The Privatisation Policy and Regulation in Turkey: some Key Issues

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Abstract
The paper examines in details the privatisation experience in Turkey during the 1986-2008 period. The privatisation practice of Turkey is discussed in terms of its scope, sales method and post-privatisation results and in particular key issues such as monopolisation and consumer protection are accentuated. The effectiveness of regulatory policy in Turkey is also discussed and the role to be played by the regulatory body in deterring anti-competitive bevavior is debated. Reference is also made to various studies which have examined efficiency and productivity of public corporations during the post-privatisation period, especially in the cement and telecommunications sectors. In the final section, some key issues relevant to Turkish privatisation policies are discussed and some conclusions are drawn.

Introduction

The origins of neo-liberal reforms in Turkey can be traced to an earlier decade, mainly to 1980s.However, neo-liberal reforms have been in progress in Turkey over a period of two decades. The capital account liberalisation, however, occurred at a relatively advanced stage of the programme in 1989. It is evident that in Turkey, there have been a lower degree of commitment to the fiscal stabilisation component of neo-liberal restructuring. As a matter of fact, a degree of fiscal instability prevailed during the second phase of neo-liberal reforms in the 1990s.In Turkey, fiscal instability in an environment of an open capital account regime created a highly fragile pattern of economic growth during the post-1990 era. The end result was three successive crises in 1994, 2000 and 2001, respectively with rather costly ramifications (Akyüz and Boratav, 2003).Following the 2001 economic crisis in Turkey, we observe a transition to a new era of low inflation and sustained economic growth. However, notable elements of fragility, such as a large current account deficit and dependence on inflows of short-term capital continued to characterise the system during 2004 and 2005.

Turkey experienced post- stabilisation boom and a surge in exports as its economy recovered from the previous crises. These initial booms, however, were not translated into sustained increase in exports or economic growth. It is interesting to note that Turkey displayed vulnerability before the outbreak of its major financial crisis. Given the inadequacy of export growth, financing the current account deficit at the prevailing exchange rates and levels of demand required substantial capital flows resulting in a pronounced increase in the level of external indebtedness. Like in Mexico and Argentina, Turkey launched its very ambitious privatisation programme in 1986 which aimed to eliminate public deficits and to promote competition and efficiency by divesting the public enterprises, to repay massive external debt, to improve the quality of goods and services and to attract foreign investment to the country.

Major Goals of the Turkish Privatisation Programme

Privatisation most commonly means the transfer of state dominance in industrial and commercial activities partially or totally to the private sector through the sales of public assets. The comprehensive privatisation programme which was first carried out in UK after 1980 constituted a model for many developed and developing countries. Privatisation policy was practiced in West European countries such as France, Germany and Italy to a greater extent, while similar policy was extensively practiced in Mexico and Argentina and Chile in Latin America and Malaysia and Singapore in South-East Asia. Privatisation as one of the fundamental tools of the market economy was also extensively adopted in Turkey from 1986 on while Ozal government was in power. The financial and trade liberalisation policy[1] initiated by Ozal government facilitated the adoption of a more comprehensive privatisation policy. This government was more decisive in tackling the notorious structural problems of the SOEs and to reconsider the role of the public sector with the aim of reducing the size of the government and public spending.

In the context of Turkey, it was believed that the major SOEs should be restructured to improve their financial performance, while others became candidates for sale to private investors. The successive governments in Turkey were convinced that regulations, policies and incentives should be readjusted to liberalise the Turkish economic environment for private investment and foreign direct investment (FDI) in particular (Onis 1991). As argued by some scholars (Vickers and Yarrow 1988; Grimstone 1987) a partial or complete change of ownership will lessen the scope of political intervention in the operation of public enterprises, reduce bureaucratic controls and limit arbitrary interference. It was also argued that privatisation in the form of asset sales might result in gains in allocative efficiency. Generally speaking, it was also argued that the removal of artificial entry barriers which might make markets more contestable could prevent monopoly power and ensure an efficient allocation of resources.

Obviously, exposing the firm to increased competition promotes efficiency and productivity and the realisation of these objectives does not depend upon a change of ownership. Therefore, if the principal aim is to increase economic efficiency, the policy priority should be to increase competition. Thus the crucial factor determining the efficiency of an enterprise is not whether it is publicly or privately owned, but how it is managed (Kirkpatrick 1987).

Officials in Turkey asserted that “the aim of privatising public sector enterprises in manufacturing and service sectors is to increase private sector involvement and at the same time reduce the financial and administrative burden of the government”. In actual fact, the major objectives of the privatisation programme in Turkey were

[1] Aricanli T. and D. Rodrik. 1990. An Overview of Turkey’s Experience with Economic and Structural Adjustment *World Development* 18:1343-1350; Togan S. 1993. (Turkish Foreign Trade Regime in the 1980s and Foreign Trade Liberalisation). Ankara: Eximbank Publications and Onis, Z. 1998. *State and Market: The Political Economy of Turkey in Comparative Perspective.* Istanbul: Bogazici University Press.

numerous, but the primary ones were listed as follows: (i) to transfer the decision-making process in almost half of the economy from the public to private sector to ensure a more effective play of market forces; (ii) to promote competition, improve efficiency and increase the productivity of public enterprises; (iii) to develop a viable capital market and to facilitate a wider share ownership; (iv) to reduce the financial burden of the SOEs on the general budget; (v) to assist in reducing the size of the public sector with its monopolistic tendencies and (vi) to raise revenue for the Treasury (Morgan Guaranty Bank 1986)[2].

