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MARMARA ÜNİVERSİTESİ
FEN BİLİMLERİ ENSTİTÜSÜ

**TÜRKİYE'DE ENDÜSTRİYEL DEVLET İŞLETMELERİNİN
ÖZELLEŞTİRMESİ**



YÜKSEK LİSANS TEZİ

Hazırlayan
Renan ÖZYERLİ

Tez Danışmanı
Prof.Dr.Ahmet Alp SAYAR

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**PRIVATIZATION OF STATE OWNED
INDUSTRIAL ENTERPRISES
IN TURKEY**



MASTER THESIS

Prepared By
Renan ÖZYERLİ

Thesis Advisor
Prof.Dr.Ahmet Alp SAYAR

İstanbul, 1996

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ABSTRACT

This study is performed by Renan Özyerli, BSc, ChE as a master thesis project in Engineering Management Program in Marmara University.

Privatization of state owned enterprises has been dominant global ideology of 1980s as a part of the new economical models. The divestiture of public assets with the introduction of competitive tendering techniques was the major instrument of political issues. Similarly, In Turkey, from the beginning of 1980s, the privatization of state owned economic enterprises has always been the major political criticism not only for political parties but also for other social and legal institutions.

The first part of the study consists of the definition of privatization, the theoretical background for privatization, historical developments of state economies towards the end of 1970s, and the examination of effects of ownership structure on the efficiency of an enterprise.

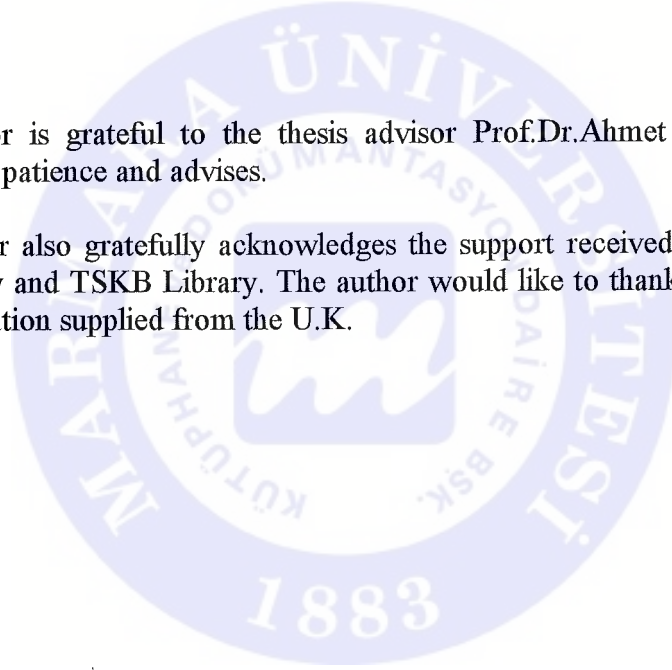
The second part involved the privatization experiences around the world's different nations, not only in industrially developed but also in developing countries. Special emphasis was given to UK among the developed nations, being the earliest and extensive user of privatization policies. Then, the privatizations in Italy, Germany, and Greece are studied. The privatization in former centrally planned economies of eastern Europe is criticized by examining the economical structure of former Czechoslovakia prior to the privatization and pre privatization issues and the experiences in Bulgaria are given. Malaysia being one of the most successful country in implementing privatization among the developing countries is also studied along with Singapore's experience in privatization issues.

The third part incorporates the origins of privatization in Turkey with privatization applications. Starting with The Morgan Bank master plan for privatization, the formation of legal framework for privatization is reviewed with the methods used. After implementing the expenses of privatization applications, finally, the results of cement industry privatization were tried to be extracted from various studies. The final part includes the useful conclusions by discussion of the past, current and future privatization applications.

ACKNOWLEDGEMENTS

The author is grateful to the thesis advisor Prof.Dr.Ahmet Alp Sayar for his generous support, patience and advises.

The author also gratefully acknowledges the support received from the Bogaziçi University Library and TSKB Library. The author would like to thank Mr.Hakan Özyerli for the documentation supplied from the U.K.



1. Introduction

The privatization has been an important and mostly criticized instrument in world economies since the end of the 1970s, and within the last decade in Turkey. The theoretical and practical advantages and disadvantages of privatization are still the most important issues not only in economic but also in social issues.

The objective of this study is, firstly, to investigate on the theoretical reasoning for privatization of state enterprises, secondly, to present methods of privatization by examining the possible complications before, during and after the privatization of industrial state enterprises in developed and developing countries around the world, and finally, to reach useful conclusion and suggestions for current and future privatization decisions of industrial enterprises in Turkey.

2. Privatization

2.1. Definition

The definition for privatization in very narrow terms can be given as *the sale of public sector assets*. This definition can be further widened by the number of activities as :

- the sale of public sector assets
- deregulation
- opening up state monopolies to greater competition
- contracting out
- the private provision of public services
- joint capital projects using public and private finance
- reducing subsidies and increasing or introducing user charges

These concepts will be examined in detail later in this study.

An alternative point of view is that privatization is a *political instrument* (Jackson and Price 1994) whose use can be varied according to the political aim desired. Therefore, the reasoning for privatization varies among different political structures and consequently in different geographical regions of the world. This global approach is a result of experiences gained in various countries within the past couple of decades. The number of countries that have implemented or planned to implement privatization policies is very high and this brings the questions “Why so many countries need privatization?”, “Why state owned enterprises have an important share in these countries’ economies from the beginning?”. These questions can be answered in the light of past economic trends in the world.

2.2. Historical Background

Significant changes have been made to the economic structure of the world states starting from 1980's. These changes can be categorized as follows, in five stages :

1. The privatization or denationalization of many parts of the public sector which has a commercial role
2. The introduction of new forms of management practice into the social services of the public sector
3. The greater emphasis upon market economy with the introduction of contracting and contracting out policies
4. Deregulation of many activities which had previously been the subject of state intervention and regulation
5. The massive transition in Eastern European countries from socialist owned and managed means of production and distribution to a privatised capitalist system.

These changes were originated from various dimensions. During the 1970's there was a breakdown in the social democratic Keynesian consensus which had, for couple of decades, given a strong social economic role to the state.(Jackson&Price,1994). The growth of the state had not only resulted in a significant expansion in the size of the public sector, it had also created powerful professional interest groups which were a challenge to the traditional power bases of politics, religion and industry. Public expenditure reflected the activities of the state. In less developed countries it was also used to encourage the development process.

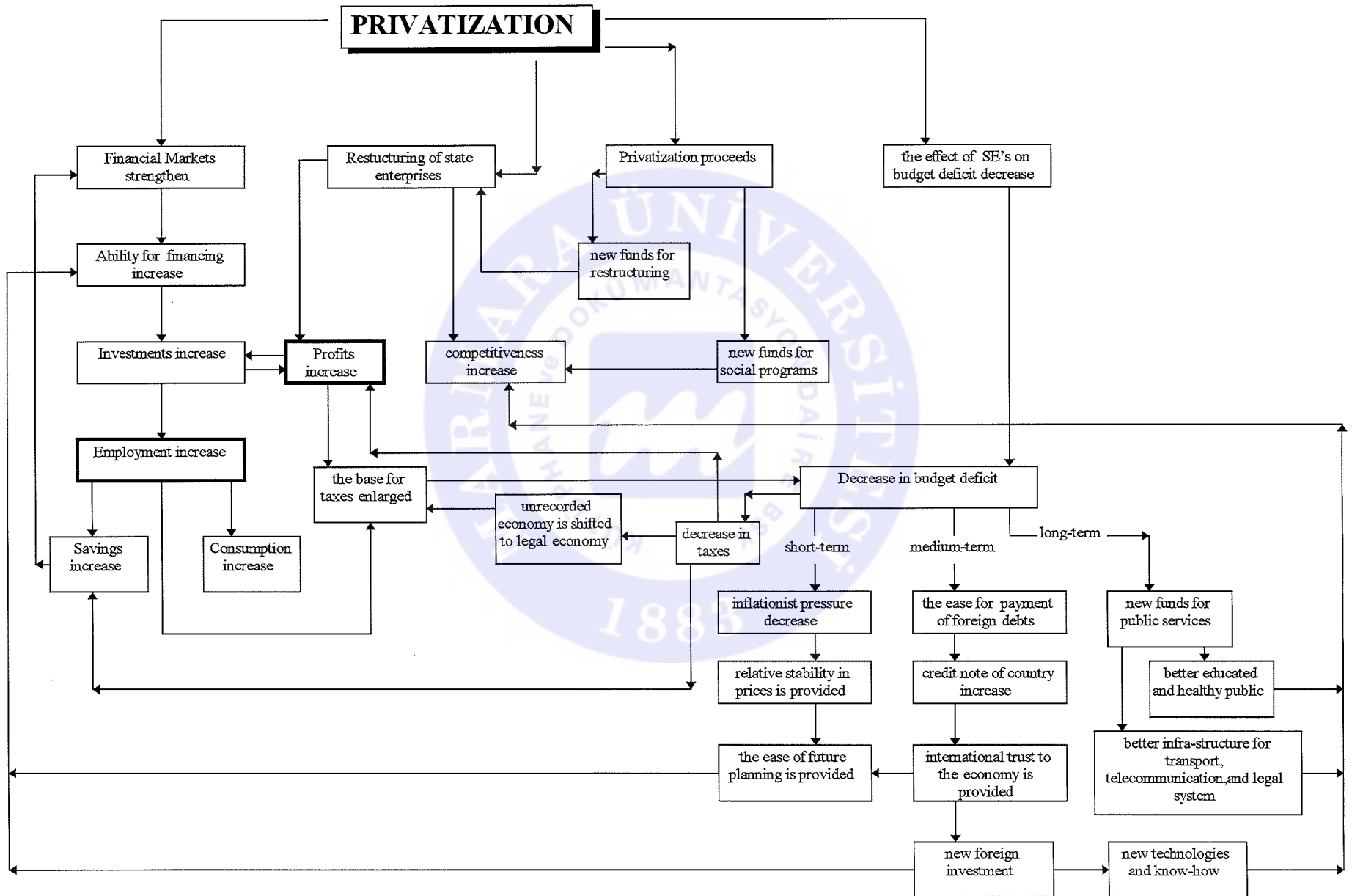
The 1970's had brought new views about the relative roles of the public sector and the market place has changed. Ideas of market failure, which had provided a role for government intervention, were challenged by government failure. Policies which have been designed to eliminate the problems associated with the failures of capitalist economies such as the great economic depression in the period from 1929 to 1933, had not provided the expected pay-off.

The 1970's, with rising levels of inflation and unemployment has been the years of crisis, around the world. There was a crisis of confidence on Keynesian policies. Public sector borrowing requirements and deficits have been increased. In cases of financing these requirements by the sale of bonds or increased foreign borrowing has led in many countries with higher inflation rates.

These conditions have led the governments in various countries to the new economic model. The first privatization studies were said to be started in Chile at the end of 1970's. Various other economies have also been started to facilitate privatization applications. Privatization applications in developed and developing countries of the world is examined in Section 3 of the study.

The theoretical long term and short term outcomes expected from privatization are given in Figure 2.1.

Figure 2.1. Chain reaction of Privatization



2.3. Ownership Structure and Efficiency

The question of how ownership structure matters for the efficiency of enterprise performance assumes great importance in evaluating the possible reasoning for the privatization. Private ownership was always claimed to be a precondition for an efficient economic organization by the beginning of new economic models of the world. There are three main forms of ownership structure,

- private ownership
- public or state ownership
- co-operative ownership

private ownership

Under private ownership, there are two mechanisms which would ensure that managers do not deviate from the efficiency rules. The first is the **shareholder's control** over the managers. There may be two different objections to this claim. Firstly, there may be some cases that shareholder would find it beneficial not to ask the manager to maximize the firm's profit. Secondly, the shareholder normally distributes its capacity to securities of various firms in order to allocate the risks in optimal way, which, in turn, will result the decrease of shareholder's interest on the firm.

The second mechanism is the discipline given by the capital market in the form of take-overs, the difficulty in finding additional capital and the possibility of bankruptcy.

public ownership

The inefficiency claim attributed to public ownership is said to be caused by the lack of capital market incentives to monitor managers' performance. This is said to be resulted by the absence of tradable shares which prevents managers from profit maximization. Because the benefits and costs of running state companies are often not evenly spread throughout the general public, and costs are usually explicitly recognizable, while benefits are not, a government may prefer to take actions which would not maximize profits.

co-operative ownership

In the work of Jensen and Meckling (1979), "they presented the drawbacks of co-operative firms under four headings : *the horizon problem*, which is induced by the truncated claims on cash flows"; *the common property problem*, which is "induced by the

equal sharing of the firm cash flows among all employees”; the *non transferability problem*, which is “induced by the fact that workers’ claims on firm cash flows are contingent on employment with the firm and are nonmarketable; and the *control problem*, which is “induced by the specification of political procedures within the firm by which the workers arrive at decisions and control the managers”. (Adaman, 1993).

