (geçmiş ya da mevcut) içindeki politika, idari düzenleme, kurum ve fikirlerin başka bir siyasi sistemin politika, idari düzenleme, kurum ve fikirlerinin geliştirilmesinde kullanılması sürecidir. Politika transferi kuramının bir parçası olan politika ağları yaklaşımı ise, söz konusu olan herhangi bir siyasi sistemdeki tüm önemli unsurların etkileşimini incelemesi nedeniyle, politika değişikliği analizinin en başarılı yollarından biri olmuştur (Marsh ve Rhodes, 1992). Özellikle "epistemik topluluklar" (Haas, 1992), "savunma koalisyonları" (Sabatier ve Jenkins-Smith, 1997) ve "politika transferi ağı" (Evans ve Davies, 1999) gibi yaklaşımlar küreselleşme ve Avrupalılaşma gibi dış unsurların etkisinde gerçekleşen politika değişimine (Ladi, 2005) ilişkin öğrenme ve transfer sürecini inceledikleri için başarılı bulunmaktadır. Hem "savunma koalisyonları" (Sabatier ve Jenkins-Smith, 1997) hem de "epistemik topluluklar" (Haas, 1989) yaklaşımları fikirlerin ve öğrenmenin politika değişikliğindeki merkezi rolünü vurgulamaktadır. Politika ağı yaklaşımını, epistemik topluluklar ve politika transferi kavramı ile ilişkilendirmek isteyen Evans ve Davies (1997), politika transferi ağı yaklaşımını geliştirmiştir. Politika transferi ağı aktörlerin bilgi kaynakları üzerinde durmaktadır. Doğası gereği geçici olmakla birlikte politika transferi ağı, politika transferi (Evans ve Davies, 1997 : 15-17) yoluyla politika değişikliği sürecini ifade etmekte ve politikalar, kurumlar ve fikirlerin aktarımını incelemektedir.

Geçmişten bugüne her toplumdaki karar-vericiler bilinçli ya da bilinçsiz olarak kendi ulusal politikalarını geliştirmek ve problemlerini çözmek için diğer toplumların politikalarını ve yapılarını incelemenin, ödünç almanın ve kendi toplumlarına adapte etmenin yollarını aramışlardır (Bennett, 1991:220). Bu bazen gönüllü bazen de

zorlayıcı yöntemlerle gerçekleşmiştir (Dolowitz ve Marsh, 1996:344-345). Dolowitz ve Marsh (1996) gönüllükten zorlayıcılığa uzanan bir politika transferi göstergesi hazırlamıştır. Bu çerçevede, gönüllü yönteme bakıldığında ne aradığını bilen aktörler kendi problemlerini çözmek için öncelikle değişimi arzu etmekte, ardından aktif olarak yeni politika arayışına girmektedir. Siyasiler, seçimler, yıllık olağan beyanatlar gibi düzenli olarak meydana gelen siyasi olaylar sırasında kendilerini seleflerinden farklılaştırmak ve siyasi tartışmalarda avantaj elde etmek gibi istekler nedeniyle yeni politika arayışına girmektedirler. Siyasilerin diğer ülke deneyimlerinden faydalanmak istemelerinin en önemli nedenlerinde biri, söz konusu kararların daha once alınmış, uygulanmış ve yerindeliği kanıtlanmış olmaları ve ulusal bağlamda siyasilerin elini kuvvetlendirecek bir dayanak olarak kullanılabilmeleridir (Dolowitz ve Marsh, 1996:347). Gönüllü yönetim aksine zorlayıcı yöntemde, karar vericiler, dış aktörlerin baskısıyla politika transferi sürecine onay vermektedir (Dolowitz ve Marsh, 1998:40). Politika transferi göstergenin zorlayıcılığa doğru artarak giden bölümünde, yükümlülüklerden kaynaklanan transfer ve koşulluğa bağlı transfer yer almaktadır. Yükümlülüklerden kaynaklanan transferin en tipik örneği, Avrupa Birliği katılım süreci ve üyelikten sonraki bütünleşme sürecidir. Aday veya üye olan ülke, Avrupa Birliği'nin genişleme ya da bütünleşme politikaları çerçevesinde politikalarını ve kurumlarını müktesebat ile uyumlu hale getirmekle yükümlüdür. Koşulluluk ise, Uluslararası Finans Kuruluşları ve uluslararası örgütlerin etkinliklerini arttıran önemli bir unsurdur. Uluslararası örgütler, piyasa koşullarına göre uygun olan kredilerini, ekledikleri koşullarla güçlendirmektedirler (Dolowitz ve Marsh, 1998:43). Koşulluluğun söz konusu olduğu bir politika transferi sürecinde, kredinin onaylanması, genellikle borçlu ülkenin öngörülen bazı politika değişikliklerini yerine getirmesi koşuluna bağlanmaktadır.