In order to execute the privatisation programme, Ozal government decided to establish an agency called Public Participation Fund (PPF) in 1984. PPF was given wide responsibilities to undertake the privatisation process in Turkey. However, divestiture involving SOEs was given to the Council of Ministers while the Board of PPF was fully authorised in the case of joint ventures. In 1995, PPF was converted into the Privatisation Administration (PA) which was affiliated to the Minister of State responsible for the implementation of the privatisation programme.

Scope of Turkish Privatisation Programme

During the 1988-1991 periods, a variety of activities, SOEs and public participations were partially or totally transferred to the private sector. In the initial stages, public enterprises which were partially privatised included corporations in telecommunications (Teletas), airlines catering services (USAS), cement production (Citosan), petro-chemicals (Petkim), the iron and steel production (Erdemir), steel cables (Celik Halat), retail chain (Gima), petroleum refinery (Tüpras) and a number of other enterprises and majority holdings.

In January 1989, 90 % of the shares five cement plants owned by Citosan, state cement corporation, was sold to Ciments Français, a French cement production company, for $105 million (TL 256 billion) where the French company was willing to undertake investment up to $75 million until 1993 and 10 % of the shares were retained as “golden share” held by the state. It was also agreed that during the ensuing years, 39 % of shares were to be sold to individuals, of which 10 % were be employees of the acquired plants (Israfil 1989).

Majority holding in USAS, which was affiliated to Turkish Airlines (THY), was also included in the privatisation programme and eventually sold in 1987 to SAS Service Partner (SAS), an affiliate of Scandinavian Airlines System Group. SAS was committed to pay almost 21 % of pre-tax profits to PA in Turkey over a 10 year period between 1989-1998 and pledged to sell 30 % of USAS shares to the public, first priority to be given to employees. In actual fact, SAS committed itself to invest in tourism industry, especially in hotel chains over the following five years (Gultekin 1989). USAS which was basically a catering and airport service company was expected to be modernised by

[2] For a comprehensive account of Turkish privatisation experience, see Onis, Z. 1991. The Evolution of Privatisation in Turkey: The Institutional Context of Enterprise Reform *International Journal of Middle East Studies* 23: 163-176; Ercan M. and Z. Onis. 2001. Turkish Privatization: Institutions and Dilemmas *Turkish Studies* 2 (1): 109-134; Karatas, C. 2001. Privatisation in Turkey: Implementation, Politics of Privatisation and Performance Results *Journal of International Development* 13 (1): 93-121.

SAS in order to be lifted up to international standards in its services to various airlines and introduce new technology and know-how to develop its organisation.

However, the transfers of Citosan and USAS to foreign companies have not benefited the economy to a great extent because neither company has sustained operations in Turkey after facing low profits and interference from successive governments in power. During the first phase of privatisation (1988-1991), a considerable proportion of state shares in joint ventures such as Kepez Electric, Cukurova Electric, Arcelik (electrical appliances and consumer durables) and TOFAS (automotive) were also sold either by block sale or public offering methods.

There are three distinct modes of sales technique in Turkey, namely “block sales”, “public offering” for flotation and sales of “assets and premises” of public enterprises and subsidiaries. Generally speaking, the “block sales” method has dominated a fairly large number of privatisation processes which, in turn, led to widespread concern about corruption and the undervaluation of enterprises. Obviously, the limited size and depth of the Istanbul Stock Exchange (ISE) has clearly restricted the sale of larger SOEs by public offering or flotation. Industries which were subject to privatisation during 1988-1997 periods and the total sales proceeds derived from various industries through “block sales” are presented in Table 1.

Various conclusions can be derived from the privatisation data for 1988-1997 periods. Firstly, within the manufacturing industry, the sales revenue from the cement industry represents the greatest part of the proceeds with $990.9 million, followed by basic metals and metal products with $143.4 million, food processing and soft beverages with $114.7 million and the rubber and plastic industry with only $42.5 million. This was followed less significantly by electrical machinery and automotive industry and machinery.

Secondly, in the same period the gross sales revenue obtained from the electricity and gas industry privatisation stood at $426.5 million, followed by the banking and insurance industry with $275.1 million.

Thirdly, the total gross proceeds resulting from “block sales” of public enterprises during the 1988-97 periods reached the value of $2.2 billion (see Table 1). 44 % of this total was received from the privatisation of Citosan’s cement plants or sale of state shares in cement joint-venture enterprises. Receipts from electricity and gas accounted for 19 %, banking and insurance 12.4 %, services and communications 6.0 % and food processing and soft beverages for only 5.1 %. Fourthly, Table 1 shows that SOEs privatised in manufacturing industry accounted for 30.7 % of all transactions.

During the 1988-97 periods, the total sales proceeds amounted to $484.8 million which included assets and premises that belonged to primarily to animal feed plants, meat and fish corporations, Sumer Holding Co., the zinc and metal industry, the steel-iron, electric industry, petroleum products, petro-chemicals (Petkim), the Maritime Corporation (sale of 6 ports), Turban Tourism co. and THY (sale of 4 Boeing 727s) (PA 1997).