2.4. Regulation

Regulation is an important issue in privatization of **monopolies**. “The problem of regulation is to adjust the economic system so that individual economic actors making decisions in their own best interest to achieve allocative efficiency for the wider society” (Jackson and Price, 1993)

This concept was strongly examined during the privatization of monopolies in UK. For instance, there have been established economic regulators as Office of Telecommunications(Oftel) for telecommunication services after the privatization of British Telecom, the Office of Gas Supply(Ofgas) after privatization of British Gas and so on for the other previous monopolies.

3. Privatization Experiences around the World

3.1. Developed Countries

UK

Although the extensive use of privatization policies around the world is a recent phenomenon started by the middle of 1980s, UK has experienced privatization starting from the end of 1970’s. During Mrs.Thatchers government 1979 to 1987 the share of public sector output in GDP was decreased from 11.5 % to 7.5 %. Most attention in the UK has focused on privatization through stock market flotation as this form of ownership transfer tends to involve the largest enterprises. These enterprises have been natural monopolies like British Telecom, British Gas and Water.

Although there is no centralised data available about how many transfers of public assets to the private sector have occurred, there have been 48 privatizations, with total market capitalization of £ 44.2 billion. In contrast, there have been 158 management and employee buy-outs from the public sector, but their total value is probably less than £2 billion. Also in a third method of sales to third parties, there have been more than 100 cases of privatization. In the following Table privatizations in UK through stock market flotations, the equity proceeds of sale are given.

Table 3.1. Privatization in UK through stock market flotations method

<i>Company</i>	<i>Equity Proceeds (million £)</i>	<i>Date</i>
BP	7,200	1987
British Gas	5,600	1986
10 Water Companies	5,400	1989
12 Electricity Companies	5,180	1990
British Telecom	3,920	1984
Scottish Power/Hydroelectric	2,900	1991
British Steel	2,500	1988
National Power/Powergen(60%)	2,100	1991
TSB	1,360	1986
Rolls-Royce	1,360	1987
BAA	1,280	1987
British Airways	900	1987
Cable and Wireless	600	1985
BP	565	1983
British Aerospace	550	1985
Britoil	548	1982
Britoil	450	1985
Enterprise Oil	393	1984
Jaguar	294	1984
BP	290	1979
Cable and Wireless	275	1983
Cable and Wireless	224	1981
British Aerospace	149	1981
Amersham International	63	1982
Associated British Ports	52	1984
Associated British Ports	22	1983

Source : Jackson and Price, 1994

Italy

The privatization has always been a major political instrument in Italy, as in other developed and developing countries. However, rather than opposition from left or right parties, there have been supporters and opposition within every political institution.

The first serious attempt for private ownership, was the law accepted on July 1990, to corporatize large scale banks which are managed by means of the public law. Another point of privatization supporters was the bad financial condition of EFIM which is the public enterprise holding number of industrial enterprises. This enterprise is currently being liquidated and the enterprises it holds are being sold to private sector.

More adequate privatization attempts was on July,1992. The government has declared the corporatization of large scale state owned holding companies which are

involved in various industrial sectors and in the meantime restructuring studies have been started.

By 1993, the privatization has become first majority of the government, technical committees are formed to develop political strategies and State Holdings Ministry was established and the parliament accepted the laws covering the following points :

- The comparison criteria for majority share holding for the state enterprises to be privatized
- The subsidies to be applied for the enterprises under government control during mergers or separations
- The remittance of a state guarantee for this type of enterprises.

For the ownership structure, public enterprise model (wide distribution of shares is provided by limitation on share holding up to 3% of the capital as an upper limit while reducing the effect on public during privatization) has been specified.

There were two solutions offered to the unfavorable effects to be faced against the favour of the public; the first is the application of “golden share” and the second is the sale to the previously established group of share holders called “**nucleo stabile**” holding specified number of the shares. Either of the two solutions are aiming a control over the enterprise to prevent a possible change in enterprise’s mission which may be opposite to the public’s favor or to prevent unacceptable trade activities. The law effective in 1994, gives the following responsibilities to the Minister of Treasury, for an enterprise subject to privatization included in transport, energy and telecommunication sectors :

- veto right during the decision stage of important asset sales or buyings
- veto right in case of liquidation, or transfers to foreign country
- assignment of specified number of managers and auditors

During these legal studies, the government was successful in corporatization of railway system, state monopolies and telecommunication system. Furthermore, by the beginning of 1994, the privatization of to large scaled financial corporation Credito Italiano and Banca Commerciale Italiana were completed successfully. The insurance company INA was reorganized.

Despite these successful privatization experiences, Italy, as being one of the major industrial powers of the world, is not accepted to realize the steps in their privatization program. Not only aiming world-wide strategy, Italy has still not completed the required reforms to increase its competitiveness within European Union.

Germany

Privatization program in Germany has been started by the beginning of 1980's. As a part of long term project, privatization applications continues. The future plan consisted of the sale of minority assets of Lufthansa Airways and privatization of Deutsche Telecom. The privatization of Telecom is intended to come into effect within 1996, and following this the government share in Lufthansa will be reduced to 25 %. The preliminary work on these privatizations was realized to some degree but the main reason slowing the privatization program in West Germany is claimed to be the unification of east and west Germany by the beginning of 1990.

The huge program for restructuring East Germany, has included radical privatization projects. Domestic investment power has been directed to East Germany, and with the use of Treuhandanstalt Privatization Institution the plan was intended to realize the payment of the deficit amounting up to 275 billion DM (162 billion USD) till the end of 1994. The objective of the plan was to upgrade the production technology, to renew the infrastructure, and to increase the total productivity measures.

During the period of four years, 71,000 economic entities were privatized including 14,000 production units, 3,000 enterprises were liquidated, and 2,800 companies were sold to the managers of the company. During privatization, 1,500,000 job guarantees are given to the workers of the enterprises, and new investment guarantee amounting to 200 billion USD' was taken from the companies who purchased these plants, while many of the sales were made at very low prices. In some cases government has supported the buyers with low interest investment credits. Treuhand was decided to be closed at the end of 1994, excluding some parts which will be dealing with the remaining 100 enterprises still operating but needing restructuring, and 50 additional enterprises subject to privatization.

Greece

As a result of the elections on October 10, 1993, Pan-Hellenistic Social Movement Party (PASOK) leader Andreas Papandreu has replaced New Democracy Party leader Constantine Mitsotakis as prime minister. During the propaganda period, one of the main subjects was the privatization policy. As a **privatization method** Mitsotakis was favoring the huge privatization program with direct sale of assets of state owned enterprises including Greek Telecommunication company (OTE), two state banks, Olympic Airways, one petroleum refinery, three hotel chains; Papandreu, on the other hand, was favoring the public offering method or sale in stock exchange market by increasing the market capitalization and keeping the majority assets of the enterprises which are claimed to be strategic for national security. Papandreu was also strongly criticizing the mistakes made in privatization applications of former government during the election campaign. The privatization program has been suspended and it has been a major political instrument till the end of 1994.

There are two state organizations which are involved in privatization program and responsible for privatization administration, namely Interbank Privatization Commission (IPC) and Special Privatization Secretary (SPS). IPC is governed by 5 Ministers (National Economy, Finance, Industry, Energy and Technology and a special ministry controlling state owned enterprises which are in privatization stage). National Economy Minister presides the meetings and final decisions are made in these meetings. SPS is established within the Ministry of Industry and gives assistance to IPC.

The privatization law has defined the methods of privatization as follows :

- 1) The sale of wholly state-owned enterprise to private investors;
- 2) The sale of the majority assets or whole assets or part of the assets owned by one or more state owned enterprise;
- 3) The sale of fixed assets, or separate operation units, or independent production units, or patent rights of state-owned enterprises to private investors;
- 4) The sale of complete or majority shares of state owned enterprise to private investors in the stock exchange market;
- 5) The renting of above mentioned facilities of a state owned enterprise to private entrepreneurs for an appropriate time period, at a rate which is in conformity with financial leasing rate;
- 6) The sale of the licences to the private investors.

In first three cases, the privatization process is controlled by the court, while in last three cases this control is made by the IPC.

Employee rights are reserved by IPC regulations, in a way that after the privatization predetermined number of shares of the enterprise will be submitted to the employees. European Union (EU) regulations also specify the employee rights during the sale of an enterprise.

3.2. Developing Countries

3.2.1. Eastern Europe

After the communist regime in Eastern Europe and in the states of the former Soviet Union collapsed, the idea of the replacement of the ideology of communism with that of the market and, consequently, with that of the privatization, has been brought. This is mostly due to a natural reaction to the huge dominance of the state in almost all activities within these societies of “centrally planned” or in other words, “command” economies . The governments of these countries placed very high expectations on privatizations. Privatization was viewed as an aid for realization of other policy objectives. Up to date, the realization of privatization program largely failed to correspond to these expectations, and, in general, the most notable result of privatization was the increase of social differentiation in these countries.

In the following part of the study, privatization experiences in Czechoslovakia, Bulgaria, are examined. Special emphasis is given to Czechoslovakia. The privatization in centrally planned economies is different from other developing countries, in a way that, typically 70 % of employment and GDP is generated in state sector prior to privatization and privatization policies at the first look are aiming 50% reduction at this value (Jackson and Price).

Most of the data indicated in this section are compiled mainly from the reports of CEU Central European University Project for Privatization.

Czechoslovakia

The Czechoslovak economy was structured by the *classical command economy* (Frydman, Rapaczynski & Earle 1993) for the period starting with the invasion of Czechoslovakia in 1968 which has been led by Soviets till the end of communist ruling in late 1980's.

In 1990, a radical transition plan is accepted by the parliament and after preparation stage the following main transition policies came into effect by the beginning of 1991 :

- restrictive monetary and fiscal policies
- privatization program
- liberalization of prices combined with limited price controls
- internal convertibility with devaluation and import protection

The cost of these transition policies was higher in Slovakia than in the Czech part of the country. This led to the separation of the republics by the strong pressure from the anti-reform and separatist forces in Slovakia in 1993.

The privatization program is a part of these transition policies. Before studying the development of this program, it is appropriate to give some macro economic figures for Czechoslovak economy and the structure of industry.

- Structure of Czechoslovak Economy

In 1991, **gross national product (GNP)** of Czechoslovakia was 33.2 billion USD.s. Industry has 60 % share in **net material product**. Czechoslovak industry is highly concentrated. The largest 100 companies in 1990 accounted for 26 % of industrial employment and 50 % of the total assets of the state sector. In 1990 and 1991, the **gross domestic product (GDP)** declined by 0.4% and 15.9% respectively and corresponding declines in net material product. In 1992 **industrial production** was 35% below the figures in 1989. Since the drop in industrial production was greater than the decline in employment, **average productivity** in industry fell by 14.4 % in 1991. **Gross investment in fixed capital** risen 3.7% in 1990 and fell 28.8% in 1991.

Starting from January 1, 1991 **price liberalization** came into effect and the government liberalized about 85 % of all retail prices. By the end of 1991 only 5 % of the prices were being regulated. After 25.8% monthly change in retail price index in January 1991, the government was so successful in controlling **inflation** that the index resulted with an annual increase of 58.9%. During this period **wages and incomes** have not increased at the same rate as prices. Nominal wages rose 15% in 1991 but real wages dropped 25.3%. The **unemployment** rate (as percent of labor force) has increased from 1.5% in January 91 to 6.6% in Dec 1991, but then started to decrease by the beginning of 1992. This rate is the average of Slovakia and Czech part of the country. In fact, unemployment figures were around 11% in Slovak region and 3% in Czech region. In 1991 **unemployment benefits** were paid at a rate of 60% of the previous average monthly salary for first three months of unemployment and 50% for the rest of first six months and then at a fixed rate of 51 USD per month. Persons without previous employment were also paid at a fixed rate of 51 USD per month. During 1991, total payments for unemployment exceeded 151 million USD. This corresponds to 0.45 % of the GNP.