Üçüncü bölümde, iyi yönetişim kavramının gelişimi sırasında küreselleşme ve Avrupalılaşma arasındaki ilişki üzerine odaklanılmakta; iyi yönetişimin, kamu mali yönetimi üzerindeki etkisi ele alınmaktadır. Başlangıçta, küreselleşme ve Avrupalılaşma süreçleri ve ilgili literatür ayrı ayrı incelenmektedir. Bu inceleme,

Türk kamu mali yönetimi vaka çalışmasının hangi bağlamda ele alınacağını kurgulamak için önem taşımaktadır. Ayrıca, bu analiz politika transferi süreçleri ve politika ağlarının küreselleşme ve Avrupalılaşma süreçleri ile ne derece ilgili ve hatta ne kadar bu süreçlerin içinde gerçekleştiğini görmek açısından da önemlidir. Bu alt bölümün ardından, küreselleşme ve Avrupalılaşma arasındaki ilişkinin literatürde nasıl ele alındığı ve bu tezde hangi açıdan ele alınacağı anlatılmaktadır. Daha sonraki bölümde, bu süreçlerin yakınsadığı alanlardan biri olan iyi yönetişimin kökleri, gelişimi ve küreselleşme ile Avrupalılaşmanın temsilcileri olan UFK'lar ve AB açısından iyi yönetişim tanımlamalarına değinilmektedir. Yeni Kamu Yönetimi yaklaşımı ile iyi yönetişim arasındaki ilişki incelendikten sonra, UFK'lar ve AB'nin iyi yönetişim yaklaşımlarında ne ölçüde yakınsadığı ve bunun hangi araçlar yoluyla gerçekleştiği incelenmektedir. Son olarak da, iyi yönetişim gündeminin kamu mali yönetimine yönelik unsurlarının neler olduğu, iyi yönetişimin temel unsurları olan saydamlık ve hesap verebilirlik ilkelerinin kamu mali yönetimine nasıl yansıdığı ve bu ilkeler çerçevesinde günün koşullarına uygun nasıl bir kamu yönetimi olması gerektiği analiz edilmektedir. Bu analiz, küreselleşme ve Avrupalılaşma süreçlerinin de etkisiyle politika transferi mekanizmalarının nasıl çalıştığı yönünde de bizi aydınlatmaktadır.

Dördüncü ve beşinci bölüm tezin ampirik kısmını oluşturmaktadır. Bu bölümler, iyi yönetişim gündeminin, küreselleşme ve Avrupalılaşma süreçleri etkisinde gelişimi ve Türk kamu maliye politikası ve yapısına etkisinin ele alındığı vaka çalışmasını yansıtmaktadır. Uyum ve katılım odaklı kamu yönetimi reformu ayrımı çerçevesinde, dördüncü bölüm 1980-1999 arası dönemi, beşinci bölüm ise 1999 sonrası dönemi incelemektedir. Dördüncü bölümde, kamu mali yönetiminin 1980'li yıllara kadar reform gündeminin gerçek anlamda bir parçası olmadığı dikkate alınarak, Türk kamu yönetiminin evrimi incelenmektedir. Bu bağlamda, 1980 İstikrar Programı, daha önceki istikrar programlarından farklı olarak, ilk kez yapısal reformlarla uzun vadeli ekonomik kalkınma hedefini içermektedir. Ancak, söz konusu yapısal reformlar sürdürülebilir ekonomik büyüme ve siyasi istikrarın bir aracı olarak, Türk kamu mali yönetim ve kontrol sisteminin yeniden yapılandırılmasına yönelik uzun vadeli

tedbirleri içermemiştir. Kamu idari reformu ve istikrar çabaları, genellikle ekonomik ve siyasi krizlerle tetiklenen ve krizlerin ilk zararları ortadan kalktıktan sonra rafa kaldırılan kısa soluklu girişimler olarak kalmıştır. Bu bölümde, söz konusu zaman aralığında ne tür politika transferi imkanlarının varolduğu ve bunların ne ölçüde etkin olabildiği tespit edilmekte; reform girişimlerinin tarihsel gelişimine bakarak, reform gündeminin neden kamu maliyesi alanında uzun vadeli yapısal değişiklikler içer(e)mediği, iyi yönetişim perspektifinden kamu mali yönetiminin durumu incelenmekte; iç ve dış faktörler arasında nasıl bir etkileşim olduğu ve köklü bir değişim için gerekli sinerjiyi neden yaratamadıkları yönünde çıkarımlarda bulunulmaktadır.