Table 1: Gross Proceeds from Sale of Shares and Assets of Privatised SOEs in Turkey: 1988-1997

Type of Industries and Sales Methods	Sales proceeds ($)
I. Sale of Shares by Block Sale	
1. Food processing and soft beverages	114,735,275
2. Animal feed	3,299,480
3. Seed improvement and insecticides	193,910
4. Cement industry	990,954,865
5. Basic metals, metal products	143,488,681
6. Automotive industry and machinery	19,748,247
7. Electrical machinery	26,321,526
8. Rubber and plastic industry	42,517,253
9. Paper industry	402,065
10. Sugar industry	9,845,669
11. Earthenware and ceramics	31,037,400
12. Electricity and gas	426,542,315
13. Banking and insurance	275,125,561
14. Services and telecommunications	134,472,119
15. Others	333,000
Sub-total	**2,219,017,366**
II. Revenue by public offering	424,526,549
Sub-total	**2,643,543,915**
III. Sales of Assets and Premises	484,817,927
IV. Sales of incomplete Enterprises	3,143,795
V. Transfer of incomplete enterprises by book values	1,061,272
Grand total	**3,132,566,909**

There is also a fourth category which involved the sales of assets and premises of “incomplete enterprises” which belonged to Meat and Fish Corporation (EBK), dairy products corporations, olive oil plants and Sumerbank Holding (textiles and clothing). The total value of these assets amounted to $3.1 million which was carried out between 1988 and 1997.

Finally, there was also the direct sale of “incomplete and unoperational factories” which were owned by MKEK (Machine and Chemical Corporation), Sumerbank shoes factory, Sorgun ammoniac fertiliser factory, Diyarbakir cigarette Factory and Elazig sodium bicromate factory. Receipt from the sale of these factories amounted to $1.0 million.

As can be seen from Table 2, total sale proceeds in the 1986-94 periods from full and partial divestment amounted to $2.3 billion; this was followed by an additional $515 million in 1995, $292 million in 1996 and $466 million in 1997, total sales proceeds reaching almost $4.2 billion by 1997[3].

[3] This figure, however, also includes revenue from the sale of mortgage shares, dividend income from nominated enterprises and principal loan collection.

Table 2: Privatisation Revenue: 1986-2007 ($ Million)

Year	1985-1990	1991	1992	1993	1994	1995	1996	1997	1998
Revenue	646	244	423	566	412	515	292	466	1,020
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenue	38	2,717	120	537	187	1,283	8,222	8,096	4,230

Source: Privatisation Administration statistics at www.oib.gov.tr

Table 3 provides information on the pattern of privatisation proceeds over the years. The sales proceeds reached the level of $9.5 billion over the 1986-2004 periods, but it also recorded significant fluctuations from year to year depending on the macroeconomic environment and political stability which prevailed in Turkey. The maximum amount of sales proceeds was realised particularly in the years 1993, 1995, 1998 and 2000 and recently both in 2005 and 2006. It should be remarked that the total figure obtained from privatisation reached $30 billion by the end of 2007.

Table 3: Privatisation Proceeds in Turkey by Year: 1986-2006 ($ Million)

Mode	1986-2004	2005	2006	2007	Total
Block Sales	3,926,793,478	7,054,000,000	7,178,000,000	0	18,158,793,478
Asset Sales	1,493,299,420	404,272,515	626,195,569	2,294,115,997	4,817,883,501
Public Offering	2,860,019,875	273,719,603	207,820,151	1,838,642,981	5,180,202,610
Sales on ISE	800,819,126	460,234,642	0	0	1,261,053,768
Incomplete Asset Sales	4,368,792	0	0	0	4,368,792
Transfer to the Companies	377,563,020	30,013,471	84,149,739	97,012,689	588,738,919
Total	**9,462,863,711**	**8,222,240,231**	**8,096,165,459**	**4,229,771,667**	**30,011,041,068**

Source: Privatisation Administration 2008; Privatisation Administration statistics at www.oib.gov.tr

It should be noted that the privatisation of principal SOEs in 2005 and 2006 which included Turk Telekom (TT) (telecommunications), Tupras and Erdemir contributed to massive revenue obtained from privatisation. The total proceeds resulting from these sales amounted to almost $13.5 billion, which raised the total proceeds to $25.8 billion by the end of 2006. The ambitious sales of these enormous state enterprises were realised because the ruling AKP (Justice and Development Party) government had committed itself to privatisation programme as recommended by the IMF monitored programme inherited from the previous coalition government.

In addition, the macroeconomic performance achieved between 2003 and 2006 was more conducive to launching a new phase of privatisation process as supported by the accelerated inflow of FDI to Turkey. Another factor was perhaps the intention of the government to reduce the size of the public sector and raise additional revenue for the Treasury in order to pursue tight budgetary policies.

The gross value of the shares sold might be deceptive because it does not take into account a whole variety of deductions. First, there are considerable expenses involved in major flotation of shares of privatised enterprises. The government is usually reticent about such costs and their precise calculation may sometimes be difficult by the existence of bonus shareholders and lending made available to employee shareholding.

Secondly, underwriting during privatisation is an expensive business and it is often resorted to in order to ensure precaution against the failure of the market to absorb the entire issue in one go or in the case of a tender offer, if demand from the public is inadequate. In addition there are fees paid to stockbrokers, banks and the cost of advertising and administration.

Thirdly, it should be noted that the government also might be obliged to write-off existing debts and loans, or inject new capital prior to privatisation. Obviously, in that case, capital write-off or injections need to be offset against the sale proceeds. There is, however, no specific information disclosed by the PA to illustrate the scale of such expenditures in each privatisation case.

Recent Developments in the Turkish Privatisation Experience

During 2002-2007 periods, while the AKP government was in power, there was a strong commitment to the execution of a privatisation programme which included the divestiture of considerably large SOEs. The programme included enterprises such as TurkTelecom, Petrol Ofisi(Poas) (petroleum distribution), Seka (paper production), Tupras (refinery), Petkim(petro-chemical), Tekel (tobacco and cigarette monopoly) and the Erdemir plant(steel-iron).

