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Policy Transfer, External Actors and Policy Conditionality: Public Financial Management Reform in Turkey

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ABSTRACT
Turkey's economic turmoil of today is reminiscent of an earlier era, during which instability, high inflation, and financial mismanagement ruled the day. Yet until recently, Turkey was celebrated as an economic success story, enjoying rising prosperity, high GDP growth, and a healthy fiscal outlook. How was that success possible? Which mechanisms allowed for successful policy reform and how did internal reform dynamics interact with exogenous factors? This article examines the effects of EU and IFI policy conditionality on Turkey, arguing that EU-induced conditionality is more effective compared to IFI conditionality. Further, this work demonstrates the formation of a domestic epistemic community, which evolved into an advocacy coalition and became a crucial pillar for policy reform. Finally, shrewd policy entrepreneurs used a favorable window of opportunity and aligned with the reformist coalition to overcome barriers to policy change.

KEYWORDS
Economy; epistemic community; European Union; International Monetary Fund; policy reform; policy transfer; Turkey; World Bank

Introduction

The literature on conditionality and public policy reform offers important insights as to the mechanisms and policy settings that facilitate positive change. It is particularly useful in identifying the mediating variables that allow for the implementation of successful policy practice when international financial institutions (IFI) conditionality is in operation, as well as the limits of this type of conditionality.[1] The same can be said for the strand of literature focusing on European Union (EU) conditionality for states either seeking to join the organization or that have developed strong ties with the Union as a result of the latter's neighborhood policy.[2] Nevertheless, the focus and policy area that is subject to empirical investigation tends to concentrate *either* on IFI *or* on EU conditionality. Rarely does the literature attempt to investigate the extent to which policy reform is facilitated or hindered through the existence of simultaneous conditionality by both the EU and IFIs.

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[1]Wolfgang Mayer and Alex Mourmouras, "IMF Conditionality: An Approach Based on the Theory of Special Interest Politics," *Review of International Organizations* 3, no. 2 (2008): 105–21.

[2]Rachel Epstein and Ulrich Sedelmeier, "Beyond Conditionality: International Institutions in Postcommunist Europe After Enlargement," *Journal of European Public Policy* 15, no. 6 (2008): 795–805.

This article adds to the existing literature in three ways. First, it examines the effects of policy conditionality and identifies the factors behind its implementation by examining both EU and IFI conditionality in a longitudinal manner. Second, it seeks to overcome the public policy/political economy dichotomy by incorporating both factors into the analysis. To do so, and this is its third contribution, this study focuses on an underresearched yet crucial policy area, namely, public financial management (PFM) reform.[3]

The present analysis applies to Turkey, a country celebrated until recently as an economic success story among emerging markets. Following the severe economic crisis of 1994, Ankara faced much deeper economic crises in 2000 and 2001. During the 2001 crisis, the Turkish economy shrank by 9.4 percent, and stock markets, employment, production, finance and the Turkish lira went into a downward spiral.[4] Yet, the country soon was able to rebound and became the success story mentioned earlier. How was this possible? Which mechanisms allowed for successful policy reform and how did internal reform dynamics interact with exogenous factors? During the 1994 crisis, similar policy recipes and similar external actors (the IFIs) were involved in the attempt to learn the crisis' lessons, but to no avail. What changed?

This article argues that EU conditionality in the form of "accession-oriented reform" type is more effective compared to IFI conditionality, which can be characterized as "adjustment-oriented reform." Further, the study argues that a domestic epistemic community formed following the 1994 economic crisis, which evolved into an advocacy coalition and became a crucial reform pillar following the 2000–01 crises.[5] This allows one to distinguish between different intervening variables in explaining successful policy change and suggests that successful policy reform hinges on much more than coercive forms of conditionality.

In what follows, the rationale behind this case study selection is explained and the key terminology defined. The next part contextualizes the analysis with reference to the policy transfer literature and advocacy coalition and explains the methodological approach before focusing on the core argument. The following section analyses the 2000–01 crisis and demonstrates how accession-oriented reform broke down resistance to change. The conclusion summarizes the main argument and places the findings in a comparative context.

[3] Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis* (Oxford: Oxford University Press, 2004).

[4] IMF, "Turkey-Fiscal Management Assessment, 2002," http://adlib.imf.org/digital_assets/wwwopac.ashx?command=getcontent&server=webdocs&value=EB/2002/SM/154479.PDF (accessed Oct. 7, 2015).

[5] An epistemic community is a network of like-minded experts who share knowledge on a given subject and a have common approach to it. See Peter M. Haas, "Banning Chlorofluorocarbons: Epistemic Community Efforts to Protect Stratospheric Ozone," *International Organization* 46, no. 1 (1992): 187–224.

Why public financial management?