1980'ler Türk siyaset ve ekonomisinde, devlet ve piyasa, devlet ve toplum arasındaki ilişkiye önemli yansımaları olan belirgin bir değişimin gerçekleştiği yıllardır. 24 Ocak 1980'den itibaren, ithal ikameci model yerine, ihracata dayalı ekonomik büyüme modelinin benimsenmesine yol açan bir ekonomik liberalleşme süreci başlamıştır. 1980 ve 1990'lı yıllarda, Türkiye'nin dünya ekonomisine tam olarak entegre olmasını amaçlayan birçok adım atılmış olmasına karşın, ülke ekonomisinin bu süreçten yeterince faydalandığı söylenemez. Bunun altında yatan en belirgin nedenlerin, 1990larda göreve gelen koalisyon hükümetlerinin kısa süreli olması, ekonomi politikalarının kısa vadeli yönelimi, bankacılık, kamu maliyesi ve kamu yönetimi alanlarında geciken yapısal reformlar olduğu söylenebilir. Bu gecikmeye neden olan dinamiklere baktığımızda, iltimasçılığın kemikleştiği bir siyasi yapı, çok güçlü olmayan bir sivil toplum, siyasi iktidar ile bürokrasi arasındaki bilgi alışverişinin kısıtlı olması gibi iç faktörlerin varolduğunu görüyoruz. İltimas politikasının ise, kamu hesaplarında saydamlığı azaltan ve ekonomik karar verme mekanizmasını siyasallaştıran bir etkisi söz konusu olmaktadır (Eder, 2003: 223). Bütçe ve mali kontrol alanındaki köklü bir değişikliğin, iltimasçılık üzerinde olumsuz bir etkisi olacağı aşikardır. Öte yandan, güçlü bir sivil toplumun yokluğunda, siyasiler, kamu mali yönetimini geliştirmek için kalıcı önlemler alma yönünde bir baskı hissetmemektedirler. Liberalleşmeye yönelik atılan çelişkili adımların da etkisiyle ortaya çıkan ekonomik krizler, kamu mali yönetimi alanında

bazı değişikliklere yol açsa da, bunlar kapsamlı ve kalıcı olamamıştır. Jeffrey Checkel (1999b)'in sınıflandırmasına göre, bu dönemde "devlet toplumun üzerinde etkin" ve reform şekillendirme için nihai güç olduğu görülmektedir. Özellikle, Turgut Özal döneminde, kararlar güçlü bir lider etrafındaki bir grup bürokrat tarafından alınmıştır. Özal sonrası dönemde ise, kısa ömürlü koalisyonların Türkiye'de kamu mali yönetimi alanında köklü değişiklikler yapma konusunda istekli ve yetkin olmadığı görülmektedir. Bu dönemde gerçekleştirilen sınırlı girişimlerin temel özelliği, sürdürülebilir sonuçlar sağlamaya yönelik köklü değişiklikler yerine, kısa vadeli bir bakış açısıyla akut problemleri çözmeye yönelik olmalarıdır. İkinci olarak, bu girişimler, "dışa kapalı, *Weberci,* hiyerarşik yönetim anlayışı ilkeleri" kapsamında kalmıştır (Kapucu ve Palabıyık, 2008: 194). Başka bir deyişle, tamamen yeni bir ekonomik düzene uyum için yapılan, ancak "klasik kamu yönetimi" yaklaşımı ile sınırlı kalmış adımlar, ekonomi ile kamu yönetimi arasındaki ayrımı iyice belirginleştirmiştir. Üçüncü olarak, atılan adımların arkasında kuramsal bir yaklaşım ya da mevcut sorunları tüm boyutlarıyla ele alma ve çözüm üretmeye yönelik bütünsel bir yaklaşım mevcut değildir. Sorunlara, parça parça çözüm bulunması yoluna gidildiği görğlmektedir. Son olarak ise, bu dönemde kamu yönetimi sistemi, kendisini çevreleyen siyasi, ekonomik, sosyal ve kültürel sistemler ve uluslararası ölçekte meydana gelen gelişmelerden bağımsız olarak algılanmaktadır.

Bu dönemde etkin olan dış faktörlere bakıldığında ise, Uluslararası Finans Kuruluşları ile destekleyici düzenlemeler ve personel izleme değerlendirmelerinin yanı sıra kredi sözleşmeleri kapsamında süren ilişkilerin mevcut olduğu görülmektedir. Avrupa Birliği ile ilişkiler ise, Gümrük Birliği ekseninde olduğundan, ağırlıklı olarak ekonomik ve teknik niteliktedir. Bu nedenle, AB'nin ülke dinamiklerine etkisi sınırlı olduğundan bu dönemde bir çıpa olarak görülmesi söz konusu değildir. Bu dönemde kaleme alınan UFK raporlarında, zayıf bir kamu mali yönetiminin getirdiği sorunlara değinilmesine ve iyi yönetişim ilkeleri ve bu ilkelerden yola çıkarak oluşturulan uluslararası standartlar ile zorlayıcı politika