Taxation has also been regulated with a new tax reform which was approved by the parliament in 1993; **corporate tax** rate fixed at 45% with various exemption cases. For companies with annual income up to 6,849 USD is to pay 20%, and 55% for above. This taxation rate is reduced to 40% for joint ventures with over 30% of foreign participation. Fifty per cent of the total wage bill were paid as “**social insurance**” by enterprises in 1991 but this was reduced to 30% in 1993. **Value added taxes V.A.T.** has replaced **turnover taxes** in 1993, at 5% rate for essential items and 23% on other goods and services.

The monetary policy has been imposed by the government. The policy involved sharp increases in **interest rates** with a maximum rate of 24 % , and introduction of credit ceilings. In 1991, average annualized short term interest rate was about 15%.

Foreign trade used to be conducted by specialized and highly concentrated foreign trade enterprises till 1991. In addition to these companies various state enterprises, private companies were engaged in foreign trade transactions. Foreign trade volume was increased from 6.2 billion USD exports and 6.8 billion USD imports in 1990 to 10.1 billion exports and 9.2 billion imports in 1991.

The **forms of ownership** and ownership structure of the economy have an important role for privatization process. The forms of ownership in Czechoslovakia are categorized as follows :

- State enterprises
- Municipal enterprises
- Co-operatives
- Private companies
- Foreign companies
- Joint ventures

There is no figure for the relative sizes of these categories; but after privatization process, the number of privately owned units was increased from 150,000 to 1.150 million within 1991 and continued to increase.

- The Privatization Process in Czechoslovakia

Rapid privatization of the economy was one of the most important stages of economic reform program. Rather than delaying privatization to carefully prepare enterprises and build institutions for the market, the Czechoslovak strategy was to change the ownership structure as quickly as possible and developing new legal frameworks and institutions when the need becomes pressing.

By the end of 1989, there were two approaches developed within the political structure. First is rapid transition to market economy as described above. The second is preparation for the transition before which will result with a decrease in social costs of transition. Civic Democratic Party and its leader Vaclav Klaus (Federal Finance Minister at that time) which has the support of the parliament was favouring the first approach and their approach was strongly confirmed after the elections in June 1992. Therefore political developments are favorable for a continuation of the reform.

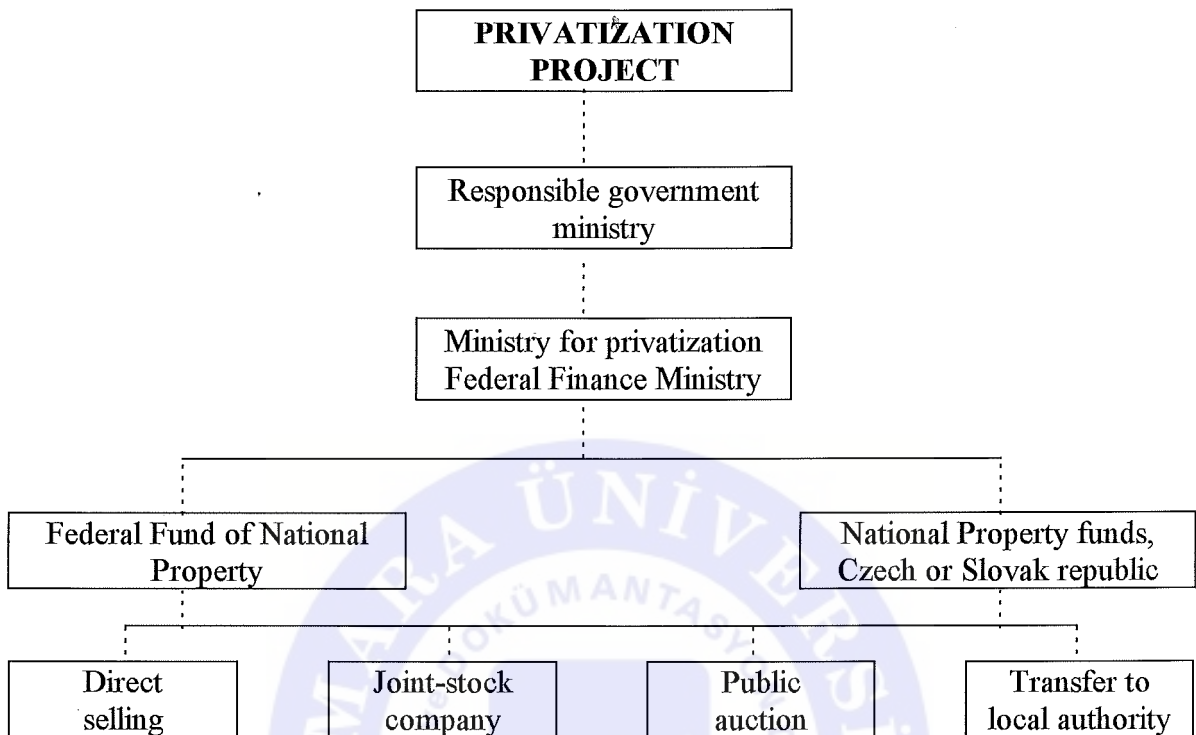
On the other hand, the leader of the party: Movement for a Democratic Slovakia and the Slovak Prime Minister Vladimir Meciar was strengthened in June 92' elections. Although these two political leaders signed a declaration of commitment from both sides to the privatization program, the opposition was stronger in Slovakia.

The privatization process in Czechoslovakia has three elements :

- 1) Wide-ranged reprivatization
- 2) Small-scale privatization program
- 3) Large-scale privatization

These are clearly regulated by the various laws of the state. The main organs of the government involved in regulating the privatization program are the Czech and Slovak Privatization Ministries, The Federal Finance Ministry, and The Federal and Republican Funds of National Property . Their roles in the process are given in the following figure :

Figure 3.1. Process of Large scale privatization in Czechoslovakia



The organization of the process of large privatization in Czechoslovakia is characterized by decentralization in the proposal of privatization projects, most of which comes from managers or buyers, in contrast with a relatively centralized procedure of final approval. Founding ministries play an intermediate role, formally submitting all projects proposed to them, along with their recommendations and comments, to one of the Republican privatization Ministries or the Federal Finance Ministry, where the most important decisions are made about which alternative method of privatization is accepted.

The Republican Ministries of National Property Administration and Privatization (commonly known as “Privatization Ministries”), play the most important role both in the selection of enterprises to be privatized and exact method of privatization. They decide which enterprises to include in each *privatization wave*. Their decision is only not finished in exceptional projects as enterprises with more than 3,000 employees, and in direct sales.

Three **National Property Funds (FNP)** were established in 1991, namely Federal Fund of National Property (FFNP), the Fund of National Property of the Czech Republic(FNPCR), and the Fund of National Property of the Slovak Republic(FNPSR). These funds hold shares not yet sold of *corporatized* enterprises. The funds are supposed to privatize the shares remaining after *voucher privatization* within the next five years after

the start. Each of the funds is governed by a nine member presidium; by law, the republican Privatization Ministers preside over their respective FNP, and the other eight members are elected by the republican parliament, while all nine members of FFNP are elected by the federal parliament. A member of the presidium cannot be a member of the federal or republican governments or parliaments. Governmental control of the funds is performed by five-member Supervisory Boards elected by the respective parliaments.

In the **Small Privatization process**, the Privatization Ministers appoint twenty-member **local privatization commissions** for each of the seventy-five districts. These commissions are charged with selecting enterprises for auctions and collecting and publishing data on the property of these enterprises. But the decision is still from the Founding Ministries to include the project in small privatization or to reserve them for large privatization.

Reprivatization program is introduced after the state has sought to return to resident Czechoslovak citizens and the Catholic Church property that was nationalized after the communist invasion in February 1948. This process has helped in the rapid creation of private property that could be used by the private retail trade sector, but it has also delayed small and large privatization while claims on nationalized property have been processed and assessed. Although the share of private firms was not high at that time a large number of enterprises have at least some part of their property subject to reprivatization.

Small privatization began with plans to sell between 100,000 and 200,000 restaurants, shops, and small businesses in an effort to revitalize the small private sector in the economy. Table 3.2. gives some idea about the realization of this process within 1991 :

Table 3.2. Small Privatization in Czech and Slovak Republics

Czech Republic	number of units	starting price (bln CSK)	sale price
Scheduled	21,940	22,096	
Sold in auction	14,726	11,549	18,122
of which			
including real estate	3,814	10,490	14,000
rental rights only	10,912	1,059	4,122
Slovakia	units sold	starting price (bln CSK)	sale price (bln CSK)
	6,723	6,134	7,486

Large Privatization program was established in April 1991. The program has both decentralized aspects, such as

- the right of anyone to submit a proposal for privatization specifying the use of any of a large number of privatization methods;
- the right of individuals to choose whether to participate;
- on which enterprises to bid;

and highly centralized aspects, such as

- the forced pace of the process
- the concentrated power of project approval in Privatization and Finance Ministries

Essentially all state enterprises intended for privatization are obligatorily included, except those small businesses and shops auctioned under the definition of small privatization. Several enterprises for which any form of privatization was considered inconceivable were selected for liquidation.

The program was supposed to proceed with waves. The first wave has been finished by the end of 1992 and a second one by the end of 1993. During the determination of the **methods of privatization**, management of each enterprise is asked to submit a plan called “**basic project**”. Anyone else, for example other managers or foreigners were allowed to submit unlimited number of plans called “**competing projects**”. All projects were supposed to include basic information about the enterprise, the methods of privatization, and a business plan.

During the first wave of privatization, 2,884 basic and 8,065 competing projects submitted to the Czech Ministry of Privatization. Among the basic projects, conversion to joint stock form (leading to share sales, meaning voucher privatization) and among the competing projects, direct sales were dominant.

The approval status of these projects was as follows after the first wave of privatization :

Table 3.3. Approval of basic and competing projects in the Czech Republic, 1992

	Basic	Competing	Total
Number submitted	2,906	8,257	11,163
Number approved	782	266	1,048
Book Value approved (bln CSK)	313	104	417
% of approved	74.6	25.4	100
% of approved of those submitted	26.9	3.2	9.4

Voucher privatization is another method used in privatization Czechoslovakia. In voucher privatization, the Czechoslovak privatization program has given an active role to individuals, who must decide whether to participate, which companies to invest in, and how many of their points to invest in intermediaries. Each resident citizen over the age of 18 in October 1991 was eligible to purchase a voucher booklet for 1.20 USD and could register it for 34 USD. This voucher is divisible into 1,00 points that can be invested in companies directly or in intermediaries. Although the early response was not rapid from the public the total number reached was 8.57 million, 79% of the eligible population by the deadline in February 1992. The following table shows the realization of voucher privatization :

Table 3.4. Voucher Privatization in Czechoslovakia

	Czech	Slovak	Federal	Total
number of enterprises	943.0	487.0	62.0	1,492.0
total book value	362.2	133.6	2.8	568.6
total equity (book value of all shares)	323.1	114.4	25.4	463.0
book value privatized through vouchers	200.8	85.1	13.5	299.4

Intermediaries were not organized directly by state, and they were supposed to be a purely private activity. But state-owned joint stock companies were allowed to establish intermediaries, and the largest banks took advantage of this possibility, together with the chance to use their networks of information and facilities, to attract investors. The lack of regulation of intermediaries is generally considered to be one of the weaknesses of the whole program. A total of 437 intermediaries were operating at that time, but the largest thirteen controlling 40 % of all voucher points. After the first wave the shares available for vouchers in 48 firms were sold completely, while 1,022 firms were under-subscribed, and 421 were oversubscribed. The figures given were related to the data in the middle of 1992 and before.

Corporatization, the process of turning socialized enterprises into joint stock companies wholly owned by state was launched as a special program in Czechoslovakia in 1990. The main intention was to give units greater financial independence and full control of their own disposable profit under continued state ownership. The first step in the program was conversion into a so called "state enterprise" with a governance structure giving effective control to the founding organ and the second step was conversion into state owned joint stock company. Till June 1992, nearly 1,500 state owned enterprises (15% of all) registered as joint stock company.

Bulgaria

The first reform program in Bulgaria which aimed reduction of budget deficit, the unification of the exchange rate at first look, was launched in 1991 after 13% fall in production in 1990 leading an accelerated inflation and increasing dollarization of the economy. The program is approved by IMF with one year stand-by agreement.

In 1991 the GNP was corresponding to 8.4 billion USD. The share of industry in GDP was about 60%. Gross domestic product (GDP) fell 11.3% in 1990 and additional 23% in 1991 with the largest decline 27% in industry due to the shortages of raw materials, packaging, and spare parts as well as the loss of markets. Following the price liberalization in February 1991, monthly retail prices index rose by 122%, 50% in the following month and started to fluctuate between 3 and 10 till the end of 1992. Real wages decreased 2.2% in 1990 and 53% in 1991 and started to increase by 1992 but the unemployment rate gradually from 1.9% in 1991 to 11.5% in April 1992. Unemployment benefits totalling 44 million USD is paid in 1991. The number of people employed in the state sector from 3.7 million to 3 million, but this included the emigration of Turks to Turkey. Corporate tax rates in Bulgaria are also assessed according to the level of ownership, companies with 49% foreign ownership taxed at 30%, in lower percentages at 40%. Foreign trade is liberalized within the reform package, there is only a simple procedure requiring custom declaration.