The potential purchasers whether domestic or international were attracted to bid for these profitable corporations in 2005 and 2006. Particularly foreign companies had to weigh a number of economic and political factors when assessing the attractiveness of acquiring a particular enterprise and the price they were prepared to pay. Despite some resistance from the labour unions and social democratic parties in Turkey, foreign companies joining with powerful domestic partners in Turkey managed to acquire the ownership of these large SOEs.

The overall economic climate in Turkey was improved due to the IMF-monitored programme enforced in March 2001 in order to stabilise the financial market and the overall economy. An additional pressing problem was, of course, servicing the external and internal debts which were exerting great pressure on the Treasury. Financial and economic targets which were designed together with the IMF following the 2001 economic crisis had necessitated regular scrutiny and adjustments in order to minimise deviation from the pre-determined targets for inflation, public deficit and primary surplus. The stand-by arrangement with the IMF in 2002 was intended to support a three-year economic programme that aimed to sustain growth, deliver price stability and move towards convergence with the EU economies (Krueger, 2005).

Particularly after 2004, there was a discernible decline in the rate of inflation (below 10 %) while the growth rate of GNP settled at 7.6 % in 2005 and 6 % in 2006. In addition, there was an acceptable realisation of balanced budget in successive years owing to rise in tax revenues and tight fiscal policy in line with the recommendation of the IMF-monitored programme. The government authorities also took measures to reverse spending overruns and committed itself to saving revenue over-performance in order to achieve a primary surplus in excess of 6.5 % of the GNP target.

The overall economic climate in Turkey after 2002 was of paramount concern and prospective investors tended to focus on the macroeconomic environment and credibility of the government's liberal economic policies. It seems that a privatisation programme enjoys much higher levels of credibility when governments are able to show great commitment to privatisation. The relatively stable political environment in Turkey was a contributory factor in attracting FDI and participation by international corporations in the Turkish privatisation process. In contrast to earlier periods, there has been firm commitment to privatisation in the last five years partly due to common pressure imposed by the IMF and the World Bank.

With the inclusion of the recent sale of the largest public enterprises mentioned above, the privatisation revenue by the end of 2007 increased almost to $30 billion. It appears that the AKP government is determined to press for more divestiture of SOEs in Turkey in order to provide more grounds for a market economy and competition and to use some of the privatisation receipts for amortising domestic debt. Clearly, the greater pace of privatisation might also have an indirect positive effect on budgetary performance through lowering interest payments and reducing the public deficit.

However, it should be noted that the most controversial issue is the establishment of the market value of an enterprise before its sale. The undervaluation of assets can be costly in terms of welfare loss to tax payers, the public as a whole and the Treasury. Therefore, where large issues are involved, the potential risk of under-pricing can be reduced by selling in small lots to establish a trading price before the majority of shares is placed in the market. In the valuation of assets, it is also prudent to assure the objectivity that comes from using the services of independent consulting agencies.

In Turkey's context, there was a significant impediment in providing sufficient budgetary funds to finance the contingent liabilities of the divested corporations, especially the provision of severance pay for laid-off workers. In the earlier periods, the governments in Turkey, under adverse economic conditions, did not have the sufficient resources to meet their contingent liabilities.

Obviously, the primary concern of the labour unions is the workers' displacement which might result from privatisation. However, despite the importance of employment issues, virtually no relevant data are available on loss of jobs. It is interesting to observe that the PA does not usually divulge information about retrenchments among divested SOEs.

However, according to the Privatisation Law (no. 4046, Article 22), those personnel working in the privatised companies as civil servants have the right to be transferred back to the state. For instance, in the case of TT approximately 10,000 employees exercised their options to return to the public service after privatisation. Besides, Turkey received $250 million worth of support from the World Bank as part of "Privatisation Social Support Project" for the 2001-2005 period addressing job loss compensation. The project was supported in 2005 with an additional $465 million in order to compensate for the loss of jobs or for providing retraining for those who were seeking jobs in other industries (Kilci, 2006).

Post-Privatisation Performance in Turkey

A relatively large number of enterprises were sold in Turkey during the 1992-2006 periods and therefore, sufficient time has now elapsed for a proper evaluation particularly in cement and telecommunications industries. It is generally acknowledged that technical efficiency and performance are closely related to prices, market conditions, market shares and capacity utilisation which in turn **depend** on domestic and regional demand changes.

a) The Case of Cement Industry

In an earlier study by Tallant (1993) on the cement industry, it was found that efficiency and profitability largely depended on high rates of capacity utilisation and the study focused on substantial regional variations. In terms of capacity utilisation, private cement plants seemed to be more efficient especially when compared to public plants located in the east and south-east Anatolian regions. The private sector cement plants had the highest rate of capacity utilisation at 88 % for the 1988-1991 periods, with slightly lower averages for the mixed concrete segment and Citosan's plants located in the western part of Turkey. However, capacity utilisation rates for the Citosan's plants located in the eastern part were far lower at 65 %.

Similarly, in a study carried out by Zaim and Cakmak (1994), it was shown that there was no significant relationship between plant efficiency and ownership. It was concluded that the transfer of ownership was unlikely to generate substantial improvements in productive efficiency unless supported by government policies to increase competitiveness in the industry.