transferine oldukça yakın olan UFK koşulluluğunun hali hazırda mevcut olmasına karşın, ulusal aktörler zaman çizelgesine bağlı bir uyum gündeminin yokluğunda, reform önceliklerini tamamen kendilerinin belirlediği görülmektedir. Buna ek olarak, iktidarda olan hükümetlerin kamu mali yönetimin bir bütün olarak iyileştirilmesi yönündeki politika transferi sürecinin tamamlanmasını kolaylaştırma konusunda istekli olmadıkları görülmektedir. İç unsurların kamu mali yönetimine bakışını yansıtan somut bir örnek, bu dönemde kabul edilen kalkınma planlarında kamu mali yönetiminin ya hiç olmaması ya da çok sınırlı bir şekilde değilinilmesidir. Başka bir deyişle, 1980-1999 dönemindeki ulusal koşulların politikası transferinin tamamlanmasına elverişli olmadığı söylenebilir. Politika transferi sürecinin, kararın politika belirleme döngüsüne girdiği ve uygulamanın başlamasıyla devam edeceği aşamada durdurulduğu gözlemlenmektedir. Örneğin, kamu mali yönetimi alanındaki yapısal eksikliklerin Dünya Bankası tarafından 1995 yılında yayımlanan raporlarda altının çizildiği, ancak bu hususun siyasi gündeme girmediği görülmektedir.

Beşinci bölümde, 1999 sonrasında kamu mali yönetiminde meydana gelen önemli değişiklikler ve özellikle 2002 yılında kabul edilen kamu maliyesi ve borç yönetimi kanunu, 2003 yılında kabul edilen kamu mali yönetimi ve kontrol kanunu ve 2010 yılında yasalaşan Sayıştay kanununun kabulüne yol açan unsurlar incelenmektedir. Söz konusu kanunlar, ulusal düzeydeki kamu harcamalarının yönetimi, kontrolü ve bütçe mevzuatını, uluslararası standartlar ve AB uygulamalarına yaklaştırmak açısından önemli girişimlerdir. Önceki dönemde olduğu gibi, 1999 sonrası dönemde de ekonomik kriz yapısal değişiklikler gerektiren kamu yönetimi reformunu tetiklemiştir. Ancak bu defa, söz konusu yapısal reformların gerçekleştirildiği ve sürdürülebilir köklü ve bütünsel önlemlerin alındığı görülmektedir. Bu bölümde de, iyi yönetişim perspektifinden kamu mali yönetiminin durumu ele alınmakta; reform girişimleri ve bu dönemdeki önemli değişimin arkasındaki nedenler incelenmekte; iç ve dış faktörlerin arasındaki etkileşim ortaya koyulmaktadır. Bu yolla, şu sorulara yanıt aranmaktadır: İç faktörler zaman içinde nasıl gelişmiştir? Neden köklü değişiklikler daha önce değil de, bu dönemde olmuştur? UFK'lar ve AB Türkiye'nin

Kamu Mali Yönetimi Kanunu ve Sayıştay Kanununu kabul etmesinde nasıl bir etkiye sahiptir? Buna ek olarak, vaka çalışmasının AB üyeliğine aday bir ülke olan Türkiye üzerine olması nedeniyle, Avrupalılaşmanın etkisi, AB koşulluğu ve bir taahhüd aracı olarak ne tür etkilerde bulunduğunun üzerinde durulmaktadır. Bu, Avrupa Birliği genişleme sürecinin aday ülkelerdeki kamu maliye politikaları ve yapıları üzerindeki etkisini görmek açısından da önem taşımaktadır.

Türk kamu yönetiminde 2000'li yıllardaki reform çabalarına bakıldığında, birçok açıdan önceki dönemlerden farklılık göstermektedir: İlk olarak, değişimin temel nedenlerinden biri, bilgi çağı ve küreselleşmenin gereklerinden kaynaklanan ihtiyaçların karşılanmasıdır (Kapucu, 2003). Başka bir deyişle, amaç iyi yönetişimin yerinden yönetim, insan hakları, hesap verebilirlik, saydamlık, katılımcılık ve etkili, etken ve verimli kamu yönetimi sisteminin kurulması gibi temel ilkelerinin, ulusal düzeyde uygulanabilmesi için gereken adımların atılmasıdır. Bu hedef doğrultusunda, idari yapıların işleyişinin, stratejik yönetim, performans yönetimi ve yatay organizasyon yapılarında geçerli olabilecek etkin denetim uygulamaları ile takviye edildiği görülmektedir. İkinci olarak, 2001 İstikrar Programı sırasında iktidarda olan koalisyon hükümeti program ile eşzamanlı olarak UFK'lar ve AB ile bazı tamamlayıcı projeler yürütmüştür. Bu projeler, kamu harcamalarının daha saydam, politika hedeflerine yönelik izlenebilir ve değerlendirilebilir hale getirilmesi hedefine yönelik olarak uygulanmıştır.