The progress of privatization in Bulgaria has been extremely difficult and subjected to political controversies. The Privatization Law was passed in April 1992. Little progress was achieved on fundamental economic reorganization of enterprises in 1990. The privatization law brought the foundation of a privatization agency governed by a supervisory board of 11 members for four year terms, with 5 members appointed by council of ministers and 6 members by the national assembly. The privatization law sets up a very centralized process. The privatization agency implements every transaction concerning the assets valued at more than 450,000 USD. Moreover for the transactions valued more than 9 million USD the council of ministers' approval needed in advance.

As indicated the Bulgarian experience of privatization is very limited, consisting only small scale privatization program launched in March 1991 but aborted in June 1991. More than 300 gas stations were marked for privatization but only 10 were put up for public auction, of which 3 were sold with an amount of 500,000 USD. The only area where the privatization was significant is that of housing. In the field of trade and services six auctions were held covering 66 properties, of which 56 sold for an amount of 550,000 USD. The sales program was widely considered as failure. The process was lack of clear procedures, and the valuation criteria were considered inadequate.

The one interesting part of privatization in Bulgaria is the presence of **spontaneous** (“quiet” and “illegal”) privatization. An example of quiet privatization was provided by the regulation of council of ministers which allowed home trading outlets to be leased to insiders without public auction. Another regulation, governing the leasing and sale of businesses in trade, tourism and the service sector, provided inadequate auction and

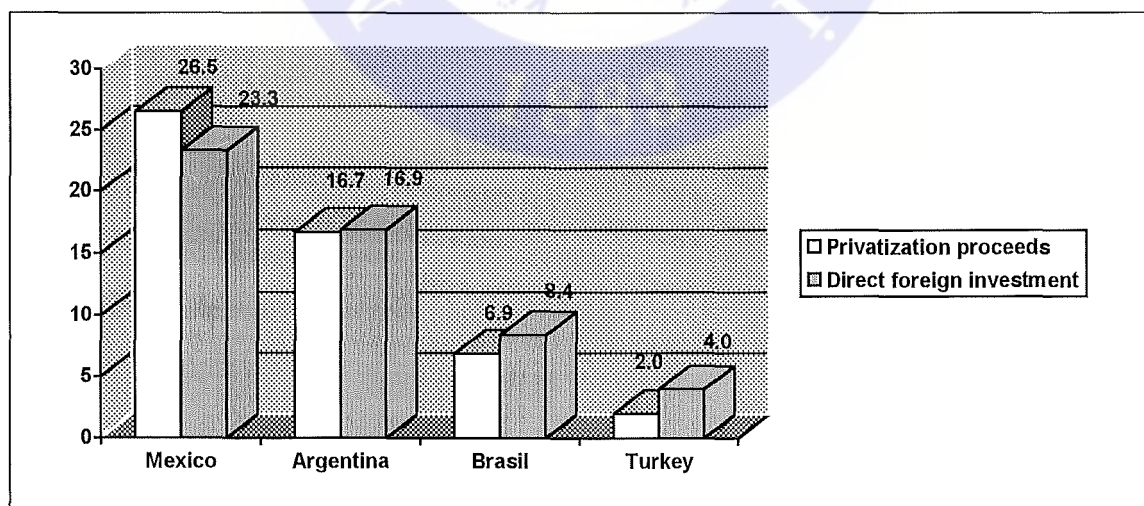
valuation procedures, and enabled insiders to conclude a number of unfair transactions. Another regulation from the ministry of transport allowed for sales of second hand state owned vehicles and farm machinery, and many “quiet” transactions have resulted in sales at very low prices. Most of the cases of “illegal” privatization occurred when shares in state owned companies were sold to insiders in violation of the existing laws and regulations.

Corporatization in Bulgaria has been very limited till 1993.

3.2.2. Latin American

The free-market economic revolution took place in Chile after 1973 was claimed to be the most radical departure from socialism that occurred anywhere in the world.(Glade,1991). The privatization in Chile, being an important part of this economic revolution, was also claimed to be the first among all other countries striving for privatization in the world (Jackson&Price, 1994). In contrast the rapid process in Chile, other Latin American countries as Brasil, Mexico, Argentine the privatization process was started slowly and selectively, being a better comparison for Turkey. Latin American countries have been more successful in implementing privatization policies as compared to the privatization in Turkey. Furthermore these countries were also able to obtain significant amount of foreign investment. The chart in Figure 3.2. reflects the results for Latin American countries Argentine, Brazil, and Mexico and Turkey between 1988-1993 period.

Figure 3.2. Privatization and foreign investment in Latin American Countries and Turkey (1988-1993)



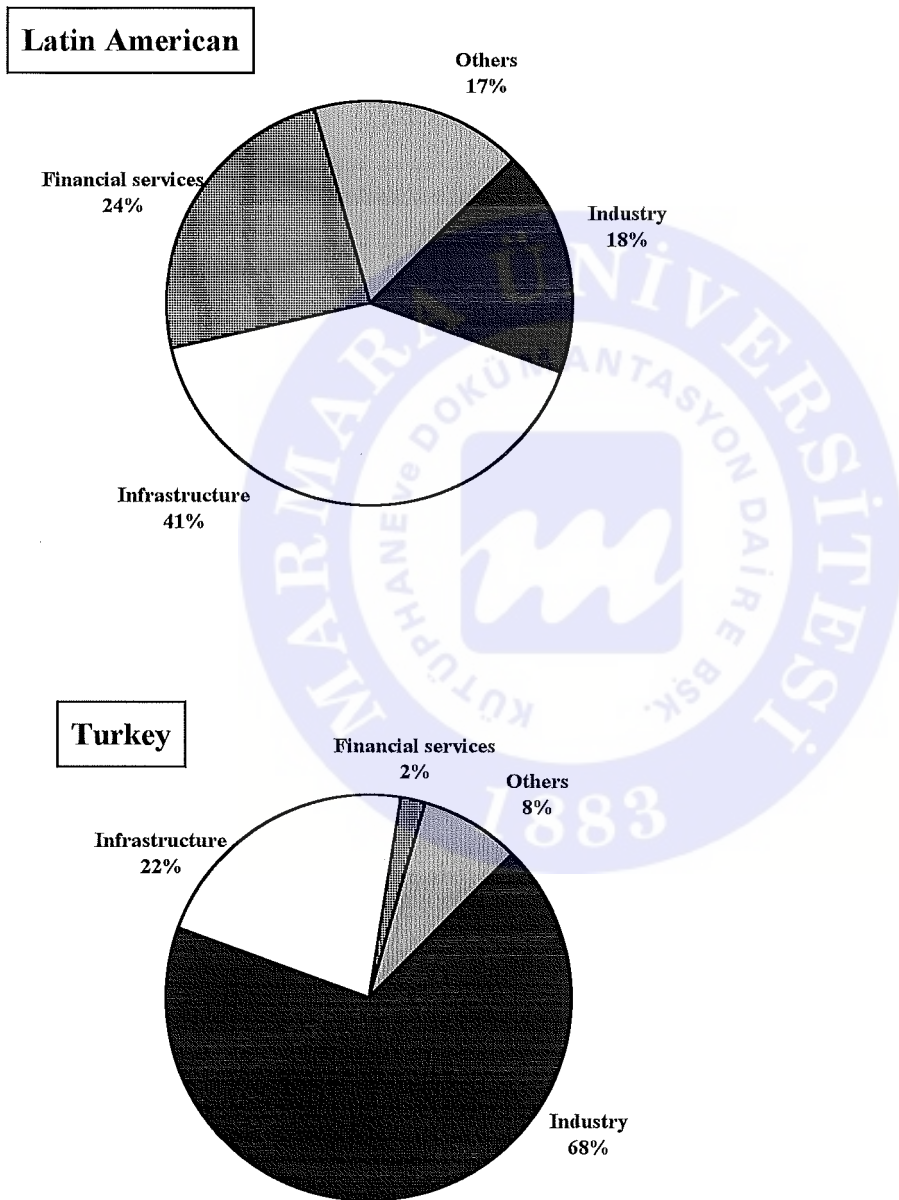
Source : IFC Corporation study (1994)

The parallelity of direct foreign investment and privatization proceeds is very significant. This does not totally mean that privatization has been directly realized with

foreign investment but the ease in the formalities for foreign investment and the increase in attention of foreign investors has been realized in these countries, parallel to the privatization process as part of the economic revolution.

Another important comparison is the sectorial distribution of privatization applications.

Figure 3.3. Sectorial distribution of privatization in Latin America versus Turkey (1988-1993)



Source: IFC Corporation study (1994)

The comparison of sectorial distribution of privatization between Latin American countries and Turkey gives useful results. Latin American countries has distributed the privatization homogenically to infrastructure, industry and financial services. Special emphasis has been given to infrastructure (e.g. water, electricity, gas, telecommunications, roads) with 41 %, and equal emphasis on industry and financial services. However, Turkish privatization program has focused on privatization in industrial sector, with 68 %. There were almost no privatization in financial sector, only partial sale of assets of state owned banks.

Argentina

The restructuring of the Argentinean economy has started right after the end of military command in 1983 parallel to the re-establishment of democracy in the country. The importance of privatization was firstly announced during presidency of Alfonsín (1983-1989), and small scale reprivatization of some enterprises has been realized. These enterprises were the domestic airlines Austral, electrical instruments group SIAM, a TV channel and a glass production plant.

In 1989 after the election of Menem for presidency, large scale privatization plan was started, with legalization of privatization law. Till 1993, the privatization of 176 enterprises were completed. This mainly included the privatization of the gas production and services companies, telecommunication services enterprise : ENTEL, railway companies, Buenos Aires motorway network, and divestiture of the 45 % government share in state petroleum company Yacimientos Petroliferos Fiscales. Proceeds of the privatization totalled up to 8.7 billion USD including the sale of 3.2 billion USD shares in stock exchange market. Additionally, as a part of new economic model, 6.8 billion USD treasury bonds are issued and sold.

Post-privatization complications were seen for the privatizations made during the initial stages. After the privatization of domestic airlines monopoly, in 1993 government has taken back 30 % share of the company. Additionally, there were large criticism on the price increases in the services of telecommunications company ENTEL.

Argentina is a federal republic composed of 23 districts. Federal government as a result of the idea of exemption from the trade activities, has transferred the authority of privatization of some local enterprises.

Various methods of privatization have been utilized in Argentine,

- One of the most utilized method was the sale of renewed status of an enterprise subject to privatization. In this method, federal government establishes a new company only holding the assets of the enterprise but not responsible for trade activities and gives a license to continue the trade activities on its behalf. Then, the shares in this new company are partially or wholly sold with a contract. The details of the contract are

sometimes negotiated with the private company awarded after bidding, or included in the bidding requirements before the sale. This model was the mostly used model up to date in privatizations in cable-telecommunication, energy production, transport and distribution services.

- Another method used was the direct sale of the state owned enterprise after corporatization according to Argentine Corporate Law, to the shareholders in private sector or the third parties.
- The third method was the license sale which was applied in the sale of mobile telecommunication services
- The fourth method was partial asset sales of the enterprise.

Government control for post privatization complications was not an important deal for the government, only in the privatization of Aerolíneas Argentinas SA. the government kept a “golden” minority share for some important trade decisions only. But, special institutions are founded for a control on the license contracts.

Employee rights are reserved with favorable conditions supplied for the shares of the company. Average of the percentage employee shares in these privatizations was 2.5%.

The privatization in Argentine still continues, and total income from privatizations till 1995 was approximately 20 billion USD. There are still state owned enterprises which have not been privatized, but at the end of 1994 the government announced the intention of the privatization of all large scale enterprises within 16 months. It is notable that only in 1994, 17 billion USD foreign capital has come to the economy.

3.2.3. South East Asia

Malaysia

During the 1970's, Malaysian governments have launched series of extensive economic plans (New Economic Policy, NEP) covering, the promotion of national unity and integration, creation of employment opportunities, and the promotion of overall economic growth. These programs are, in fact, aimed to narrow the gap between the people in *Bumiputra* (Malay ethnic group) who are in low income agricultural and rural activities and non-Bumiputra part of the country. The state intervention is required for this purpose and therefore there was a marked expansion in state owned enterprises' participation in all sectors of economy.