Saygili and Taymaz (1996) argued that ownership change in the privatised cement plants did not largely improve efficiency, which seemed to vary widely among the regions. In this study, it was concluded that geographical location, local market share and local cement demand seemed to determine efficiency rather than ownership. Clearly, apart from ownership types, there are other basic variables which play significant roles in technical efficiency.

For instance, Saygili and Taymaz (1996) in their econometric model emphasised the rate of increase in regional demand, plants' export rates, firms' respective shares in the regional output, technology adopted in production and the region in which the enterprise operates. More generally, it is often argued that technical efficiency depends upon technological experience, production organisation and managerial ability.

Insofar as labour productivity and employment were concerned, during the post-privatisation period there is sufficient evidence to show that labour productivity in the private cement plants was higher than that in the public ones (Tallant ,1993; Saygili ,1995).

There were also significant improvements in labour productivity after privatisation in the five cement plants of Citosan (Ankara, Afyon, Soke, Balikesir and Pinarhisar plants) which were transferred to Ciments Français (Karatas ,1995). The reduction in employment was reported to be greatest for the privatised plants, which is consistent with the presumption that over-staffing was more severe in plants which had been publicly owned.

A more specific study on employment by Ozmucur (1997) supported the assertion that productivity and efficiency in the private cement companies are much higher than in the public ones. According to Ozmucur (1997), private cement companies had a decrease in employment of 7.8 %, while the privatised firms had a decrease of 15.5 %. Ozmucur (1997) also demonstrated that there are positive increases in labour productivity and capital labour ratios both in private and privatised cement firms..

b) The Case of Turk Telecom

In the case of TurkTelecom(TT) privatisation, the sales method was block sale where 55 % of shares were sold to the Saudi Oger Company in 2005 following an open bidding conducted by the Ministry of Finance and PA for a total value of $6.55 billion. However, PA has committed itself to sell the remaining shares through public offer, thus creating a large investor base for the company. The initial public offering process involving almost 15% is scheduled to be concluded by the second quarter of 2008. There are already significant privatisation transactions through public offerings in recent years, particularly in corporations such as Is Bankasi, Tupras, Petkim and THY. It is often argued that block sales and public offerings have to be considered together, since efficiency gains from being a private company can only be obtained through block sales, while wider investor base can be attained through public offerings.

There is some evidence which indicates that Privatised Turk Telecom has demonstrated efficiency and labour productivity gains in the post-privatisation period. Profitability ratios which are used to measure the financial returns to the new management of the Turk Telekom included return on equity (profit to equity ratio),operating profit earned per labour and net profit margin(net profit per unit of sales)

At the outset, it should be noted that financial profitability ratios may be misleading for the following reasons: first, they do not take into account the social objectives of public enterprises. Second, in non-competitive market conditions high financial profits may not really reflect an efficient enterprise operation, since profits may be the result of firms’ monopoly powers. Therefore, while financial performance may be indicative of private enterprise efficiency, it should be used with some reservation in appraising public enterprise performance.

i) In the case of Turk Telecom, return on equity which was 27 per cent during 2001-2005 period, rose to 34 per cent in 2006 and 41 per cent in 2007 respectively, which demonstrates considerable improvement. This profitability improvement was perhaps due to the rehabilitation and managerial changes and renewal investments undertaken in Turk Telecom and the substantial reductions in the number of workers.

ii) According to cash operating profit earned per worker(gross income) measure, gross income per labour increased from YTL 72,000 in 2006 to YTL 104,000 in 2007, while net income per worker figure reached YTL 44,000 in 2006 and YTL67,000 in 2007 respectively.(See, Karatas & Ercan,2008).The increase in labour productivity in Turk Telecom can be attributed to the rising value added generated in the post-privatisation period and also due to a considerable drop witnessed in the number of employees(the number dropped from 51,737 in 2005 to 37,000 by the end of 2007).

iii) It is also interesting to notice that net profit margin in Turk Telecom remained stable between the prior and post-privatisation periods, with averages of 29 per cent and 27 per cent for the two periods respectively (Karatas and Ercan,2008) . Perhaps the primary reason for this pattern of profit margin was the liberalisation and regulation practiced in telecommunications industry. The new entrants of competitors in different segments of Turk Telecom have reduced the previous monopolistic power of the company.

Transparency and Ownership Concentration

One of the key issues in the Turkish privatistion process is the lack of transparency in making special deals. Ironically, in the case of tender offers conducted for the sale of Petlas(airplane tyres), EBK(meat-fish),Tedas (electricity distribution), Seka (paper) and POAS (petroleum), competitive bidding procedures have been ignored and prices have been set without convincing valuation methodology. There was also claims that ‘block sales’ had been made to dubious purchasing firms and industrialists who strongly supported the political party in power. It is often argued that special privileges such as monopoly rights, concessionary financing terms and protection from imports have been granted to newly privatised enterprises. Clearly, fair criteria should be laid down for the evaluation of bids by prospective firms and the tendering process should be competitive with full public disclosure of all bids (Bennell, 1997).

During the earlier phases, successive governments in Turkey had often reaffirmed their commitments to encourage wide ownership of public assets and also to broaden the participation of small investors in Turkish equity markets. The proportion of shares held by private individuals in Turkey reached almost 21 per cent by 2006 (Central Registry Agency, 20007). However, this is much below the figure observed in advanced western countries. In 1985, it was 40 per cent in the UK and 70 per cent both in Germany and the USA (Mayer and Meadowcroft,1985)

It appears that over the last five years there was a significant drop in the number of domestic investors in the ISE. The discernible decline in the number of domestic shareholders was basically due to allegations that there had been manipulations in the trading of shares in the stock exchange that had reduced its reliability and to tax concessions recognised for the foreign investors in Turkey. Accordingly, during the 2004-2006 period the proportion of foreign shareholders in ISE had increased to 70 %. Particularly extremely high real return prospects and tax concession which involved exemption from withholding tax for foreign shareholders were very influential in this increase.