1999 sonrasında meydana gelen politika değişikliğinin arkasındaki dinamikleri analiz ederken, hem iç ve hem de dış faktörlerde önemli değişiklikler göze çarpmaktadır. 2000 ve 2001 yıllarındaki yıkıcı ekonomik krizlerin ardından, kamu yönetiminde yapısal değişiklikler yapılmasını savunan toplumsal aktörler arasında bir söz birliği oluşmaya başlamıştır. 1999 yılında meydana gelen şiddetli depremler ve ardıl ekonomik krizlerin etkisiyle, halk arasında kamu kaynaklarının giderek belirginleşen bir biçimde kötü idare edilmesine karşı tepkilerin arttığı görülmektedir. Öte yandan, devletin düzenleyici rolünün güçlenmesi, Türk ekonomi politiğinde liberal ekonomi

ilkelerinin zaman içinde derinleşmesi devlet ve piyasa arasındaki bir ilişkiye yeni bir boyut getirmiştir. Bu yeni denge içerisinde, piyasa güçleri ve özel sektör, devlet karşısında önceki döneme oranla güçlenmiştir. Gelişen bu yapının, toplumsal sonuçları da olmuştur. Liberalleşme süreci, askeri rejimden sivil hükümetler dönemine geçen Türkiye'de hız kazanmış ve bu etki siyasi alana da yansımıştır. Liberalleşmenin etkisiyle güçlenen ekonomik gruplar, AB katılım öncesi süreci kapsamında sağlanan desteklerle güçlenen STK'lar giderek daha etkin bir rol oynamaya başlamış ve politika belirleyicilere seslerini daha fazla duyurur olmuşlardır. TÜSİAD, TOBB, TEPAV ve TESEV gibi kuruluşlar destekledikleri araştırmalar, veri analizleri ve yayımladıkları raporlar yoluyla kamuoyundaki ve siyasi düzeydeki görünürlüklerini ve etkinliklerini arttırmışlardır. Devlet-toplum ilişkileri Jeffrey Checkel (1999b)'in sınıflandırması bazında ele alındığında, patrimonyal devletin varlığını sürdürmesine karşın "korporatist sistem"e doğru bir yönelim olduğu görülmektedir. Kriz sonrası dönemde, siyasi iktidar ile bürokrasi arasındaki ilişkiler, özellikle Kemal Derviş'in Ekonomiden Sorumlu Devlet Bakanı olmasının ardından artmıştır. Bu değişimler çerçevedesinde, iç faktörlerin değişime daha elverişli hale geldiği ve politika transferi sürecinin tamamlanması önündeki engellerin büyük ölçüde azaldığı görülmektedir.

Bu dönemdeki iç faktörlere bakıldığında ise, Avrupa Birliği'nin ilk dönemdekinin aksine, Türkiye'ye AB üyeliği için adaylık statüsünün verilmesiyle birlikte Uluslararası Para Fonu (IMF)'na ek olarak ikinci bir çıpa olduğu görülmektedir (Eralp, 2009; Öniş, 2009; Öniş ve Bakır, 2007). Bu değişimin etkileri şöyle özetlenebilir: İlki normatif unsurdur. AB, yaygın olarak benimsenmiş ilkeleri korumak amacıyla hareket etmekte ve üye ülkeleri ile aday ülkeleri de bu kuralları uygulamaya yönlendirmektedir. AB ilke ve uygulamaları ile uyumu kolaylaştırmak amacıyla, koşulluluk ilkeleri ciddiyetle takip edilmekte ve tüm aday ülkelerde kamu politikası üzerinde etkili olması beklenmektedir. Söz konusu koşulluluk, ekonomi politikasında ve özellikle kamu mali yönetiminde iyi yönetişimin öneminin vurgulanması ve üye ülkelerin işleyen bir piyasa ekonomisi ilkeleri doğrultusunda

faaliyetlerde bulunmaları gerektiği gibi unsurlarda görülmektedir. AB'nin etkisi ile ilgili ikinci mekanizma söylemseldir. AB, AB'ye katılım için bir çok düzenleme yapılması gerekmesi ve üyeliğin yeni üye devletler için dönüştürücü bir etkisi olması nedeniyle, adaylık statüsünün ve hatta üyelik sürecinin tamamlanmasından sonraki süreçte ulusal yetkililer ile düzenli temas halindedir. Bürokratlar, Avrupa Birliği ve ulusal kurumlardaki uzmanlar, kendilerini teknik ve siyasi konularda sürekli bir diyalog içinde bulmaktadırlar. Bu durumun kaçınılmaz bir sonucu olarak, AB iç siyasi yapının yarı-kalıcı bir parçası olmakta ve ülkedeki siyasi söylemin yönünü etkilemektedir. Bu durum, Türkiye örneğinde de görülmektedir. 1999 yılında üyelik statüsünün verilmesiyle birlikte, siyasiler ifadelerinde, algı ve iç siyasi gelişemelere tepkilerinde AB beklentilerine ve AB'ye atıfta bulunmaya başlamışlardır. Ancak, bu durum UFK'lar ile olan ilişkilerde ve özellikle söylemlerde görülmemektedir. Ayrıca, Birliğin ulusal düzeyde normatif ve söylemsel etkisi nedeniyle toplumsal aktörler kendilerini devlet karşısında daha yetkin görmüşler ve politika belirleme sürecinde daha aktif bir rol almaya çalışmışlardır.