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines public financial management 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."[6] The public budget has a central role to play regarding accountability through which governments inform citizens about how public resources will be raised and used, and as a means to resolve common pool problems among politicians.[7] In the EU context, sound financial management is a requirement both for candidacy and membership. Moreover, public financial management constitutes the core of the structural reforms with which the IMF and the World Bank request borrowing countries to comply.

Adjustment-oriented vs. accession-oriented reform

Adjustment-oriented reform occurs whenever reforms are prescribed by international or national policy transfer networks or both to adjust the national economy to the global one. On the other hand, "accession-oriented reform" takes place when conditions are mainly prescribed by the EU or another entity offering membership and supported by various regional or national policy transfer networks of a combination of these. In the former, the national administration introduces changes to its public administration institutions, processes, and policies to improve their function. In this case, the influence of endogenous factors should be higher than exogenous ones, as they are able to determine the pace and direction of change to an extent highly independent from international institutions. 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 organization that it desires to join. Furthermore, exogenous factors are more influential than endogenous ones in accession-oriented reform because the country must comply with concrete requirements. Moreover, these institutions have the power to make the state in question comply based on the principle of conditionality and the need to pass through a series of assessments. What is *common* in both types of public administration reform is that national authorities seek to address reform requirements by making use of policy transfer opportunities available at the national or international level.

[6]Chartered Institute of Public Finance and Accounting (CIPFA), *Public Financial Management: A Whole System Approach* (London: The Chartered Institute of Public Finance and Accounting, 2010).
[7]Izak Atiyas and Ferhat Emil, "Political Economy of Governance Failures, Crises and Opportunities for Reform," *Turkey Country Profile* (Cairo: Economic Research Forum, 2005).

Policy transfer and advocacy coalitions

The policy networks approach has been one of the most successful tools for analyzing change because it focuses on the interaction of all-important agents within a given political system. In particular, approaches such as epistemic communities, the advocacy coalitions framework, and the policy transfer network have proven very useful.[8] Dolowitz and Marsh analyze how states, international organizations and transnational corporations engage in policy transfer.[9] Within the EU enlargement framework, accession negotiations supported by financial and technical assistance, advice provision, and the twinning of administrative staff serve as policy transfer channels.

Policy makers in countries exposed to similar pressures will 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.[10] Evans and Davies introduce three dimensions in 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-organizational level.[11] Taking these dimensions into account, this article focuses on the policy transfer networks developed and nurtured among the most influential actors involved in the process of policy formulation in the area of PFM. These are elected officials, political parties, civil servants, civil society organizations, pressure groups, and international organizations. In this case study, the role of politicians, bureaucrats, and international organizations is particularly salient. Moreover, international organizations in general, and IFIs in particular, promote the spread of ideas, programs, and institutions on a global scale directly by influencing national policymakers through their policies and loan conditions and indirectly through "soft" methods, including conferences, reports, and similar output.

Dolowitz and Marsh identify two types of policy transfer: "voluntary" and "coercive". Voluntary policy transfer occurs because of political actors' free choices, while coercive policy transfer involves an external factor pushing for change. The open request of one government to another to adopt a policy and the conditionality exerted on a government by an international organization are typical examples of coercive policy transfer.[12] Coercive policy transfer can also

[8]David Marsh and R. A. W. Rhodes, "Policy Networks in British Government," in *Policy Networks in British Government*, ed. David Marsh and R. A. W. Rhodes (Oxford: Clarendon Press, 1992); Paul A. Sabatier and Hank Jenkins-Smit, "The Advocacy Coalition Framework," in *Theories of the Policy Process*, ed. Paul A. Sabatier (Oxford: Westview Press, 1999); and Mark Evans and Jonathan Davies, "Understanding Policy Transfer: A Multi-level, Multi-disciplinary Perspective," *Public Administration* 77, no. 2 (1999): 380.

[9]David P. Dolowitz and David Marsh, "Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making," *Governance* 13, no. 1 (2000): 7.

[10]Ibid., 12.

[11]Evans and Davies, "Understanding Policy Transfer," 364.

[12]David P. Dolowitz and David Marsh, "Who Learns What from Whom: A Review of the Policy Transfer Literature," *Political Studies* 44, no. 2 (1996): 344.

occur because of conditionality, since one of the latter's goals is to alter the target actor's preferences over strategies and outcomes in formulating domestic reforms. Dolowitz presents IMF conditionality as an example: a loan is approved provided that a recipient country pursues particular policy adjustments such as administrative reform, privatization, and market liberalization. Stone asserts the loan conditions that include radical changes in economic policies should be considered coercive policy transfer through international organizations.[13] As reflected in Figure 1, Dolowitz and Marsh conceptualize policy transfer in terms of a continuum that runs from lesson-drawing at the voluntary end to direct imposition at the coercive end.

The lesson-drawing end of the continuum assumes that actors choose policy transfer as a rational response to a perceived process. The coercive end of the continuum refers to cases where transnational organizations and international financial institutions oblige governments to adopt programs and policies. This case study corresponds to that categorization.

There are two types of transfer on this part of the continuum toward the coercive end: "obligated transfer", where national governments must adopt programs and policies as part of their obligations and "conditionality", where an agency conditions the release of loans to a number of requirements.[14] The question then arises regarding the type of transfer occurring within the EU. Are EU acts coercive? Given that member states also influence the adoption of EU policies, this is more of an obligated transfer than a coercive one.

When politicians or policy entrepreneurs initiate the process, they do so voluntarily.[15] When international organizations are involved, this is coercive transfer. All the same, it is more likely to be voluntary when these organizations merely organize conferences or issue reports, i.e. act through "soft" conditionality mechanisms. The timing of policy transfer also determines whether it is voluntary or coercive. It is highly likely to be done freely if it occurs at a period of social, political, and economic stability whereas policy transfer is likely to entail coercive elements if it is triggered by crises.

Adopting the above framework, this author advances a twofold argument. First, officials put successful conditionality in place in Turkey following the existence of *both* a particular type of policy transfer *and* the emergence of a cohesive advocacy coalition. Second, the type of policy transfer inspired by EU conditionality (obligated transfer leading to accession-oriented reform) is shown to have been more successful than that of the IFIs, i.e. a "pure" form of coercive transfer through adjustment-oriented reform. Public policy-making is intrinsically complicated. Translating policy aims and objectives (such as the

[13]Diane Stone, "Transfer Agents and Global Networks in the 'Transnationalization' of Policy," *Journal of Public Policy* 11, no. 3 (2004): 560.

[14]Dolowitz and Marsh, "Learning from Abroad," 16.

[15]Policy entrepreneurs are actors with knowledge of the policy-making process who seek to further their own interests in it. See John W. Kingdon, *Agendas, Alternatives and Public Policies* (Boston: Little Brown, 1984).

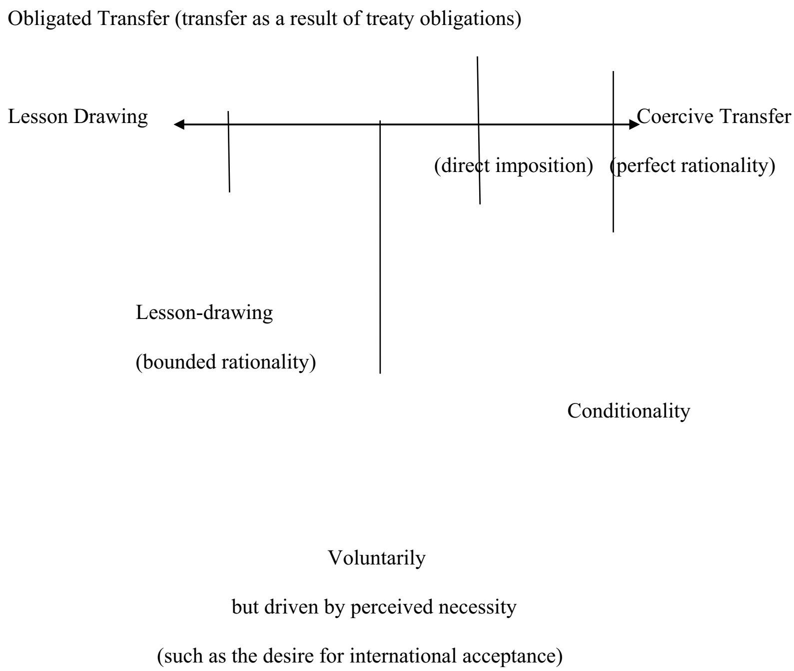

Figure 1. The continuum from lesson drawing to coercive transfer (Source: David P. Dolowitz and David Marsh "Learning from Abroad: The Role of Policy Transfer in Contemporary Policy-Making," *Governance* 13, no. 1 (2000): 13).

ones endorsed by the EU and the IFIs) into tangible policy outcomes necessitates attentive focus on the policy design-process, and in particular the various interactions of various actors and agents tasked with carrying out reforms in a context-specific manner and with limited information and resources.[16] At the same time, recent research suggests that the role of administrative systems remains key in policymaking and service delivery, and that networked forms of governance as replacing government are overstated.[17]

Methodology

This article adopts a qualitative research design and a case study research method. Its research design is premised on triangulation using primary documentation and secondary sources. It analyzes fluctuations and differentiation in policy over two periods, namely, from the early 1990s to the 1994 economic crisis and that from 1999 to the late 2000s. The analysis ends in the late 2000s to limit the scope of the analysis to a feasible timeframe.

[16]Michael Howlett, "Governance Modes, Policy Regimes and Operational Plans: A Multi-level Nested Model of Policy Instrument Choice and Policy Design," *Policy Sciences* 42, no. 1 (2009): 84.
[17]Laurence E. Lynn and Robbia Waters Robichau, "Governance and Organisational Effectiveness: Towards a Theory of Government Performance," *Journal of Public Policy* 33, no. 2 (2013): 201–28.

The study derives primary data from sources, such as the various National Development Plans, the Turkish National Program for the Adoption of the *Acquis*, the World Bank Public Expenditure and Financial Accountability and Annual Reports as well as IMF Reports, Letters of Intent, and EU Accession partnership documents. Finally, the author conducted nine interviews in Ankara and Brussels between 2012 and 2015 in a face-to-face, semi-structured format, while two more interviews took place using electronic correspondence, which was based on the same semi-structured format.

The 1994 crisis in Turkey: An epistemic community formed

In the beginning of the 1990s, Turkey experienced increased public expenditure because of a hike in the public wage bill, generous agricultural support policies, and large subsidies handed out to state-owned economic enterprises.[18] These actions resulted in large deficits with high interest paid on the public debt. High fiscal deficits and inflationary pressure overshadowed the gains incurred from liberalizing the economy. Furthermore, the government decided to liberalize capital accounts without the necessary regulatory framework in place. Internal imbalances in 1993 spilled over to the external account. Successive governments opted for short-term solutions instead of structural changes, which further increased the budget deficit and domestic debt stock. Failure to implement institutional changes and a weak banking sector, coupled with political instability, gave rise to the 1994 crisis.

The 1994 economic crisis triggered the adoption of the 5 April 1994 Program, which envisaged structural reforms. The main objectives of the program were to achieve a substantial reduction in the fiscal deficit and inflation, reduce the external payments deficit, restore foreign exchange reserves, and establish a structural framework for more sustainable rapid growth through a considerably reduced role of the state in the economy. It also envisaged significant cuts in discretionary government spending, immediate price increases for state-owned enterprises and a tighter monetary policy.[19] An International Monetary Fund (IMF) standby agreement supported the program. In the short term, the reforms led to a substantial budget deficit reduction, a current account surplus, and an increase in foreign currency reserves. Nonetheless, structural reforms were delayed. Although officials took significant steps to strengthen tax policies, "progress with reform in the rest of the public sector [was] lagging."[20] The reform record in the 1990s was limited to changes in a law that structured build-operate-transfer procedures, another measure that consolidated Treasury Guarantees and off-

[18] Erdal T. Karagöl, "Does Turkey Need a New Standby Agreement?" SETA Policy Brief no. 9 (2008).
[19] Ibrahim Turhan, "Why Did it Work This Time: A Comparative Analysis of Transformation of Turkish Economy After 2002," *Asian-African Journal of Economics and Econometrics* 8, no. 2 (2008): 262.
[20] World Bank, "Republic of Turkey – Public Financial Management Project" (Report no. 14,656-TU, The World Bank, Washington, D. C, 1995).

budget lending, and an improvement in gathering statistics and reporting of general government operations.

In Turkey's seventh National Development Plan (1996–2000), the chapter on "Basic Objectives and Principles" indicated that authorities developed the new policy on the basis of a "new strategic approach."[21] Moreover, this was the first national plan that entailed the term "structural reforms." Nevertheless, the policy was more like a wish list of reforms without any clearly discernible strategic framework.

Economic reasons for failure: A brief assessment

The report of the Special Ad Hoc Committee on Restructuring Public Financial Management and Fiscal Transparency set up in preparation of the eighth National Development Plan (2001–05) indicated that the budget scope was very narrow and reflected merely a portion of the funds managed by the government.[22] Likewise, the World Bank Public Financial Management Project Report showed 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."[23] The 2000 EU Progress Report on Turkey highlighted 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 as well as an overall law on public internal financial control (PIFC).[24] Furthermore, procedures for external and internal auditing or standards were absent. All of these reveal a consensus among exogenous actors as well as the bureaucratic elite on the need and direction for PFM reform.

The interaction between endogenous and exogenous factors: A domestic epistemic community formed

The 1994 economic crisis triggered efforts by bureaucrats to look for sustainable solutions. Through the Public Financial Management Project of the World Bank, a group of high-level bureaucrats from the Ministry of Finance, the Under-Secretariat of Treasury, the State Planning Organization (SPO), the Central Bank, the Turkish Court of Accounts, and academics convened regularly to reflect on how to improve PFM. By 1995, a domestic epistemic community for improving public financial management came into being.

[21]SPO, *Uzun vadeli strateji ve sekizinci beş yıllık kalkınma planı (2001–2005)* (Ankara: Devlet Planlama Teşkilatı, 2000).
[22]Ibid.
[23]World Bank, *Public Financial Management Report*, 13, 18–19.
[24]European Commission, "Regular Report from the Commission on Turkey's Progress toward Accession," Brussels, 2000, http://ec.europa.eu/enlargement/archives/pdf/key_documents/2000/tu_en.pdf (accessed Sept. 5, 2015).

This group continued to operate in the form of the special sectoral committee on PFM to provide input into the eighth National Development Plan after the completion of the project. The same body continued to work on this issue from 1995 until the government enacted major legislative reform.

The role of the IFIs

Although the Organization for Economic Co-operation and Development (OECD), the World Bank and the IMF "played a big role in Turkey's adjustment program … they did not dictate most of its content."[25] Their major influence was on the evolution of economic philosophy and the short-term determination of policies. Close working relations between the Bank, IMF, and the Turkish officials "led to agreement on the diagnosis and prescriptions for Turkey's economic problems."[26]

In the late 1990s, IFI influence became more visible. Sezen asserts that when coalition governments were formed, the IMF and World Bank could almost be described as coalition partners in running the country.[27] For instance, the letters of intent submitted to the IMF and the outputs of the World Bank's Structural Adjustment Programs became reference documents in shaping policy. Moreover, the OECD regulatory reform reports of the 1990s "nurtured the intellectual basis of reforms."[28] OECD discussion platforms such as those on public expenditure and public debt management enabled Turkish bureaucrats to familiarize themselves with global trends. Apart from enabling voluntary policy transfer, these platforms provided Turkish officials with a benchmark with which they could compare and contrast the Turkish system.

Through policy transfer, good governance principles started to enter the Turkish PFM mainly through the Public Financial Management Project (PFMP) financed by the World Bank. The impact of the World Bank PFMP on the creation of a domestic epistemic community is noteworthy. Apart from facilitating policy transfer, the IFIs served as a bridge between bureaucracy and the political elite. The majority of IFI analysis was carried out alongside Turkish officials, and recommendations were shaped taking local expertise into account. When these recommendations were communicated by the IFIs, they received more attention from politicians. Highlighting the importance of mutual understanding between the IFI teams and domestic bureaucrats, the then Chairman of the Banking Regulation and Supervision Authority Engin

[25] Ziya Öniş and Steven B. Webb, "Political Economy of Policy Reform in Turkey in the 1980s," (Policy Research Working Paper WPS, no. 1059, World Bank, Washington D.C., 1992).
[26] Ibid., 24.
[27] Seriye Sezen, "The Impact of Globalization on the Organization of Public Administration: Turkish Case," *Turkish Public Administration Annual* 27, no. 8 (2001): 3–26.
[28] Seriye Sezen. "International Versus Domestic Explanations of Administrative Reforms: The Case of Turkey," *International Review of Administrative Sciences* 77, no. 2 (2011): 337.

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."[29]

Despite IFI influence on policy decisions, both the executive and bureaucrats were reluctant to reveal the contacts with the IFIs in preparation for initiatives leading to policy change. The Ciller government signed a Stand-By Arrangement (SBA) in July 1994, two months after announcing the 1994 Stabilization Program. By this time, most of its provisions had already been met.[30] Despite pressing financial conditions and coercive pressure for policy change, IFI recommendations did not materialize. Bakir explains this as "external coercion via conditionality … [this] is a necessary, but not wholly sufficient, condition for institutional change."[31] Confirming the accuracy of this statement, this case study highlights the limits of an exclusive focus on external conditionality by revealing the reluctance by endogenous actors fully to endorse IFI prescriptions.

The 2000–01 crises

The twin crises of November 2000 and February 2001 were "the deepest in the history of the Turkish economy."[32] They revealed the main weaknesses of fiscal and public management institutions in Turkey, which included the lack of "macro-fiscal control, effective prioritizing of scarce resources and performance improvement in the delivery of services by the state."[33] Moreover, 2001 was the peak point for foreign loans (mainly stemming from the IMF), which led to an increase in foreign debt and interest payments. Therefore, economic policy in this era aimed at decreasing public expenditures via reducing interest repayments and achieving a net budget surplus. Turkey therefore sought to apply a comprehensive reform agenda. The crises also made public financial management reform a building block under the IMF-Supported Program.

Handling the crisis: Policy entrepreneurship and the Derviş factor

In the crisis' aftermath, Kemal Derviş, Vice-Director of the World Bank for Turkey, became Economy Minister. Derviş was a member of the transnational epistemic community, well versed in liberal economic ideas, and a high-profile academic economist. Derviş and a group of bureaucrats embarked upon the

[29]Özlem Arpaç and Graham Bird, "Turkey and the IMF: A Case Study in the Political Economy of Policy Implementation," *The Review of International Organizations* 4, no. 2 (2009): 148.

[30]Anne O. Krueger, "Partial Adjustment and Growth in the 1980s in Turkey," in *Reform, Recovery, and Growth: Latin America and the Middle East*, eds. Rudiger Dornbusch and Sebastian Edwards (Chicago: University of Chicago Press, 1995), 352.

[31]Caner Bakır, "Policy Entrepreneurship and Institutional Change: Multilevel Governance of Central Banking Reform," *Governance* 22, no. 4 (2009): 586.

[32]Ilker Ataç and Andreas Grünewal, "Stabilization through Europeanization? Discussing the Transformation Dynamics in Turkey," *Journal of Contemporary Central and Eastern Europe* 16, no. 1 (2008): 46.

[33]Graham C. Scott, "Fiscal Policy Challenges, Sustainability of Public Finances and EU Accession: The Case of Turkey," in *Macroeconomic Policies for EU Accession*, eds. Erdem Başçı, Sübidey Togan, and Jurgen Von Hagen. (Cheltenham: Edward Elgar Publishing, 2007).

preparation of a new program as the 1999–2002 coalition government announced its program of "Transition to a Strong Economy" in 2001. The policy targeted political commitment, transparency, and accountability in resource allocation, deterring "irrational" state intervention in the economy, reinforcing good governance, and the fight against corruption.[34] Officials used the program as a basis for the first Pre-Accession Economic Program that Turkey submitted to the EU in October 2001.[35] Hence, "it was publicly legitimized by Derviş in the rhetoric of EU convergence."[36] Unlike previous attempts that were characterized by short-sighted goals, this stability program involved targeting long-term fiscal sustainability and the improvement of public sector governance.

Reform materialized: The laws on public financial management and the court of accounts

In 2002, Turkey adopted two preliminary legislative acts, the Law on Regulating Public Finance and Debt Management and the Public Procurement Law, which established a Public Procurement Authority to ensure transparency and fairness in public tenders. The major reform materialized with the 2003 Law on Public Financial Management and Control (PFMCL), and revamped the old public finance management system. The new legislation 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. This was a revolutionary change compared to the *status quo ante*.

The PFMCL brought in several significant changes to budget formulation, execution, and monitoring. The scope of the budget was broadened to cover the budgets of the government, social security institutions, and local administrations. In classifying expenditures by various entities, authorities adhered to international standards. The PFMCL also abolished all but five extra-budgetary funds.[37] One of its main goals was to introduce strategic management and performance-based budgeting to ensure fiscal discipline. Performance related novelties in the law included its fiscal discipline and its allocation and use of resources in accordance with strategic priorities.[38] The PFMCL also brought in important features of a modern accounting framework, including an accrual-based accounting system and consolidated

[34]Esra Demircan and Melike Ener, "IMF'nin gelişmekte olan ülkeler ve Türkiye'de uygulanan istikrar Programları üzerine etkileri," *Working Paper* 2007, http://biibf.comu.edu.tr/edemircanmenerm.pdf (accessed Dec. 10, 2015).
[35]European Commission, *2000 Progress Report*, 37.
[36]Bakır, "Policy Entrepreneurship," 589.
[37]World Bank, "Turkey: Public Expenditure Review," Poverty Reduction and Economic Management Unit, Europe and Central Asia Region (Washington DC: World Bank 2006), 48. http://siteresources.worldbank.org/INTTURKEY/Resources/361616l173282369589/tr_per_cr.pdf (accessed Oct. 2, 2015).
[38]Naim Kapucu and Hamit Palabiyik, *Turkish Public Administration: From Tradition to the Modern Age* (Ankara: International Strategic Research Organization, 2008).

reporting requirements for the general government. Finally, it established an official body for setting government accounting standards and introduced reporting requirements for public administrations' activities and their statistical information.[39]

The submission of the Turkish Court of Accounts (TCA) Law to Parliament, which identifies TCA as supreme audit institution and changes its focus from preapproval of expenditures to financial and performance audit, was one of the conditions for the release of the first tranche of the Programmatic Financial and Public Sector Adjustment Loan II.[40] The 2003, 2006, and 2008 Accession Partnership documents of the EU repeatedly highlighted the "adopt[ion] and implement[ation of] legislation on the Court of Accounts" as a priority. Officials submitted the draft TCA Law to the Turkish Parliament in 2005. It was eventually adopted in December 2010. The legislation represented a major change in the responsibilities of the TCA and was a significant step forward in PFM, expanding the TCA mandate to include municipalities; public corporations, and EU funds.[41] The TCA also performed audits of political parties on behalf of the Constitutional Court. Authorities further empowered the TCA to undertake regularity (financial and compliance) and performance audits in accordance with national and international auditing standards. All in all, the post-crisis period was a turning point for PFM in Turkey. As reflected in the reports of the IFIs and the EU, alignment with international standards and EU practices were applied.

Endogenous and exogenous factors for reform: The evolution of an advocacy coalition

The devastating crises in 2000 and 2001 revealed the significance of state capacity in crisis management, above and beyond its size. Policymakers therefore started emphasizing strong regulatory institutions. This was in line with the post-Washington consensus; IFIs started revising their conditionality with a greater emphasis of institutional and regulatory reform. Although the coalition government was no longer in power by the end of 2002, its successor, one-party government adhered to the program's commitments. Market forces put implicit pressure on the government to maintain the reform momentum, and this pressure became an instrument of political reform.

The depth of the crises changed the balance of power in Turkey's political economy in favor of a "pro-reform coalition."[42] Political resistance to

[39]World Bank, "Turkey: Public Expenditure Review," 192.
[40]Ibid., 34.
[41]OECD-SIGMA, "Public Expenditure Management and Control Assessment of Turkey," 2012, http://www.sigmaweb.org/publications/Turkey_Assess_2012.pdf (accessed Oct. 7, 2015).
[42]Ziya Öniş and Caner Bakir, "Turkey's Political Economy in the Age of Financial Globalization: The Significance of the EU Anchor," *South European Society and Politics* 12, no. 2 (2007): 153.

structural reforms was broken, and the IMF [as well as the World Bank and the EU] started to gain power. Eventually, the pro-reform coalition, the nucleus of which was formed by the mid-1990s epistemic community, started to expand toward other interest groups and civil society organizations. Domestic business groups (small, medium, and large-sized businesses) "were broadly in favor of the economic and political reforms promoted by the IMF and the EU" as these were expected to 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."[43]

This "pro-reform coalition" corresponds to the advocacy coalition as defined by Sabatier and Jenkins-Smit.[44] The overlap between the analyses of the Special Ad Hoc Committee on Restructuring Public Financial Management and Fiscal Transparency, (former) senior officials and the ones provided by the IFIs and the EU in this period verifies the existence of this advocacy coalition, which was convinced that there was no alternative to restructuring the PFM. In the aftermath of the crises, the coalition exerted pressure on the government to reform PFM "from a centrally managed rigid decision-making structure to a transparent and pluralist policy-making and execution mechanism."[45]

What made the difference in this period, therefore, was the emergence in the 2000s of an advocacy coalition comprised of bureaucrats, civil society organizations, and academics. The advocacy coalition produced a stimulus for policy change. All the same, the reform only occurred once the commitment of the executive branch was secured. In this context, Kemal Derviş served as a policy entrepreneur, to whom the government gave carte blanche in the aftermath of the economic crises. Derviş managed to mediate pro-reform ideas and discourse within and among these communities and became the crucial link between the international and the domestic. The agreements signed with the IFIs and EU requirements in the pre-accession process were also important parameters for reform, and encouraged the executive to consider the coalition's policy recommendations. Political and bureaucratic reform impetus combined with attempts to convince civil society actors of the need to build state capacity.

[43]Ziya Öniş, "Beyond the 2001 Financial Crisis: The Political Economy of the New Phase of Neoliberal Restructuring in Turkey," *Review of International Political Economy* 16, no. 3 (2009): 419.

[44]Sabatier and Jenkins-Smit, "The Advocacy Coalition Framework."

[45]M. Coskun Cangöz, *Redistribution of Power and Status Through Public Finance: The Case of Turkey (1980–2003)* (Ankara: Ministry of Finance Strategy Development Unit, 2010).

The role of the EU

The EU was crucial in creating an environment conducive to reform accompanied by restructuring, which was naturally followed by the SBA conditions. 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.[46]

From 1999 until the 2001 crisis, the EU was more focused on the political side of the reform process and left the economic side mostly to the IMF. Afterward, the EU became more prominent both in public appearance and official discourse. Öniş explains this change as the "shifts of power among key actors," which also reflects the difference between adjustment- and accession-oriented reforms.[47]

The nationally organized discourse in Turkey hardly entails mentions of the IMF and the World Bank, although one can see many references to the European level in Europeanized public discourse. There have been various allusions to the Maastricht Criteria in the National Development Plans in the announcements of the annual fiscal performance figures although Turkey is not bound by these criteria. The 2005 Pre-accession Economic Program document indicated that securing price stability and reducing the public sector deficit as well as debt-to-GDP ratios must be priorities if the macro-economic policies are to converge with the EU's Maastricht criteria. More specifically, EU requirements have found a place in the rationale for legislation.[48] The justification document attached to the PFMCL indicates the purpose of the draft law is "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."[49]

Furthermore, the EU and the IFIs have "played a significant and complementary role" in accelerating political and economic transformation.[50] Most of the economic reforms foreseen under the IMF program coincided with EU economic criteria and associated requirements. The economic agenda set out in the Commission's progress report considerably overlapped with that of the IMF.[51] In this respect, the law of public financial management and control is an example of convergence between EU and IMF requirements. It was explicitly indicated in the Letter of Intent of 2001 that Turkey would enact the

[46]European Commission, *The Accession Partnership for Turkey* (Brussels: European Commission, 2003), http://www.ab.gov.tr/files/AB_Iliskileri/Tur_En_Realitons/Apd/Turkey_APD_2003.pdf (accessed Sept. 5, 2015).
[47]Öniş, "Beyond the 2001 Financial Crisis," 423.
[48]Mehmet Zahid Sobaci, *Idari reform ve politika transferi: yeni kamu işletmeciliğinin yayılışı* (Ankara: Turhan Publishers, 2009).
[49]Sezen, "International Versus Domestic Explanations," 339.
[50]Önis and Bakır, "Turkey's Political Economy," 147.
[51]Ataç and Grünewald, "Stabiliation through Europeanization," 31.

Table 1. 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	Type and the Progress of Policy Transfer	Outcome of the Interaction
1980–1999 Adjustment Oriented Reform	Economic crisis "Economic liberalization" agenda Formation of an Epistemic Community for reform Limited relations between the bureaucracy and the executive	IFI conditionality, though not reflected in the political discourse Relations with EU limited to Customs Union- EU not an "anchor" Adjustment-oriented recommendations without strict deadlines	Endogenous factors dominant over exogenous factors in determining reform priorities Domestic policy transfer channels limited, international policy transfer channels open	Conditionality (Closer to the Coercive End of the Continuum) Policy transfer process halted where the decision enters the policy cycle and implementation starts	Ad hoc solutions to acute problems No major structural reform in PFM

Public Finance Management and Internal Control Law by mid-2002 to comply with the EU economic criteria.[52] Likewise, the Pre-Accession Economic Program submitted to the European Union in 2006 adhered to economic policy agreed in the SBA with the IMF and in the Country Assistance Strategy with the World Bank. 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 program agreed with the IMF and the World Bank."[53]

Nonetheless, the accession process lost its bipartisan nature, and the advocacy coalition loosened by 2006, as EU accession negotiations slowed and political relations between the Union and Turkey deteriorated. This had a negative impact on the PFM reform drive, which can be observed in the aforementioned delay of adoption of the TCA Law in the TGNA for five years. The fact that it was pending in the Parliament for so long verifies the importance of the accession perspective (Table 1).

Conclusion

This article has argued that the success of policy transfer and conditionality policy is subject to context-dependent factors. Politicians may opt for quick fixes in the form of copying or emulation, whereas bureaucrats are more likely to be interested in combinations, which entail a mixture of diverse policies. In

[52]IMF, *Turkey-Fiscal Management Assessment*, 2002, http://adlib.imf.org/digital_assets/wwwopac.ashx?command=getcontent&server=webdocs&value=EB/2002/SM/154479.PDF (accessed Oct. 7, 2015).
[53]European Commission, "The Accession Partnership of Turkey," 13.

this case study, the level of policy transfer in the PFM domain was mainly in the form of combinations between IFI and EU requirements.

Both the IFIs and the EU have helped Turkish policymakers reverse resistance to tighter fiscal discipline and implement structural reforms. Nevertheless, IFI recommendations were already on the table because of their analyses from 1995 onwards, and they were almost identical to the ones in 2000s. Therefore, it would not be plausible to relate these reforms only to international actors.

IFI-guided 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."[54] The economic crisis combined with the EU membership perspective allowed for the establishment of a new consensus in Turkey, which would break away from past malpractices. Further, policy entrepreneurs such as Derviş played a key role in bringing together pro-reform elements.

The main driving forces behind the reform were the advocacy coalition formed by bureaucrats, civil society organizations, and academics, and reinforced by IFI and EU conditionality. When reform initiatives were oriented toward EU accession, endogenous factors enabled exogenous ones to guide the reform process owing to the opportunity structures offered by the accession prospect. Endogenous actors used EU requirements as a commitment device. The EU anchor also helped the IMF in overcoming the resistance of anti-reform forces. In this respect, the EU was the enabler of substantial policy change. The very interaction of endogenous and exogenous factors for policy change enabled the policy transfer networks to function.

The article's findings demonstrate that although IFI conditionality, which was present in both periods, is more coercive, policy transfer could be completed only after the EU's involvement. The latter's form of conditionality is characterized by an obligated policy transfer, a type much less coercive than that of the IFIs. This points to the need to fine-tune our understanding of conditionality, and the typology advanced in this study represents a first step toward greater analytical clarity on this issue.

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[54] Ali Burak Güven, "The IMF, the World Bank and the Global Economic Crisis: Exploring Paradigm Continuity," *Development and Change* 43, no. 4, (2011): 2.

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