It seems that if the government fails to ensure equality between domestic and foreign shareholders in terms of concessions it would be rather difficult to have wider share ownership in the capital markets.
Table 4 illustrates the changes over the years in volume of share trading and number of investors at the ISE. As
Table 4 indicates there is a considerable drop in the number of shareholders/investors since 2001 where it declined from 1.4 million in 2001 to 1.1 million in 2006. However, this drop can also be attributed to the fact that, the leap between 2000 and 2001 is basically a result of a rally of initial public offerings (IPOs) which brought new investors to the market who previously maintained savings in deposit accounts. Some of these new investors may have acted as one-timers and after they realized their investments in these IPOs, they may have left the market back to their traditional ways of investing. Nevertheless, if figures for 2000 and 2006 are compared, a significant increase in number of investors can still be observed.

Table 4: Share Trading Volume and the Number of Investors in Turkey

Year	Number of Investors (000)	Trade Volume (million dollars)
1997	250	116
1998	338	98
1999	561	168
2000	603	364
2001	1,383	161
2002	1,227	142
2003	1,204	200
2004	1,106	296
2005	1,072	404
2006	1,079	454

In the initial phase, Ozal governments (1984-1992) were eager to sell SOEs through public offers as testified by the sale of Teletas; however, later the policy was switched to block sales by selling the majority of shares of Citosan and USAS to French and Scandinavian companies respectively. (Ciments Français held 90 % of Citosan’s shares in five cement plants and SAS held 70 % of USAS).

During the second half of the 1990s, there was a slowdown in the pace of the privatisation drive in Turkey because of a lack of consensus among the coalition governments in power about the form of privatisation to pursue and instability of the economy and the financial markets. However, since 2002 when the AKP government was formed, the attention has shifted to foreign investors as a means of reviving the privatisation drive.

Given the fact that TT was sold to a Saudi company and Tupras to Koc-Shell at the outset, raises the question that privatisations in Turkey will proceed by attracting more of foreign investors at the expense of broadening share ownership among small investors in Turkey. However, considering the cases of publicly listed Erdemir and Tupras, recent IPO of Halkbank(a state bank) and prospective public offering of TT’s 15 % shares, it can be deduced that a dual approach has been adopted in Turkey.

Regulation and consumer protection
The Competition Board, a regulatory body on competition in Turkey, has responsibility to safeguard the consumers’ welfare, and to control the public and private companies in the industrial sector in order to rationalize their prices and improve the quality of their services. The Turkish Competition Act was enacted in December 1994, but its operation only started in 1997.

According to the Turkish Competition Law (1994), a wide range of activities listed under three headings are regulated and restricted: agreements and trade practices that restrict competition, abuse of dominant position and monopolisation and mergers and acquisitions.

First, according to the Turkish Competition Law (Article 4) agreements and practices among the firms that aim to prevent and restrict competition in a certain market for goods and services are considered unlawful and therefore ,prohibited (Mumcu and Zenginobuz, 2001).

Second, the Competition Law prohibits the abuse of dominant power in markets. In fact,this is similar to a provision included in the EC Treaty (Article 86). Article 6 in Turkey, defines dominant position as “the power of one or more corporations in a particular market to act independently of their competitors and customers and to determine economic parameters such as price, supply and the amount of production and distribution” (Mumcu and Zenginobuz, 2001). It appears that Article 6, is also applicable to telecommunications industry players that are included in the privatisation programme and /or undergoing regulatory changes.

Third, the Competition Law includes articles related to “mergers and acquisitions” where it prohibits mergers and acquisitions that aim to create or strengthen a dominant position and deter competition in the markets for goods and services (Article 7). Competition Law and Communiqué No. 1997/1 states that “if the total market share of the merged corporations exceeds 25 percent of the relevant market or the total turnover of the undertakings that take part in the action exceeds 25 trillion TL (in 1997 prices), then an authorization must be obtained from the Competition Board.”

It is clearly stated that privatisation cases also fall under the Competition Board’s jurisdiction. It is indicated that before an actual privatisation can take place, the Competition Board has to issue an authorisation to the effect that privatisation will not distort fair competition in the relevant markets for goods and services.

It is evident that the Competition Board is given extensive powers of inspection and investigation regarding issues that pertain to the infringement of Competition Law. The Competition Board is an independent body which is not subject to the instructions or orders of any other governmental body, including the council of ministers that appoints the members of the Competition Board.

Türk Telekom, an absolute monopoly in telecommunication industry encountered competitive pressure from multiple segments mostly through regulations. Long distance operating licenses rendered by the Ministry of Transportation had been operational, resulting in huge revenue losses in Türk Telekom's long distance calls. Voice Over Internet Protocol (VOIP) operators also acquired niche positions in the market through Türk Telekom's own infrastructure in spite of this being illegal initially. However, at present such activities have been recognised as legal. The divestiture of TTNET (an Internet service provider company) as a separate company was established to create an arm's length distance between fixed line and broadband operations in order to promote competition in the broadband industry. Lastly, local calls, which are the major revenue source of Türk Telekom, will be opened to competition during 2008, in order to create a fully liberalised telecommunications industry.