Ancak, bu Uluslararası Finans Kuruluşlarının reform sürecinde daha az etkili olduğu anlamına gelmemektedir. Sonuç olarak, hem Uluslararası Finans Kuruluşlarının hem de AB'nin, siyasi erkin sıkı mali disiplin ve beraberinde getirdiği yapısal reformlara yerli çıkar gruplarının itirazlarını tersine çevirmek konusunda büyük katkısı olduğu bilinmektedir (Öniş ve Bakır, 2007: 148). Özellikle kamu mali yönetimi alanında, Uluslararası Finans Kuruluşları iyi yönetişim perspektifiyle şekillendirilmiş uluslararası standartların benimsenmesi yönünde rehber vazifesi görmektedirler. Ancak, UFK'ların 1995 yılındaki raporlarındaki eleştiri ve önerileri ile 2000 yılındaki eleştiri ve önerileri arasında büyük bir fark olmamasından, hükümetlerin bu önerileri öncelikleri arasında almadığı sonucu çıkarılabilir. Güvenin (2010: 2) de belirttiği gibi UFK rehberliğindeki reformlarda güçlü uluslararası normların söz konusu olduğu uygun bir ortam, genel geçer uygulamalar, bürokratik hazırlık ve ulusal aktörlerin onayı olmazsa olmaz unsurlardır.

Bu bağlamda, toplumun hemen hemen tüm kesimlerini etkileyen ekonomik kriz ve AB üyelik perspektifi makroekonomik istikrarın sağlaması için gereken geniş bir fikir birliği oluşturma, önceki dönemin ana unsurları olan iltimasçılık ve yolsuzluğa mümkün olduğunca set çekme konusunda (Öniş, 2009: 428) çok etkili olmuştur. Maliye eski Bakanı Sümer Oral bu hususa şu şekilde dikkat çekmektedir: "IMF programlarındaki koşulluluk değişmemesine rağmen, yeniden yapılanma getiren politikalara olan ihtiyacı gözler önüne seren esas unsur ekonomik kriz olmuştur" (Arpac ve Kuş, 2009: 149). Bu nedenle, ekonomik krizler idari reformlar için "tetikleyici faktör" olarak görülürken, AB ve UFK'lar "çıpa" olarak kabul edilmelidir. Bu unsurlar olmadan, önemli konulardaki bir dizi mevzuatın kabul edilmesi kolay olmayabilirdi. Başka bir deyişle, Türkiye'de kriz sonrasındaki dönemde, siyasi ve ekonomik ortamın değişmesinde hem iç hem de dış dinamiklerin etkileri olmuştur (Öniş, 2009: 410). Bu çerçevede, IMF makro-ekonomik istikrar, AB ise siyasi ve düzenleyici reformlar için birer çıpa olarak görülmüştür (Ülgen, 2006: 3). Reform girişimleri katılım odaklı olduğunda, katılım perspektifinin sağladığı "fırsat yapıları" nedeniyle iç faktörler, dış faktörlerin reform sürecine rehberlik etmelerini sağlamışlardır. Ulusal aktörler, ulusal gereksinimler ile uyumlu olan AB ve UFK koşullarını kamuoyu karşısında bir taahhüt unsuru olarak kullanmışlardır. Öte yandan, AB çıpası IMF'in reform karşıtı güçlerin itirazlarını bertaraf etmesinde de yardımcı olmuştur (Öniş ve Bakır, 2007: 155). Bu açıdan bakıldığında AB, kamu mali yönetimindeki politika değişikliğini sağlayan önemli bir unsurdur. AB'nin reform sürecine bir çıpa olarak katılımından sonra, AB'ye nihai üyelik yönünde sağlanan teşvikler ve koşulluluk, IMF tarafından sağlanması tavsiye edilen disiplinin daha kolay bir şekilde uygulanmasına yardımcı olmuştur (Öniş, 2009: 417).

Özetle, ikinci dönemdeki reformun arkasındaki temel itici güçler, 1995'te aktif olan "epistemik topluluk" ve 2000lerde bürokratlar, sivil toplum örgütleri, akademisyenler ile birlikte Uluslararası Finans Kuruluşları ve AB tarafından desteklenen "savunma koalisyonunun" oluşmasıdır. İkinci olarak, AB'nin daha aktif

bir aktör olarak sürece katılımı ve son olarak da, iç aktörlerin özellikle krizler sonrasında dış aktörlere ilişkin olan algılarının değişmesi ve onları makro-ekonomik istikrar için çok önemli bir çıpa olarak görmeye başlamalarıdır (Göksel, 2011: 317).