The number of state owned enterprises increased to 1,158 till 1989, with an output accounting for 25 percent of the gross domestic product (GDP). Starting from 1983 the government initiated a privatization policy. During this stage, the government explained the weak performance of state of enterprises which was masked by high profits from Petronas

(petroleum industry). The public sector deficit has risen considerably, reaching 3.5 % of the GDP. This led to the recession during 1985-1987 period.

The emergence of the privatization policy in Malaysia was assigned to the financial deficits of public enterprises which have become more serious during the recession period, and the reassessment of the role of the economic plans in 1970's (NEP). The key instrument at this point was the claim to increase Bumiputra asset ownership.

The characteristics of the Malaysian privatization are as follows :

In line with the objectives of NEP, ownership structure in divested enterprises is specifically emphasized. By 1990, 30 % was planned to be owned by Bumiputra, 40% by other Malays (Chinese and Indians) and 30 % by foreign investment.

By taking current market conditions and financial conditions of the enterprises into account the method of privatization is determined.

Privatization did not only refer to the divestiture of public assets but also included proposals from the public sector to make infrastructure facilities by permission from the government. **BOT (Build-operate-transfer)** and **BOO (Built-operate-own)** systems are effectively utilized for this purpose. These systems were not only utilized as a tool for privatization but also an alternative financing mechanism for large scale projects.

The most important privatizations in Malaysia included flotation of the Malaysian International shipping (MISC), the Malaysian Airline System (MAS), the national telecommunications utility (Telecom Malaysia), the national car manufacturer (Proton), and the national electric utility, Tenaga Nasional (TEN). These and other privatization applications till 1992 are listed in Table 3.5.

Four major privatization were realized till 1987 in the industry, namely Klang Container Terminal (KCT), Malaysian Airlines System (MAS), Aircraft repair & overhaul Department(AIROD) and Malaysian International shipping company (MISC). Among this four enterprises government sold the majority of sales (51%) only in Klang Container Terminal. Out of these four enterprises, only MAS and MISC privatization were of any appreciable scale. These enterprises were privatized prior to the stock market crash in 1987. From this time since 1992 there, have been smaller sales, but the major emphasis has been put on contracting out and in particular BOT contract in the transport sector and the provision of water facilities.

MISC was a joint venture between the government and the private sector. MISC was an international shipping company with 41 vessels. The company was faced with losses in the 1982-1984 period. During its privatization, the government retained a "golden

Table 3.5. Privatized Enterprises in Malaysia, 1992

	Date	Sector	Sales Method	Percent Sold	Proceeds mill.M\$	Subsequent events
1. Completed Sales						
Klang Container Terminal (KCT)	1985	Transport	private	51	56.9	yes
Sports-Toto	1985	Services	private	70	35.5	yes
Malaysian Airlines System (MAS)	1985	Transport	public	20	63.0	yes
Aircraft repair+overhaul Dept. (AIROD)	1984	Transport	private	49	72.8	yes
Malaysian International Shipping Co. (MISC)	1987	Transport	public	10	136.3	yes
Tradewinds Berhad	1988	Finance	public	7	10.7	yes
Syarikat Gula Padang	1988	Agri/sug.	private	100	51.0	yes
Cement Sarawak	1989	Manuf.	public	16	6.4	yes
Cawangan Percetakan Keselamatan	1989	Printing	private	100	5.0	yes
Total Proceeds					437.6	
2.Licensing/Contracting/BOT						
TV-3	1983	Services	license	--	44.1	yes
Kuching Interchange	1987	Roads	BOT	--	86.0	yes
North Klang Bypass	1987	Roads	BOT	--	20.5	yes
Kuala Lumpur Interchange	1987	Roads	BOT	--	300.0	ongoing
Labuan water supply	1988	Water	BOT	--	126.5	yes
North-South Highway	1988	Roads	BOT	--	4,300.0	ongoing
Larut Matang water supply	1989	Water	Water	--	339.0	ongoing
Ipoh water supply	1989	Water	BOT	--	308.0	ongoing
Garbage Disposal	1990	Services	BOT	--	80.0	yes
Marketing of airtime		Services	MC	--	--	ongoing
Tube Wells		Services	MC	--	--	ongoing
Semenyih Dam		Water	MC	--	--	ongoing
Abbattoir		Livestock	Leasing	--	--	ongoing
Total Contract Value					5,654.1	
3. Corporatizations						
Syarikat Telekom Malaysia Berhad (STM)	1987	Telecom	public	49	4,000.0	yes
Lembag Lektrik Negara (LLN)	1990	Power	public	49	10,800.0	ongoing
Total					14,800.0	

Source : Karatas,C. Privatization in Malaysia and Singapore,BU Journal, 1993 Volume 7

share” in the company. 85 million shares of the company are distributed as follows, in conformity with the NEP :

- 29.4 % by Bumiputra institutions (private placement)
- 3.5 % by Malaysian employees of the company
- 20.1 % by Bumiputra institutions and individuals
- 46.9 % by other private sector.

Ownership structure of the company only slightly changed after the privatization.

Malaysian Airline System MAS , was established in 1972 and by 1978 it was expanding its operations to international markets, but during the first years of 1980s it faced with high fuel costs and high interests leading a loss of 35 million M\$’s in 1981/1982, and during the five years to 1985 it failed to pay dividend to the government. At this point, the government decided to meet the capital requirement of the company through public share.

As indicated, BOT system is utilized extensively in Malaysian privatization program. Initially BOT’s were used in the transport sector. BOT contracts involve local contractors (including foreign joint venture contractors) with contract fees and toll setting arrangements negotiated on each case. In 1993, the contractors obliged to suspend toll collection on a section of the highway between suburb and central Kuala Lumpur following violent opposition from mostly the Chinese community who use the road. Eventually the contractor received full compensation form the government.

After the privatization, improvements were seen not only in financial measures but also in a variety of operating and productivity measures. Improved operating efficiency in KCT is most easily measured in the reduction in turnaround times for container operations. In 1985 it was 11.6 hours by 1989 it had fallen to 8.9 hours. Similarly for the port as a whole the average stay has fallen from 8 to 3.8 days, and Port Klang moved up from 11th to 7th position in terms of world-wide container port performance. In the case of Malaysian Airlines (MAS) load factors have risen steadily since 1985/86 while revenue per employee rose by 20 percent in real terms between 1985/86 and 1988/89. Similar improvements are discovered in MISC (Malaysian International Shipping Co.) where real revenue per employee rose by 32% in the two years following privatization and the company began to pay dividends for the first time since 1981.

An important feature of privatization in Malaysia, is the relatively wide spread use of the “special rights” and “golden share” in privatization sales. The golden share concept operates in principle as a provision allowing the holder powers of veto over fundamental decisions of the company, irrespective of the special shareholders ordinary shareholding. This is particularly relevant in cases where the enterprise is considered to be of strategic or social importance. In Malaysian privatization, three of the asset sales involved the use of golden shares : MAS, MISC and Sports-Toto. The use of golden shares in MAS and MISC would possibly indicate the governments intention to dilute its shareholdings further that it becomes a minority shareholder.

Another important feature of Malaysian privatization is the fact that there is restriction on all public share sales that no one share holder, other than the government, can hold more than 10 percent of the stock.

The Malaysian government in various privatization cases has assured employees that they will be retained for other possible jobs, receive unemployment benefits through some programs and have the opportunity to receive some share of enterprises divested. It appeared that these measures have reduced the resistance of the workers.

Distribution of shares for some of the privatizations, as of 1992 were as follows :

Table 3.6. % distribution of shares in some enterprises privatized in Malaysia, 1992

Company	Federal Govrnmnt	State Govrnmnt	Bumiputra Institution	Other Institution	Employees	Other Private	Total
MAS	60.0	10.0	11.0	0.0	5.0	14.0	100.0
MISC	29.4	16.0	14.8	4.2	0.6	35.0	100.0
Sports Toto	30.0	0.0	3.8	0.0	5.0	61.3	100.0
Tradewinds	59.1	0.0	4.2	27.0	0.7	9.0	100.0
Cement- Sarawak	30.0	54.4	4.3	0.0	1.4	9.9	100.0

It is notable that during the divestiture, employee share was 3.5 % in MISC, 6.7 % in Tradewind, 8.8 % in Cement Sarawak, 5.0 % in Sports Toto.

Singapore

In Singapore there are three types of public enterprises; statutory boards and subsidiaries, the enterprises created under three holding companies which are directed to three ministries (National Development, Ministry of Defense and Ministry of Finance) and the Singapore Investment Corporation, which is an investment agency overseas. The companies owned by the holding companies are wholly or partially government owned. Furthermore, the government in Singapore, through statutory boards, provides social services (social security, housing, etc.) and economic services (utilities, transportation, infrastructure, industrial and trade promotion, finance).

Singapore's economy compared with other developing countries can be accepted as strong, although the state has been applying hardly a "state economy". The establishment of those statutory boards dates back to the end of 1950's, but the policies

In 1993, the Singaporean government was to sell off part of its Telecom(25%). The total value of the issue was expected to amount between 2 billion USD and 3 billion USD.

4. Privatization in Turkey

4.1. Origins of Privatization in Turkey

State owned enterprises were instrumental in initiating industrialization and facilitating a balanced regional development in Turkey from the beginning of 1960's. However political interference and bureaucratic procedures have made state owned enterprises a serious burden on the economy. This claim does not solely cover the industrial enterprises, but also and the public service sectors and the banking. In response to the problems, a privatization program was initiated in 1985, parallel to the growing trends in world economies.

The history of privatization in Turkey interestingly dates back to the foundation of the Republic. The first public economic enterprise, the Industrial and Mining Bank of Turkey, was established in 1925, it was stated in the law that the bank should eventually be privatized. Article 8 of Law NO.633 states " The bank is to sell up to 51 percent of the shares of its establishments to the legal corporations. The shares are expected to belong to Turkish citizens," (Aktan,1993). Sümerbank, which can be accepted as the first well-organized state enterprise, was also planned to be privatized in the future and this was recorded in its establishment law. Article 11 of the Sümerbank Law also required that the shares of the enterprise could be sold to the public or in total. (Aktan, 1993).

The Democrat Party, which came to power in 1950, committed itself to a liberal economic policy and aimed to privatize state enterprises. However instead of privatization the number of state enterprises increased during this period and public sector continued to expand in a higher rate compared to private sector.

The first serious attempt to privatize state economic enterprises, in Turkey, was made after 1980. The January 24, Stabilization Measures aimed to integrate state enterprises into the free market economy. Preliminary investigations concerning the feasibility of privatization were started in 1985.

4.2. 1986 The Morgan Guaranty Trust Co. Plan

In 1985 the Turkish government has received offers from 2 American (Morgan Guaranty Trust Company of New York, The First Boston Corporation) and 5 British (Morgan Grenfell and Co. Ltd., J.Henry Schoerer Wags and Co.Ltd., N.M.Rotschild and Sons Ltd., Lazar Brothers and Co.Ltd., Chase Manhattan Ltd.) companies to prepare a master plan concerning the privatization of state owned enterprises in Turkey. After

evaluations, State Planning Organization (DPT) has signed the contract with the Morgan Bank Guaranty Trust Company of New York, USA on December 12th, 1985. After that, Morgan Guaranty Trust Co. carried out the project along with four Turkish and foreign firms namely, The Turkish Industrial Development Bank, Industrial Investment and Credit Bank Co., Investment and Credit Bank, Price Waterhouse and Muhaş Co., under the control of Coordination Committee, established within the State Planning Organization DPT. The master plan was financed by the World Bank, and some of the World Bank experts actively participated in the project. Apart from the master plan, the government made contracts with several foreign companies to prepare reports for restructuring of some sectors.

The objectives of the privatization program were determined as follows :

- Making the economy more responsive to market forces,
- Increasing industrial efficiency and generating real growth,
- Increasing the quality and the quantity of the goods and services
- Spreading ownership base,
- Developing capital markets,
- Minimizing the financial support for the state economic enterprises by the Treasury,
- Decreasing the types of protection and subsidies (direct and indirect), given to the state enterprises,
- Freeing government officials to work on political and regulatory issues rather than managing state owned enterprises,
- Having modern technology and management techniques,
- Increasing the labor productivity by awarding equity stocks to the employees of the enterprises,
- Shifting political ideology more toward private ownership,
- Strengthening relations with international firms through foreign investments,
- Increasing the rate of return of the current capital investments,
- Generating revenues for the government.

The Morgan Bank in coordination with other firms investigated 32 state enterprises in accordance with two criteria : **economic viability** and **investment requirements**. The economic viability of a state enterprise is determined by analyzing its markets, the expected future demand for its products, its operations, including in a competitive environment without subsidies, import protection or price controls. Investment requirement is the financial structure of the enterprise and its need to renew the technology.

By examining the 32 state enterprises with regard to the criteria explained, the Morgan Bank formed priority list according to the timing required. In this list, state enterprises divided into 8 categories. The following Table 4.1. gives the relative priorities and the description of categories.

Table 4.1. The Morgan Guaranty Trust Co. Privatization Priority List (1986)

First Priority			Second Priority			Third priority	
CATEGORIES							
I	II	III	IV	V	VI	VII	VIII
Entire company can be sold	Majority can be sold	Large parts can be sold	Some parts can be sold, remaining needs rehabilitation or total shut down	Companies can be subject to privatization	Companies may be sold	Companies can be sold with government support	Public Service companies
1. TURBAN	4. YEMSAN	6. TIGEM	9. SÜMERBANK	11. PTT	13. EBK	18. ÇAYKUR	26. DMO
2. THY	5. ÇİTOSAN	7. TPAO	10. TSEK	12. TEK	14. TKI	19. T.SEKER	27. T.DENİZ
3. USAS		8. ETİBANK			15. MKEK	20. SEKA	28. TCDD
					16. T.GEMİ	21. PETKİM	29. DHM
					17. ORÜS	22. TÜGSAS	30. TMO
						23. T.D.Ç.I.	31. TZDK
						24. ASOK	32. TUSAS
						25. TTK	

Explanations for the acronyms :

- | | |
|---|--|
| 1. Tourism Bank Co. | 17. Forestry Products Industry Enterprise |
| 2. Turkish Airlines Co. | 18. Turkish Tea Institution |
| 3. Airline Catering Service Co. | 19. Turkish Sugar Enterprises Co. |
| 4. Feed Industry Co. | 20. Turkish Cellulose&paper Business Co. |
| 5. Turkish Cement Industries Co. | 21. PETKİM Petrochemical Co. |
| 6. Directorate General of Agricultural Businesses | 22. Turkish Fertilizer Industry |
| 7. Turkish Petroleum Co. | 23. Turkish Iron & Steel Enterprise |
| 8. ETİBANK (Banking & Mining Sector) | 24. Heavy Industry and Automotive Institution |
| 9. Sümerbank (Textile & Banking) | 25. Turkish Coal Co. |
| 10. Turkish Milk Industry | 26. Government Supply Office |
| 11. Turkish Postal, Telephone & Telegraph | 27. Turkish Maritime Enterprise |
| 12. Turkish Electricity Production Institution | 28. Directorate General of Turkish Railways |
| 13. Meat & Fish Office | 29. Directorate General of Aviation & Airports |
| 14. Turkish Coal Production Enterprise | 30. Soil Products Office |
| 15. Machinery and Chemical Industries Institution | 31. Turkish Agricultural Supply Office |
| 16. Turkish Ship Industry | 32. Turkish Aerospace Industry Co. |

Source: Aktan, C.C. The privatization of state economic enterprises in Turkey, (1993) Bogaziçi Journal Volume 7. (from The Morgan Bank Master plan 1986.)

The master plan also made suggestions concerning the possible privatization method for each category, divided into two parts, one including the **transfer of ownership** through partial or total divestiture of state enterprises and **privatization alternatives** which do not generate ownership transfer. The second includes the issue of revenue participation certificates, leasing, management contracts, contracting out. These are listed in the following table.

Table 4.2. Morgan Guaranty Trust Co. Preferred Methods of Privatization (1986)

	CATEGORIES							
	I	II	III	IV	V	VI	VII	VIII
Transfer of Ownership								
Sale of Entire Company	■	■						
Sale of Majority Assets		■						
Sale of Plants/Assets		■	■	■		■	■	
Sale of Some Equity			■		■			
Other Privatization Alternatives								
Revenue Participation Certificates			■					■
Renting, Leasing of Facilities			■				■	■
Management Contracts						■	■	■
Contracting of Services								■
Removal of Advantages/Constraints						■		

Source: Aktan, C.C. The privatization of state economic enterprises in Turkey, (1993) *Bogaziçi Journal* Volume 7, and TÜSİAD. (from The Morgan Bank Master plan 1986.)

Morgan Guaranty Trust Company has also specified the following points as to be of major importance during the realization of privatization :

1. The privatization method to be applied must be examined carefully.
2. The financial status of corporations and persons who will be involved in purchasing must be investigated extensively.
3. Competition is an important mechanism for the maximization of consumer rights.
4. The provision of suitable conditions for foreign capital and foreign technology transfer is important for the success of privatization program.
5. Priority must be given to the enterprises which does not need restructuring, in order to establish the trust of public to privatization policies.

4.3. Formation of Legal Framework for Privatization

There have been various Acts concerning privatization in Turkey, namely

- Law No.2983 Concerning the Encouragement of Savings and Acceleration of Public Investment effective as of March 17,1984
- Decree No.233 Concerning State Economic Enterprises effective as of June 18,1984
- Law No.3291 Concerning the Privatization of State Economic Enterprises effective as of June 3,1986
- Law No.3974 Concerning the amendments to Law No.3291
- Decree No.s 530,531, 532, 533 and 546 as proceedings to the Law No.3987 Authority Law effective as of May 5,1994
- The new Privatization Law effective as of November 27, 1994

The purpose of the Law No.2983 Concerning the Encouragement of Savings and Acceleration of Public Investments was identified as giving a boost to public investments by creating new financing resources by encouraging savings through offering reliable and steady incomes. The law incorporated the financial instruments as revenue sharing certificates, equity stocks, operating rights. **Revenue sharing certificates** enabled individuals and private firms to be a partner in the incomes of the state owned infrastructure facilities. According to Law.No.2983 **equity stocks** are shares in state economic enterprises to be sold to individuals and private firms. Equity stocks are different from revenue sharing certificates in the sense that individuals and private firms become a partner in state owned enterprises' assets when they buy a share and partnership results as a partial ownership. The main objectives of issuing equity stocks to the capital market was 1) The equity stocks of the establishments and facilities can be sold primarily to employees and to the public with favorable terms with the objective of spreading the capital base, 2) Developing the stock market, 3) Increasing the efficiency and effectiveness by competition, in order to increase the turnover and to stop the burden on the Treasury.

The Law.No.2983 planned the establishment of the Commission of Mass Housing and Public Participation. In order to apply the decisions of this commission, the Mass Housing and Public Participation Administration was established. This organ was changed to Public Participation Administration on April 4, 1990(PPA) with Decree No.s 412 and 414. The related Article 6 of this law, was also changed with Decree No.473 in December 20,1991 for establishment of High Commission of Public Participation (HCPP)governed by Prime Minister, Asst. Prime Minister, State Minister, Housing Minister, President of National Planning Organization, President of Treasury, and President of PPA. The mission of this commission can be summarized as to decide the selection of enterprises for privatization, and to specify the conditions for the leasing and contracting out of services. These decisions were still to be applied by PPA.

Decree No. 233 Concerning State Economic Enterprises included some rules for privatization. It stated that a state economic enterprise or its establishments, subsidiaries, participations etc. can be privatized by the decision of the High Planning Board. The implementation of the sale was still to be made by PPA.

Law No.3291 Concerning the Privatization of State Economic Enterprises included four articles for the privatization of state economic enterprises. According to Article 1, a privatization decision of a state economic enterprise is taken by the Council of Ministers. Establishments, subsidiaries, participations etc., can be privatized by the Public Participation Board. This board has authority also to decide which equities of the enterprise, or its establishments, and subsidiaries, will be sold or what share of the assets of these bodies will be offered for sale. The board also makes decisions concerning leasing and awarding operating rights. The law provides no restrictions with regard to who is eligible to purchase shares of such companies. There are no general government policies concerning such sales of share. Each case was to be evaluated on its own merit. The government may impose restrictions with regard to potential buyers, only in respect of companies which have a strategic importance or which have monopoly status.

Law No.3974 Concerning the amendments to Law No.3291 have included the additions for the privatization of state owned Turkish Electrical Corporation(TEC). This law indicated that the privatization of current and/or future establishments and subsidiaries of TEC will be decided by the Council of Ministers with the demand of Ministry of Energy and Natural Resources. (This law was cancelled by The Constitutional Law Court in December 4,1994. The reasoning for cancellation was mostly directed to the Article No. 155 of the Constitutional Law related to the transfer of operating rights, and Article.No.128 related to the public service workers)

Because of the government need for realization of privatization, Law No.3987 Authority Law was effected as of May 5,1994 and proceedings Decree No.s 530, 531, 532, 533 and 546. But the Constitutional Law Court again on September 10, 1994 have cancelled this law. The reasoning from the Court has included clues for a new law. According to the reasoning, the privatization can only be proceeded in following way:

- The privatization of public assets must be made by law. A special law must be accepted by the parliament for each privatization case.
- The privatization of state economic enterprises must be made at real prices. As privatization being in full contrast to nationalization the pricing rules for denationalization must be parallel to each other.
- The methods of privatization must clearly be stated within each law. The methods used for the determination of the sale price and the auction rules must be stated.

- The participation of foreign investment must be limited for the privatizations of enterprises important for the future of the nation, in order to protect the independence of the country.
- Within the regulations of privatization, it is compulsory to include the rules to prevent monopolies and to protect the consumer rights.

After the cancellation, the new Privatization Law has been prepared in the planning and budgeting commission of the parliament and with the acceptance of the opposition party, the law has become effective as of November 27, 1994. To prevent another cancellation from the Constitutional Law Court, during preparation the reasoning of the court is taken into account. Main points of the new law include :

- In order to provide support from the public, clearness of the privatization applications is provided.
- The payment of the social rights of the workers will immediately be made in order to decrease the social effects of privatization.
- The privatization proceeds will be used for new privatizations and the development of the country, but not for short term benefits.
- Rapid and dynamic realization of privatization is decided. (Third article of new law is excluded from this fact, as it states the full acceptance of High Commission of Privatization.)

The law required the establishment of Privatization Administration, PA, instead of PPA, only dealing with privatization and leaving other duties to the Treasury, and High Commission of Privatization, HCP, instead of HCPP.

All privatizations have been made according to this mechanism during 1995.

4.4. Privatization Experiences

As indicated earlier, Turkey has started to implement the privatization by the beginning of 1986. Six different methods of privatization have been utilized

- Block sales
- Asset sales
- Public offering
- Offering to international markets
- Sales in stock exchange market
- Uncompleted plant sales

Sometimes, block sales and asset sales are taken together, as in both cases the sale is realized as a direct sale to third parties, but the difference here is indicating that block sales mostly includes the sale of majority of shares.

Formerly the Public Participation Administration, PPA, and currently Privatization Administration, PA prepares information about the conditions of the bidding to the potential investors in the case of block sales and asset sales. In this method of sale, PPA also asks for the investment plans and employment plans to potential bidders. In the assessment of tenders the following criteria is said to be used,

- price and payment conditions,
- scope and interest in Turkey,
- proficiency and experience in the business,
- employment and staff training policies,
- work and investment plans,
- additional conditions demanded by the offerer,
- structure of associates.

In the case of public offerings, brochures and other sale documents are prepared detailing the range of operations of the companies to be privatized. Then the PPA/PA advertises through local and international media that these companies are for sale. In public

offerings, pricing the share is an important matter. The general trends in the stock market, which are sometimes difficult to predict have to be taken into account.

The privatization experiences and the proceedings from the sales with the corresponding method of privatization are given in the following two tables. The first in Turkish Lira terms and the second in USD terms. The second is certainly more appropriate to analyze.

Table 4.3. Privatization Applications for the period 1986-1995 (in TL terms)

Privatization Method	1986-1993 blln. TL	1994 blln. TL	1995 blln. TL	TOTAL blln. TL
Block Sales	7,106	238	15,001	22,345
Asset Sales	210	152	8,641	9,003
Public Offering	1,380	56	0	1,436
Offering to the Internat. Markets	0	6,682	0	6,682
Sales in Stock Exchange Market	2,563	1,450	810	4823
Uncompleted Plant Sales	11	0	0	11
TOTAL	11,270	8,578	24,452	44,300

Source : Daily economic newspaper DÜNYA dated 13.01.1996 (Author's note : data is in accordance with various other references including PPA's papers 12/7/94)

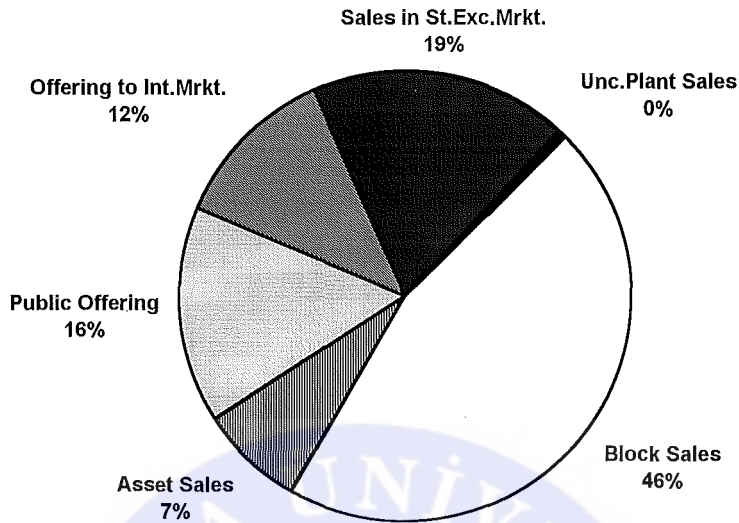
Table 4.4. Privatization Applications for the period 1986-1995 (in USD terms)

Privatization Method	1986-1992		1993		1994		1995		TOTAL	
	mln.\$	%	mln.\$	%	mln.\$	%	mln.\$	%	mln.\$	%
Block Sales	591	44.7	365	68.9	8	1.9	313	60.8	1277	46.0
Asset Sales	16	1.2	0	0.0	5	1.2	182	35.3	203	7.3
Public Offering	406	30.8	24	4.5	3	0.7	0	0.0	433	15.6
Offering to the Internat. Markets	0	0.0	0	0.0	330	80.1	0	0.0	330	11.9
Sales in Stock Exchange Market	295	22.3	141	26.6	66	16.0	20	3.9	522	18.8
Uncompleted Plant Sales	14	1.0	0	0.0	0	0.0	0	0.0	14	0.5
TOTAL	1322	100.0	530	100.0	412	100.0	515	100.0	2779	100.0

Source : Daily economic newspaper DÜNYA dated 13.01.1996 (Author's note : data is enriched with various other references including PPA's monthly bulletin 12/7/94, percentages are extracted from the data)

In total, 2.779 billion USD privatization has been realized till the end of 1995. Out of this, 53.3 % is made through the sale to the third parties (Block sales plus asset sales). Further 15.6 %, 11.9%,18.8% and 0.5 % was made with public offering, offering to international markets, sales in stock exchange market, and uncompleted plant sales respectively. These values are also indicated in a pie chart as in Figure 4.1.:

Figure 4.1. The privatization methods used in Turkey (1986-1995)



It can easily be extracted from the data in Table 4.4 that the privatization methods utilized have changed within the periods of time. More than 90% of the public offerings have been realized before 1991. The only sale to international markets was realized in 1994, which is the sale of state share in the TOFAŞ automotive manufacturing company. Excluding this privatization experience the level of privatization was very low in 1994.

The privatization of cement plants was the major privatization experience for the period between 1986 and 1991. The details of the privatization in cement industry are discussed in section 4.6 of this study. The sale was not only realized with block sales but also public offering and sales in stock exchange market methods have extensively been utilized.

In 1988, 22 % state share in TELETAS has been offered to the public and with some special conditions to the employees. Similarly, 4 % share in Petrol Ofisi, Petroleum products sales and marketing company, 1.66 % share in Tüpraş Petroleum refining company, 1.55 % share in THY Turkish airlines company has been offered to the public during 1986-1991 period.

In 1989, 70 % state share in USAŞ Air services company has been sold to foreign company, SAS Service Partner, and the remaining 30% have been offered to the public.

Within a one year period of April 93 - May 94, in the animal feed sector, after the block sale of 24 enterprises distributed around the country, to the private companies

In the last quarter of 1995, the privatization of KARDEMİR was realized by different method which has not been utilized before. The shares are given to the workers union, the citizens of the region, the institutions available in the area. The latest news showed that the efficiency is increasing, and the people are optimistic about the future enterprise provided that financial resources will be found for modernization of the technology. Special conditions were given to the workers who prefer to leave the enterprise, prior to the privatization. However it is early to decide the future effects of privatization in this enterprise.

In 1995, the privatization of some plants of state owned SEK, Milk Products Enterprise has been realized. The sale was realized by auction plant-by-plant within interested investors.

Privatization Administration's sale plan for 1996 includes;

- block sale of 30 % state share in ERDEMİR, iron and steel industries,
- block sale of assets and operating units of Sümer Holding,
- the sale of assets and operating rights of T.Gemi Sanayi ve Denizcilik İşletmeleri A.Ş, ship building and marine corporation,
- block sale of Çinkur, zinc products enterprise,
- block sale of Deniz Nakliyat Marine shipping transport,
- block sale of assets and production units of ORÜS, forestry products enterprise plant-by-plant,
- the sale of the remaining 7 cement plants in the eastern region, and 4 other plants in earth related production sector. (ceramics etc.)

The enterprises which are planned to be taken into the privatization plan in 1996 are :

- TEDAŞ, former TEK, Turkish Electric Co. public offering of shares and the sale of operating rights,
- the block sale of plants of T.Şeker Fabrikaları, Turkish Sugar Industries,
- the block sale of 2 cigarette production plants belonging to the TEKEL monopoly,

- The leasing of operating rights and the sale of harbours belonging to TCDD, Turkish Republic Railway System,
- The sale of the cellulose and paper plants of SEKA, Cellulose and Paper Industry,
- The sale of plants of T.Gübre Sanayi, Turkish Fertilizer industry.

4.5 Privatization Expenses

One of the important expenses for privatization is the payment made to the auditors and privatization consultants. For privatization of large scale, there are normally more than one companies forming a *consortium*, and preferably with a foreign partner. Various firms are serving for auditing and consultancy during privatizations in Turkey. These firms are listed in the following table for current and future privatizations with corresponding state enterprises subject to privatization.

Table 4.5. Current consultant companies privatization in Turkey

State enterprises subject to Privatization	Sector	Auditors and Consultancy Firms
Directorate of Privatization Administration (ÖİB)	(itself)	McKenzie, White&Chase, Cenajans
ERDEMİR	iron&steel	CSFB, DRT Mali Denetim
PETKİM	petrochemicals	Samuel Mortegu, DRT Mali Denetim
TÜPRAŞ and Petrol Ofisi	petro.refinery petro.prod. mrktng&sales.	Chase Investment Bank, Salomon Brothers, Kleinworth Benson, Global Menkul Degerler
Sümer Holding	various	Price Waterhouse
Çitosan	cement ind.	TSKB, Türk Merchant Bank
Havaş	airport service	DRT Mali Denetim, Global Menkul Deg.
Testaş	electronics	Vakıfbank, İktisat Bankası
Petlas	tyre manuf.	İktisat Bankası
Kümaş		DRT Mali Denetim
Çinkur	zinc products	Denet Mali Müşavirlik
Deniz Nakliyat	sea transport	Körfezbank
Karadeniz Bakır İşl.	copper products	Vega Denetim

Source: Privatization Administration Presidency Announcement in daily newspaper Yeni Yüzyıl dated January 16, 1996

Directorate of Privatization Administration (ÖİB), itself is consulted by three different companies. Mckenzie is involved in the consultancy of the organization for administrative purposes and handling the initial auditing of enterprises subject to privatization, while White&Case is giving law consultancy and Cenajans is involved in public relations services and advertising campaigns.

The amount of payment made to these companies have always been criticised. During the period of eight years between 1986 and 1993, payments totalled up to 19.5 million USD. In 1994 this payment was 3.7 million USD and finally in 1995 is increased up to 9.2 million USD. One of the reasons for this increase is the 2.7 million USD payment made to extensive advertisement campaigns, while during 1986-1994 period there was very few emphasis put on the advertisement campaigns.

The privatization expense data for each privatization made are not available for Turkey. In order to give an idea such data for UK is available in the following Table.

Table 4.6. Privatization expenses as a percentage of equity proceeds in UK till 1992

<i>Company</i>	<i>Date</i>	<i>Expenses/equity proceeds (%)</i>	<i>Expenses (million £)</i>
Cable&Wireless	1981	3.1	7
British Aeospace	1981	3.8	6
Amersham International	1982	4.6	3
Britoil	1982	3.2	17
Assoc.British Portts	1983	11.2	2
Enterprise Oil	1984	2.8	11
British Telecom	1984	6.8	263
British Gas	1986	6.4	360
British Airways	1987	4.7	42
Rolls-Royce	1987	-	29
BAA	1987	3.4	43
British Steel	1988	1.8	46
10 Water Authorities	1989	2.5	131
10 Electricity Companies	1990	2.4	191
National Power/ Powergen(60%)	1991	2.7	79
Scottish Power/ Hydro-electric	1991	2.8	98

Source: Jackson&Price,1994

Large privatizations, as British Telecom, British Gas and Water Authorities and the electricity industry have required massive marketing campaigns to ensure that the government's objectives of a successful transition to the private sector and a wide spread of share ownership are met. As a result, the total privatization expenses in these cases, were very high compared to the moderate sales. It is notable that in the last four large sales

total expenses have been between 2.4 to 2.8 per cent of equity proceeds, considerably below the levels of British Telecom and British Gas.

The average of the per cent of equity proceeds for the privatizations given in the table, approximately equals to 4.15 %. The expenses during 1986 and 1995 is 32.4 million USD for Turkey within total privatization proceed of 2.7 billion USD. The figure for Turkey comes out to be 1.2 %, well below the value for UK.

4.5. Privatization of Çitosan Cement Plants

The privatization of cement industry in Turkey, has been the main privatization experience in Turkey, up to date. In 1991 there were 43 cement factories operating in Turkey with a total production of 26.2 million tons of cement, out of these 43, 29 firms originated in the public or mixed sector(public-private). During the 1980s the public and the mixed sectors produced 40-45 % of Turkey's cement. By the end of 1992 the state's cement holdings were reduced to 12 firms, 5 of them being already transferred to Public Participation Administration, PPA, and scheduled for privatization in early 1993. Morgan Bank master plan for privatization and the special Sema-Metra council report " Turkish Cement Sector Restructuring Project" in 1986, recommended that Çitosan's profitable holdings in western region be sold, and that those in the eastern be retained until they could be made more attractive.

The Sema-Metra report found that cement sector was a good candidate for privatization and recommended that Çitosan be sold on a plant-by-plant basis. If sold as a single entity, an "unhealthy monopoly" would be created in the eastern areas, and this was not recommended. As well as the Morgan Bank Master Plan, this report recommended that the western plants be privatized in the short term, and that eastern plants be privatized after the recommended restructuring. In addition, no cement plan was found to be so unprofitable for a possible shut down and liquidation.

In September 1989 the PPA sold its entire share, ranging from 99.3 to 99.9% in four cement companies (Ankara, Balıkesir, Pınarhisar, Söke) and 51% share in a fifth cement plant in Afyon to French group Ciments Français for 105 million USD. The average capacity utilization of these plants in average was higher at 75% than the average for all public sector plants at 58%. The newest plant in Söke began operation in 1962, and all of them required substantial improvements and modernization. Two of the plants use the less efficient semi-dry production process and all required pollution control. An important requirement of the sale to Ciments Français was the investment of at least 100 million USD in five years for modernization and improvements. The sale also required that up to 40% of these companies be offered to Turkish investors within a five year period. Since 40% share is a minority, this requirement does not impose a burden to these companies, and as soon as the market conditions have been favorable the company offered its shares to the market. In March 1991, PPA has offered its remaining shares to the public.

Public reaction to the block sale of 5 cement plants and USAŞ catering firm to foreign investors and favorable stock market conditions led the PPA to emphasize public offerings during 1990 and the first half of 1991. Out of 22 public offerings during this period, 8 were in the cement industry (Bolu, Konya, Ünye, Mardin, Adana {A and C}, Afyon and Nigde). Except for Nigde, all were mixed sector companies. The mixed sector companies were relatively easy to sell, because the state held a minority share, the companies had already met the requirements for joint-stock companies, and were managed as private companies. In the case of Bolu Çimento, in fact, stock was already traded on the İstanbul Stock Exchange. The offering of Afyon Çimento was also easy since the financial work had been completed.