Having built more than 55 schools for $160 million, Türk Telekom also fulfils corporate social responsibility duties. Türk Telekom has started to open "internet houses" in each district nationwide planning up to 850 and has also announced a special programme for the training of 600,000 teachers to be prepared for the 21st century's education concept.

As observed in other countries, the privatisation process in Turkey has been claimed to have created economic rents, simply by protecting the private enterprises from competition. For instance, in the case of Türk Telekom, Tüpraş and Poaş, the purchasing companies after privatisation may seem to enjoy monopoly power and to have been able to raise their prices to maximise profits. However, the free market system and regulatory measures prevent such kinds of abuse of monopoly power. For instance, the oil products distribution market has become more fragmented with new and powerful entrants like Opet. The refinery products market has also become open to competition from imports and pricing is done under liberal market conditions

The pricing policy in the telecommunications industry is strictly under the control of the Telecommunications Authority (TA), leaving no room for monopoly power abuse. Although Türk Telekom is still the dominant player in the market, the monopoly power has been restricted in pricing. The tariff changes are strictly regulated by the TA and are subject to its approval.

Macroeconomic environment

During the post-1990 period, there was a rapid deterioration of the fiscal position of the state sector. The government sector resorted to excessive domestic debt financing by making use of new issues of debt instruments. Throughout this period the government debt instruments dominated the financial markets in Turkey. In 1995 the share of public securities represented 90 percent of the total. The unsteady economic performance was accompanied by high rates of inflation, an accelerating rate of domestic and external debts, and budget deficits.

The inflation rate, which was at its highest level of 99.1 percent in 1997, thereafter slowed down to 39 percent in 2000. However, the sharpest drop in the inflation rate was observed during 2002-2006 period when the IMF-monitored programme was fully implemented to restore the fiscal imbalances. The declining trend continued in the subsequent years. The inflation rate dropped to 18.4 percent in 2003 and 9.7 percent in 2006.

As an integral part of the IMF-monitored programme, the budget deficit to GDP ratio improved and dropped from a high level of 16.9 percent in

2001 to 1.7 percent in 2007. Meanwhile, the current account deficit, which was at a low level of $0.6 billion in 2002, increased at an alarming rate, reaching $31.9 billion in 2006 and $37.7 billion in 2007 . At the moment, this current account deficit is financed through FDI and rather volatile portfolio investments or so-called “hot money”. However, the share of FDI in financing has gradually been more significant, making the balance less reliant on “hot money”. However, in the ensuing years, the excessive deficit in the current account will continue to occupy the economic agenda unless it is remedied by serious policy measures.

The external debt obligations increased to 59 percent of GDP in 2001 and remained at high levels during the 2003–2006 period though at a declining trend. The total level of external debt amounted to $113.6 billion in 2001 and $247.1 billion in 2007, its ratio to GDP being 37.2 percent by that time However, much of this increase came from the private sector, not the public sector. As of 2002, the private sector accounted for 33 percent of the total external debt with $43.2 billion, whereas the share of the private sector in the total external debt reached 64 percent, with $157.9 billion by the end of 2007.

Table 5: Macroeconomic Indicators for Turkey: 1986-2007 (per cent)

	Growth Rate (percent)	Inflation Rate (percent)	Budget Deficit / GDP (percent)	PSBR / GDP (percent)	Current Account ($ billion)	External Debt ($ billion)	External Debt/GDP (percent)
1986	6.9	30.7	-2.8	3.6	-1.5		
1987	10.0	55.1	-3.5	6.0	-0.8		
1988	2.1	75.2	-3.1	4.8	1.6		
1989	0.3	64.3	-3.3	5.3	0.9	43.9	30.7
1990	9.3	60.4	-3.0	7.3	-2.6	52.4	26.1
1991	0.9	71.1	-5.3	10.1	0.3	53.6	27.0
1992	6.0	66.0	-4.3	10.5	-1.0	58.6	27.9
1993	8.0	71.1	-6.7	10.2	-6.4	70.5	29.6
1994	-5.5	125.5	-3.9	6.1	2.6	68.7	39.9
1995	7.2	76.0	-4.0	4.9	-2.3	75.9	33.9
1996	7.0	79.8	-8.3	8.6	-2.4	79.3	33.1
1997	7.5	99.1	-7.6	7.6	-2.6	84.4	33.7
1998	3.1	69.7	-7.3	9.3	2.0	96.4	36.3
1999	-3.4	68.8	-11.9	15.5	-0.9	103.1	42.0
2000	6.8	39.0	-10.9	11.8	-9.9	118.6	44.7
2001	-5.7	68.5	-16.9	16.4	3.8	113.6	59.0
2002	6.2	29.7	-15.2	12.7	-0.6	129.6	56.1
2003	5.3	18.4	-11.3	9.3	-7.5	144.1	47.4
2004	9.4	9.4	-7.1	4.7	-14.4	160.6	40.9
2005	8.4	7.7	-1.7	-0.4	-22.1	168.5	34.9
2006	6.9	9.7	-0.8	-3.0	-31.9	205.3	38.8
2007	5.0	8.4	-1.7		-37.7	247.1	37.2

Sources: Turkish Statistical Institute (TURKSTAT) www.tuik.gov.tr; Undersecretariat of Treasury of Turkey www.treasury.gov.tr, State Planning Organisation (DPT) of Turkey www.dpt.gov.tr. Central Bank of Turkey (TCMB) www.tcmb.gov.tr, IMF www.imf.org.tr

It is safe to argue that the macroeconomic environment, which is dominated by still high rates of inflation (as compared to other emerging economies), mounting public deficit and external debt, constitutes a significant obstacle to the effective implementation of the stabilisation and privatisation programmes.

Conclusion and Some lessons

The problems related to Turkish privatisation experiences have centered primarily on the underpricing of public assets during the divestiture of public enterprises, the high costs of sales, unsustainable wide share ownership by individuals and the ineffective regulatory measures that have accompanied the privatisation of major enterprises.

In Turkey, few studies were carried out to test efficiency and productivity in the cement industry where the outcome demonstrated that profitability and productivity in the privatised cement enterprises were much higher than in the public cement enterprises (Çakmak and Zaim ,1994; Saygılı and Taymaz ,1996). In addition, in Turkey, it was also discovered that there was no close relationship between plant efficiency and ownership of corporations. It was concluded that the transfer of ownership was unlikely to generate substantial improvements in productive efficiency unless supported by the government to increase competitiveness in the industry.

In the context of Turkish privatisation, it is arguable that in the communications sector, more than one alternative network should be licensed and the governments should be prepared to produce yet more competitors. Similar arguments can be raised on the question of petroleum refineries (Tüpraş), petro-chemicals (Petkim) and the electricity distribution (Tedaş) industries. Therefore, criticism of the government's handling of regulation will not subside unless genuine competition across all sections of the communication network (mobile, Internet services provider, Voice Over Internet Protocol), gas supply, petroleum refinery and electricity distribution industries are realised.

However, the main obstacle in front of the creation of more competitive markets in those industries is the heavy investment requirement to be undertaken in order to establish alternative operators or competitors above critical size. The natural entry barrier arising from the required size to operate efficiently and lack of a required amount of capital are the main reasons that the mentioned sectors exhibit a monopolistic structure although respective regulations allow for the inclusion of competitors, as in the case of telecommunications.

In the case of Turkey, although some privatisation transactions raised the concerns of underpricing, recent privatisations like Tüpraş, Petkim and Türk Telekom, have demonstrated a highly competitive bidding process putting premiums on shares vis-à-vis market prices and/or market expectations.

Particularly in the case of offers for sale, underwriting, legal and advertising costs have been said to have been excessively high although they could have been avoided to protect the interest of the Treasury and hence the taxpayers. The costs for divestment prior and during privatisations have been excessive and drawn some serious criticism. However, at least in the case of Turkey, the costs were in fact in line with the market standards when compared with private sector public offerings.

The employees affected should be either compensated in the case of job losses or subjected to retraining for alternative employment in other sectors. In the case of Turkey, the clause in the Privatisation Law allowing personnel in privatised companies to be transferred back to the state, and the World Bank sponsored “Privatisation Social Support Project” addressing job loss compensation are positive efforts to protect employment in privatised companies against unfair layoffs.

In Turkey, privatisation basically was conducted on the basis of “block sales” to internal and foreign corporations with the view that the foreign firm involvement would ensure the inflow of foreign capital and advanced technology. “Block sales” was particularly dominant in the case of SOEs operating in industries like cement, telecommunications, sugar and plastic, food processing and beverages, electricity and gas, banking and insurance, basic metals and metal products. During the recent privatisations of Poaş, Türk Telekom, Tüpraş and Erdemir the block sales method was again favoured in place of public offering.

In the case of public offerings, a large number of shareholders tended to sell their shares quickly with high profits. This means that fiscal incentives to mitigate the quick sale of shares have not been so effective in deterring people from investing in other assets or instruments making the objective of wider share ownership unattained. Clearly, effective incentive measures are needed to deepen share ownership in Turkey. Perhaps tax advantages for investment in shares and free bonus shares as applied in the UK can be recommended. In the UK, small investors buying shares for the first time were given special priority over large investors in the allocation of shares with a discounted purchase and an instalment purchase plan which required a small initial down payment and enabled the investors to receive their shares and pay the balance over a specified period (Vickers and Yarrow, 1988; Miller, 1995). Policies on this issue have been inadequate in Turkey and serious measures have to be introduced in order to promote wider share ownership. However, this issue is observed not only in the IPOs of privatized companies, but rather is a problem faced in all of the IPOs in the Turkish capital markets as a result of investors’ short-termist attitude in Turkey[4].

It is safe to argue that in Turkey privatisation increased supply of equity and volume of trading on the stock exchange, leading to improvement in the related regulatory and institutional framework. It is essential to provide general principles to ensure the smooth functioning of the capital market and regulation of dealers and listing of companies. The Capital Markets Board in Turkey has extensive authority to contribute toward the expansion of the capital markets and to encourage the equity financing of private and public companies.

For privatisation policy to be successful in Turkey the disclosure of information and transparency about the prudent use of privatisation proceeds are needed to demonstrate that the welfare of citizens and workers has improved substantially. It is logical to claim that the revenue collected from the privatisation process should be devoted to

[4] According to Ertuna, Ercan and Akgiray (2003), the average cumulative abnormal return within the first three days of IPOs in Turkish capital markets is 17 percent.

capital expenditure rather than current expenditure to generate more employment opportunities.

In a more transparent system, the principles behind the allocation of the privatisation proceeds should be well defined to avoid subjective treatment. A portion of the proceeds should be allocated to technological R&D, education and health without being over populist. These investments, which will improve overall efficiency, might create positive returns to the economy and enhance the competitiveness. In addition, privatisation proceeds should be allocated to the amortisation of domestic and foreign debt which exerts a great burden on the Treasury. The Turkish experience shows that privatisation proceeds have already been utilised in order to reduce external debt and PSBR.

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