Sonuç olarak, Türkiye'de kamu yönetimi reformunu ekonomik krizlerin tetiklediği ancak reformun kapsamının, hızının ve etkinliğinin iç ve dış faktörler arasındaki etkileşim sonucunda belirlendiği söylenebilir. Iyi yönetişim ilkeleri, hem uyum odaklı hem de katılım odaklı reform dönemlerinde aynıdır. Ancak, politikanın uygulanması ve yöntemi siyasi aktörler tarafından kabul edilen reform odağına göre değişiklik göstermektedir. Küreselleşen dünyada dış faktörler her zaman mevcut olmasına rağmen, dış aktörlerin taleplerinin ulusal politika çerçevesi içine dahil edilmesi ulusal aktörlerin istekliliğine bağlıdır. Bu aktörlerin istekliliği ise bazı unsurlara bağlıdır. Bunlar, devlet, piyasa ve toplum ile siyasi iktidar ve bürokrasi arasındaki kurulan ilişkilerin yapısıdır. İktidarda olan hükümetin yapısı ve reforma yaklaşımı da önem taşımaktadır. Zayıf bir koalisyon hükümeti reform sürecini başlatma ve/veya sürdürme yönünde zorluklarla karşılaşabilirken, güçlü bir çoğunluk hükümeti reform için cesur adımlar atıp, ortaya çıkabilecek direnci kontrol altında tutarak reformun ivmesini korumak için gerekli önlemleri alabilmektedir.Öte yandan, hükümetin kararlılığı ve sürece sahip çıkması herhangi bir reform sürecinin sürdürülebilirliği belirlemede önem taşıyan unsurlardır. Bir başka unsur ise, AB üyeliği perspektifinin yakınlık derecesidir. Üyelik perspektifi net olmadığında, AB'nin çıpa etkisi önemli ölçüde zayıflayabilmekte ve hatta reform sürecinde gerilemeler görülebilmektedir.

Bu çalışma, yukarıda sözü edilen ampirik bulguların yanı sıra, literatüre politika transferi ile Avrupalılaşma ve küreselleşme arasındaki ilişkiye ilişkin katkıda bulunmayı amaçlamaktadır. Her iki alanda da giderek gelişen bir literatür olmasına karşın, Türkiye'de kamu mali yönetimi reformu küreselleşme, Avrupalılaşma ve politika transferi perspektifinden ele alınmamıştır. Ayrıca, Türkiye özelinde yapılan önceki çalışmalarda politika transferi kuramının, süreç izleme metoduyla

incelenmediği görülmektedir. Politika transferi, Türkiye'de kamu mali yönetim gündeminin şekillenmesine teknik uzmanlık ve düşünsel etkilerin nasıl katkıda bulunduğunu göstermek açısından önem taşımaktadır. Bununla birlikte, bu yaklaşımın etkisi iç ve dış unsurların etkileşimi sonucunda ortaya çıkan ortamın oluşması ile yakından ilgilidir. Politika transferi, sadece kamu mali yönetimi alanında değil, genel olarak kamu yönetimi alanında da dönüşüm koşullarını anlamak için geçerli bir kuramdır.1980'lerden bugüne kamu yönetimi reformunun gerçekleştirildiği ülkelerin çoğunda politika transferinin oldukça etkili olduğu görülmektedir (Sobacı, 2009: 231).

İç ve dış faktörlerin politika değişimine yönelik etkileşimi, politikalar arasındaki yakınsamayı ve politika transfer ağlarının işleyişini büyük ölçüde etkilemektedir. Türkiye örneğine bakıldığında, 2000'li yıllarda politika transferi süreci tamamlanmış, uluslararası standartlar ve iyi uygulamaların etkisi altında hazırlanmış olan Kamu Finansmanı ve Borç Yönetiminin Düzenlenmesi Hakkında Kanun, Kamu Mali Kontrol ve Yönetimi Kanunu ile Sayıştay Kanunu kabul edilmiştir. Türkiye'de politika transferinin söz konusu olduğu reformlarda, söz konusu transferlerin politika transferi koşulluluk göstergesinde, gönüllüden çok zorlayıcı bir etkisinin olduğu görülmektedir (Sobacı, 2009: 231). Söz konusu göstergede, UFK koşulluğunun zorlayıcılığı en yüksek politika transferi olduğu, yükümlülüklerden kaynaklanan AB koşulluğunun ise göreli olarak daha az zorlayıcı olduğu görülmektedir (Dolowitz ve Marsh, 1996). Dikkati çeken unsur ise, her iki inceleme döneminde de UFK koşulluğu mevcut olmasına karşın, politika transferi sürecinin, ancak AB koşulluğunun ulusal reform sürecine dahil olduğu ikinci dönemde tamamlanmış olmasıdır. Bu durum aşağıdaki tabloda özetlenmektedir.