In 1992, PPA completed 7 block sales of cement companies. The first was the sale of the remaining 87.10 % share to Sabancı-OYAK group. On November, the sale of 6 plants out of 11 plants asked for bid, was realized. The other bids are found to be insufficient. The total of the five rejected bids were announced to be 164 million USD which is an average price of 85 USD per ton of clinker capacity. This is well below the 114 received for other plants, but still above the 78 received for the companies sold to Ciments Français at the very beginning. In early 1993, 3 of the remaining 5 cement plants are sold to Rumeli Holding for approximately 136 million USD. .

Although the sale price for the five cement plants was found to be low compared to the privatization realized after, there are some important figures to mention about these plants. During 1986 and 1989 period total investment to these plants from Çitosan was 16.4 million USD. During 1990 - 1994, Ciments Français has invested 183.5 million USD including production capacity increase, pollution control, and ready to use concrete project. The investment for pollution control was about 25 million USD. Another point is the wages and salaries of the workers. Real wages increased by 60 % , number of personnel decreased from 1711 to 979, capacity increased by 40%, unit cost decreased by 25% and real cement prices is decreased by 10 % as an average of the plants (Tallant, 1993).

Table 4.7. gives the change in clinker capacity utilization changes in the cement sector by ownership structure during the 1988-1991 period :

Table 4.7. Clinker Capacity Utilization Rates by Ownership, 1988-1991 (%)

		1988	1989	1990	1991
Public Sector					
Western Region					
Afyon	x	76.47	79.53	91.59	106.13
Ankara	x	68.04	76.59	61.31	70.49
Balıkesir	x	93.62	97.68	91.59	84.87
Bartın		105.71	100.95	84.09	93.41
Çorum	x	83.33	90.24	74.46	71.77
Denizli	x	52.67	72.00	59.50	86.22
Ladik		85.69	86.90	79.24	90.07
Nigde	x	86.32	76.94	67.78	75.23
Pınarhisar	x	70.83	131.80	129.49	105.71
Sivas	x	74.59	87.10	71.88	80.94
Söke	x	100.00	95.79	90.00	97.37
Trabzon	x	88.48	99.05	82.90	90.77
Yearly average		82.15	91.21	81.99	87.75
			Group Average		85.77
Eastern Region					
Aşkale		82.73	62.41	57.27	76.55
Adıyaman		64.07	76.10	65.59	68.19
Elazığ		80.29	71.18	73.06	79.64
Ergani		62.76	55.00	58.97	64.66
Gaziantep	x	65.96	79.04	62.09	68.83
Kars		70.40	55.20	36.00	84.09
Kurtalan		54.75	43.90	50.00	62.46
Urfa		65.09	65.27	62.81	76.02
Van		62.33	66.50	56.74	63.04
Yearly average		67.60	63.84	58.06	71.50
			Group Average		65.25
Private Sector					
Ak Çimento		78.28	83.40	88.66	95.22
Anadolu		87.39	96.83	92.25	102.47
Aslan		96.00	90.00	96.50	100.60
Batı Anadolu		98.10	75.08	95.90	100.01
Bastaş		85.25	82.64	78.79	83.24
Bursa		95.63	67.98	75.00	86.52
Çanakkale		65.09	82.42	94.79	100.58
Çimentaş		86.29	98.66	63.52	93.52
Çimsa		91.09	98.67	107.06	100.02
Eskişehir		85.22	91.28	83.26	81.52
Nuh		100.00	52.59	87.93	96.67
Göлтаş		97.86	102.16	95.36	106.08
Yibitaş		100.00	52.59	87.93	96.67
Yearly average		88.25	85.62	87.34	94.62

Table 4.7 (cont'd)

				Group Average	88.96
Mixed Sector					
Adana	x	90.88	100.07	101.68	105.74
Bolu	x	89.09	96.36	84.65	88.48
Konya	x	69.72	73.67	87.29	88.60
Mardin	x	64.15	87.08	77.40	81.60
Ünye	x	67.50	81.25	80.89	84.84
Yearly average		76.27	87.69	86.37	89.85
				Group Average	85.05
				Average for Çitosan	: 76.98
				Average for privatized	: 83.86
				Çitosan and mixed sector	

(x) indicates privatized cement plants

Source: Tallant,Drury(1993), Bogaziçi Journal Volume 7

In the Table, the data is grouped by form of ownership to permit comparison of the performance of private, public and mixed sector plants. To simplify the analysis, assignment to a group is on the basis of the original form of ownership.

The five cement plants were privatized in 1989 (Ankara, Balıkesir, Pınarhisar, Söke and partially Nigde), and it may be possible to see the effects of privatization. But unfortunately the data differs in each plant, in some cases capacity utilization decreased and in some cases increased. Labor Union members and public sector administrators indicated that the change in ownership structure did cause managerial difficulties and possibly a loss of performance at the privatized cement plants.

In other cases privatization did not occur until 1991-1992, so no improvement can be reflected as a result in ownership structure.

The average capacity utilization rates indicate that private cement plants are more efficient, especially when compared with the public plants located in Eastern region. When the private and mixed sector plants are compared with the public sector plants, the difference in the rate is significant. However when the Çitosan West plants are compared with the private and mixed sector plants the difference is not significant.

Comparable data for the period of 1981- 1984 is also available, some group figures from this data is in Table 4.8. :

Table 4.8. Clinker Capacity Utilization Rates by Ownership, 1981-1984 (%)

	1981	1982	1983	1984
Çitosan West				
Yearly average	82.49	81.39	68.23	71.68
			Group Average	75.95
Çitosan East				
Yearly average	85.49	85.77	55.56	66.52
			Group Average	72.39
Private Sector				
Yearly average	63.09	78.70	62.28	72.87
			Group Average	69.23
Mixed Sector				
Yearly average	74.65	77.64	48.06	63.88
			Group Average	66.06
		Average for priv	ate +	
		Industry	mixed sector	: 68.42
			Average	: 71.50

Source: Tallant, Drury (1993), Bogaziçi Journal Volume 7

The rather different pattern of the data can be attributed to substantial use of centralized decision making during this period. Several factors may account for the relatively good performance of Çitosan plants, especially Çitosan East in this period. In the early period the economy was still recovering from the instability of the late 1970's which had affected the fast growing regions with a greater extent.

In December 1995, the tender for remaining 7 state owned cement companies including Elazığ, Ergani, Gümüşhane, Kars, Kurtalan, Lalapaşa and Van cement plants was realized and 37 offers have been received. These offers were being evaluated when this study finalized. After the sale of these plants, state will be completely out of the cement production sector.

5. Conclusion

As part of new capitalistic approaches to nations economies, the need for privatization policies has been brought, as examined UK and Malaysia has been quite succesfull in implementing privatization programs. During the period from 1979 to 1987 UK has realised privatization amounting 64 billion USD, with the support of the parliament. The government was so decisive that the privatization policies has become even accepted by the labor party at that time. Malaysia has been a good example for the future of privatization policies in developing countries. Especially, the success in build-operate-transfer models opened an important gate.

Czechoslovakia, before being separated to Czech and Slovak Republics, started to apply privatization policies and after the separation these policies are still in effect. Mostly Slovak region has faced with the real social costs of privatization and liberalization policies, but still the outcome of these experiences are believed to be received in the long term.

Latin American Countries has been effective users of privatization programs. The privatization has not only been applied in industrial sector but also in infrastructure and financial services. These acountries in general, are also able to draw the attenton of foreign investment by implementing succesful programs for the ease of foreign investment transfer. The increase in direct foreign investment has been parallel to privatization proceeds.

The Turkish privatization program was started with high hopes in 1986, but except greater price flexibility in state owned enterprises and the dilution of some monopolies, reduction of state's role in the economy has been limited to a decline in the relative weight of investments of state owned enterprises. The privatization of state owned enterprises has not gone parallel with the other instruments in realization of the new economic model and because no serious action has been taken to re-orient the businesses, systems and managements of state owned enterprises in general, even the some of the profit-making state owned enterprises has turned into loss-making institutions. This, in turn increased the level of budgetary support needed.

Large budget deficits and growing public sector borrowing requirement have forced governments to look for additional immediate revenue. Privatization has turned into a serious option for improving short-term cash flow needs of government. The Turkish governments during the start of privatization applications in 1987 to 1995 have been unsuccessful to adopt the necessary reforms which are totally accepted by industrialized countries.

There have been some improvements in other regulations for free market economy, the amount of market capitalization in stock exchange market, the liberalization of foreign trade, reductions in price control and the convertibility of Turkish Lira. But most of them have already started to be realized before the privatization.

There are various outcomes of the realization of Turkish privatization program. These outcomes are listed as follows :

- The objective of privatization were not clearly and well defined, and the acceptance of the public on these objectives has remained limited with the short term political interference between the parties they support. There is a need for consensus within the public and full commitment is the key factor for the success of privatization policies. The expenses of privatization (i.e. the advertisement campaigns and payments to auditors and consultant firms) has been limited.
- The legal and institutional arrangements are weak. There have been two cancellations of the privatization law by the Constitutional Law Court, although this court was responsible for the control actions against the constitutional law, it even tried to help to advise the government and the parliament with the necessary amendments needed in legal constraints.
- The clarity of the privatization was not achieved, and the need for clarity was not clearly understood by the governments, till 1994. Even the members of the parliament was not aware of the master plan for privatizations and the government has been blamed not showing this master plan to the attention of the parliament.
- The determination of the value of the state economic enterprise has been a difficult issue, and have been seriously criticized. The need for clarity of privatizations arised at this point again.
- The employees of the state owned enterprises are suspicious of privatization. There were problems in protecting the social rights of the employees. In most other countries implementing privatization policies, social rights are protected by unemployment benefits by law.
- Privatization program has mostly focused on the privatization in industrial sector. Necessary emphasis was not given on the privatization of financial services and infrastructure. This can be explained by the objectives of the Morgan Bank plan. The Morgan Bank plan has mostly focused on the privatizations in the industrial sector. However, this master plan has specified the industrial sector as being the most urgent easy sector where the privatization is needed and these privatizations was intended to be realized in the short term.
- The privatization program was slow in implementation. This was due to several factors as the very high number of institutions waiting for privatization, limited supply of capital, the absence of attractive conditions for foreign capital.
- Almost half of the privatization has been realized by the block sale of the companies and assets. This is disadvantageous because of the public's reaction and the distribution of income and the establishment of competitive environment for free market economy.

There is a need to put more emphasis on the methods as public offering and sales in stock exchange market.

- There is a need to decentralize the privatization process, centralized process decreases the speed of the realization of the privatization program.

The privatization in cement sector has completely been realized and by the beginning of 1996, the state will completely be out of this sector. It is almost impossible reach a conclusion as whether these privatizations were succesfull or not. There were some improvements in efficiency terms, but this is due to the fact that privatization has started from the western area which was not problematic in efficiency terms. The privatization has been realized on plant-by-plant basis rather than the sale of the holding company Çitosan as a whole, in order to prevent an unhealthy monopoly. One disadvantage of this approach was the risk of establishment of local monopolies as a result of the nature of the cement business, up to date there was no such implication.

At the end of 1995, most of the people are agreed that Turkey has not learned how to privatize the state owned enterprises but learned how not to be able to privatize. The new structure of the parliament, after the elections of December 24th,1995 still does not show a better political base for the implementation of privatization.

In the light of the complications faced during privatization applications listed above, the following suggestions can be given for future applications :

- Due to the lack of investments in state-owned enterprises during the period starting from 1986 to the present, current condition of these enterprises is worse than before. This has diminished the attractiveness for possible national and international investors. The privatization at this stage will only be realized at low prices. **The solution to this problem may be by selling these enterprises by taking necessary investment and employment guarantees.**
- The block sale method has been dominant method utilized within the period from 1991 to 1995. This method has always been criticized strongly by the public around the world because of the claims on the pricing of the enterprise, and the formation of monopolies. This method is also against the idea of spreading the ownership base. However, in some cases this method is necessary to attract the investors. **Therefore, other methods as public offerings, sales in stock exchange market (stock market flotation), should be utilized in greater extent. Build-operate-transfer (BOT) method can also be used, which will assist the government for the realization of infrastructure projects' financing.**
- Up to date, privatization has been realized mainly in industry. The first studies on privatization in 1985 and the Morgan Bank masterplan has included industrial enterprises only. **Privatization in finance sector (banks, insurance companies, leasing companies) and in infrastructure (telecommunications, roads, energy) must be examined from now on.**

- Legal constraints for employees during privatization applications are not clearly specified. This increases the public reaction on privatization applications as there is no system for unemployed people in Turkey. **Employee rights must be specified by law, in advance for the employees of an enterprise subject to privatization.**
- The use of the funds received from privatization has always been criticized. **Privatization proceeds should be used for the restructuring and technology renewal of the enterprises which are subject to privatization. This will also assist the realization of privatization.**



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