Türk Kamu Yönetimi Reformunda Reform ve Politika Transferi Türleri

Süre	Reform Türü	Politika Transferi Türü
1980-1999	Uyum Odaklı	Zorlayıcı
1999	Katılım Odaklı	Daha Az Zorlayıcı

AB üyeliği ile ilişkilendirilen zorluklar küreselleşme ile ilgili olanlar ile aynı olmasına (Scott, 2007: 70) rağmen, AB etkisinin daha yüksek olduğu görülmektedir. Bunun nedeni, AB tarafından sunulan üyelik ihtimalidir. Bu çerçevede, AB politika transferine konu olacak husus, ulusal karar verme mekanizmasına girme aşamasındayken, sürecin tamamlanması için kolaylaştırıcı rol oynamaktadır. Bu veriden yola çıkarak, katılım odaklı reformun başarı şansının, daha zorlayıcı bir koşulluluk içermesine karşın uyum odaklı reforma göre daha yüksek olduğu sonucuna varılmaktadır. Politika transferi sonucunda gerçekleşen kamu mali maliyesindeki politika değişikliği vaka çalışmasında dikkati çeken bir diğer unsur ise, uluslararası standartlar ve AB iyi uygulama örnekleri dışında yazılı bir Avrupa Birliği müktesebatının bulunmamasıdır. Buna karşın, mevcut olan standart ve örnekler de politika değişikliğine yol açabilmiştir (Göksel, 2011).

Bu çalışmada, AB ve Uluslararası Finans Kuruluşları, Avrupalılaşma ve küreselleşme süreçlerinin arasındaki ilişkiye dair ipuçlarına ulaşmak amacıyla bu olguların temsilcisi olarak ele alınmıştır. Literatürde de, bu süreçler arasındaki ilişkinin doğası üzerine tartışmalar uzunca bir süredir devam etmektedir. Türkiye'deki kamu mali yönetimi reformu vaka çalışması üzerinde yapılan incelemeler, Avrupalılaşmanın küreselleşme sürecinin gelişmesi ve yaygınlaşması yönünde kolaylaştırıcı rol oynadığı sonucunu doğurmaktadır. Bu bağlamda, ulaşılan

sonuç küreselleşme ve Avrupalılaşma arasındaki ilişkilere Rosamond (1999) tarafından sağlanan AB'nin küreselleşmeyi kolaylaştırdığına yönelik savını desteklemektedir. AB, bunu devlet ve küreselleşme arasında aracılık yapmak suretiyle gerçekleştirmektedir (Graziano, 2003). Bu nedenle, Avrupalılaşma ile küreselleşmenin birbirleriyle yakından ilişkili olduğu ve birbirlerini takviye ettiği de söylenebilir. AB, hükümetler için bir taahhüt unsuru olarak onları değişime yönelik kararlarında teşvik etmektedir. Bunu yaparken, uluslararası standartlar ve iyi uygulama örneklerine da atıfta bulunmakta, küreselleşmeye göre daha az zorlayıcı bir koşulluluk barındırmakla birlikte, ulusal politika yapılarında daha kısa zamanda değişimi öngörmektedir. Arzu edilen değişimin içeriği, yalnızca Avrupa Birliği tarafından değil, Uluslararası Finans Kuruluşları ve diğer uluslararası örgütlerle işbirliği halinde şekillendirilmektedir. Bunun bir sonucu olarak da, kamu mali yönetimi de dahil olmak üzere birçok politika alanında yakınsama görülmektedir. Bu bağlamda, iyi yönetişim uluslararası ilkeler ve reform gündemlerinin belirlenmesine rehberlik eden kapsamlı bir ilkeler bütününü ifade etmektedir.

APPENDIX G

TEZ FOTOKOPİSİ İZİN FORMU

ENSTİTÜ

Fen Bilimleri Enstitüsü ☐

Sosyal Bilimler Enstitüsü ■

Uygulamalı Matematik Enstitüsü ☐

Enformatik Enstitüsü ☐

Deniz Bilimleri Enstitüsü ☐

YAZARIN

Soyadı : Özdemir Tsarouhas
Adı : Umut Evin
Bölümü : Uluslararası İlişkiler

TEZİN ADI (İngilizce): **Good Governance in Conditions of Globalization and Europeanization: Public Financial Management in Turkey from a Policy Transfer Approach**

TEZİN TÜRÜ : Yüksek Lisans ☐ Doktora ■

1. Tezimin tamamından kaynak gösterilmek şartıyla fotokopi alınabilir. ☐
2. Tezimin içindekiler sayfası, özet, indeks sayfalarından ve/veya bir bölümünden kaynak gösterilmek şartıyla fotokopi alınabilir. ☐
3. Tezimden bir (1) yıl süreyle fotokopi alınamaz. ■

TEZİN KÜTÜPHANEYE TESLİM TARİHİ: