CONSTRAINTS OF PRIVATIZATION: 
THE TURKISH CASE

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I. INTRODUCTION

Over the last two decades, privatization has attracted the attention of both developed and developing economies as a means to improve the efficiency of the public sector companies. Privatization move started as early as 1974 in Chile as a vehicle for economic growth under the military government of General Pinochet, but received its popularity under Thatcher’s implementations in Britain. Later, after the fall of Soviet Block, mass privatization helped the socialist economies to institute private ownership and free market structures. Turkey is one of the countries that started its privatization programs as early as 1986, in its efforts to integrate its economy with the global markets. But, although Turkey accomplished a lot in integrating its economy with the global markets, it has not accomplished as much in its privatization efforts.

More recently globalization has become an accepted strategy to improve the world welfare. GATT agreement that was signed in 1994 and World Trade Organization it establishes will help to liberalize the world trade based on competitive market forces. Privatization suits well with the liberalization and globalization strategies that are gaining wide acceptance.

The author of this article strongly believes that privatization must be used as a strategy to reach the specific objectives of the country where it is implemented. The objectives may change from country to country. But, the privatization strategy will have to serve the country in at least three grounds:

- improving efficiency,
- improving management techniques and
- improving the competitive position of the companies.

Improving the competitive position may deserve a short explanation. In the global markets “critical success factors” have changed significantly. For many industries and companies technology, image, and quality are as important as lower costs. Privatization may provide an
opportunity to acquire “critical success factors” needed in global competition. Since it may help to form strategic alliances with those companies, domestic or foreign, who are strong in technology, image and quality.

II. PROGRESS TO DATE

Success of privatization programs depends on how well they fit the specific conditions of the countries where they are implemented. Therefore, in order to evaluate the Turkish experience we need a brief review of economic conditions and SEEs (State Economic Enterprises) in Turkey.

A. Overview of Turkish Economy:

When the Turkish Republic was formed in 1924, the major objective was developing the economy. The country had almost no industry, not enough entrepreneurial skills, incomes were below subsistence levels, as a result, savings were not sufficient. The population was 12.6 m. and per capita income was only $45. Now the population is about 63.7 m. and per capita income is more than $3,000. SEEs played an important role in this monumental economic development in Turkey.

Establishing SEEs was not a choice but a necessity when the republic was formed. Although liberal economic policies were followed in the beginning, government had to divert to “etatist” policies to accelerate economic development by forming SEEs. SEEs were established under etatist policies that were followed until 1950. After 1950, government attempted to re-institute liberal economic policies, relying more on private initiative. But, in spite of the change in government’s polity, realities of the country forced the public sector to grow. Economic policy again changed between 1960-1980. Turkish economy became a “mixed economy”, where both public and private sectors contributed to economic development. Five-Year Plans and annual implementation programs of government provided incentives to private sector; on the other hand, these plans and programs were binding for the public sector. Since 1980 Turkey has been following liberal economic policies and trying hard to institute competitive free market
The objective has become the integration of the economy with the rest of the world. The privatization move of Turkey has started early in this period in 1984.

B. SEE in Turkey:

The Table 1 below presents the shares of SEE in generating national income in different sectors of Turkish economy in 1985 and 1991.  

<table>
<thead>
<tr>
<th>Table 1</th>
</tr>
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<tbody>
<tr>
<td><strong>SEE's Contribution to GNP</strong></td>
</tr>
<tr>
<td>(in percentages)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>1985</strong></td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Mining</td>
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<tr>
<td>Industrial Production</td>
</tr>
<tr>
<td>Energy</td>
</tr>
<tr>
<td>Transport. and Communications</td>
</tr>
<tr>
<td>Commerce and Others</td>
</tr>
<tr>
<td><strong>Total Contribution</strong></td>
</tr>
</tbody>
</table>

As it is observed in the table above, SEE in Turkey has an important position in Turkish economy. They produced 11.5 percent of the value added in the economy. It is interesting to note that, SEE's relative importance did not decrease until 1991 despite the privatization program.

When the privatization started in Turkey, especially two of the SEE's investment plans were increasing the public sector borrowing requirement (PSBR). These were TEK (Turkish Electricity Administration) and PTT (Turkish Postal and Telecom Administration), both in charge of developing economic infrastructure. SEE's borrowing requirements as percent of GNP was 3.1 percent in 1985, increased to 5.2 percent in 1991. Since it is believed that high
PSBR is the main cause of inflation, and government wanted to reduce inflation, reducing PSBR has become one of the objectives of privatization in Turkey.

In Turkey SEE’s were burdened with high redundant labor and very weak financial position. Since privatization advanced very slowly, SEE’s financial position kept on deteriorating due to borrowing from markets at very high interest rates to finance their losses and long term investments.

Efficiency of SEE’s was much lower than private sector companies. A study made on 500 biggest firms in Turkey over 1983-1993 indicated that SEE’s operating productivity was on the average 21% lower that the productivity of the private companies. The table below presents the relative factor productivity figures obtained from the production functions determined separately for the SEE’s and private sector companies. These figures indicate that there is an ample room for efficiency increases in SEE’s in Turkey. It is also interesting to note that relative labor efficiency in SEE’s is lower than relative capital efficiency.

1 TOBB, Özellettirme Özel İhtisas Komisyonu Raporu, Adustos 1993, Ankara. s. 92.
2 The study defines the value added as a function of labor and total assets (capital). 101 private companies and 12 SEE’s are included in the study. Therefore number of observations amount to 1243. All the parameters of the equations were significant at %95 level. Ertuna, Özer, unpublished working paper, BU, 1994.
C. Privatization in Turkey

Although Turkey has started its privatization efforts long before many other developing countries, it has not accomplished much in about 12 years of privatization. The table below presents privatization revenues received listed for different methods of privatization used. The total of $4.5 b. of privatization revenues in 12 years of privatization is small when compared to the size of the public sector in Turkey and the accomplishments in Argentine and Mexico which are somewhat comparable to Turkey.

**Table 3**
Privatization Revenues in Turkey
1986 - 1998

<table>
<thead>
<tr>
<th>Method of Privatization</th>
<th>Million $</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block Sales</td>
<td>2,002.1</td>
<td>44.9</td>
</tr>
<tr>
<td>Property and Asset Sales</td>
<td>531.7</td>
<td>11.9</td>
</tr>
<tr>
<td>Public Offer</td>
<td>672.1</td>
<td>15.1</td>
</tr>
<tr>
<td>Sales to International Investors</td>
<td>719.0</td>
<td>16.1</td>
</tr>
<tr>
<td>Sales at Istanbul Stock Exchange</td>
<td>526.6</td>
<td>11.8</td>
</tr>
<tr>
<td>Sale of Incomplete Plants</td>
<td>4.1</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>4,455.7</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The table presented above shows that, more than half of the privatization revenues resulted from

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3 T.C. Batbakanlık Özelletirme Ydaresi Batkanlýdý, Türkçe'de Özelletirme, July 6, 1998.
block sales. Public offers and selling shares of participation’s in Istanbul Stock Exchange (ISE),
together accounted for about 27 percent of privatization revenues. Property sales, which were
sales of plants and properties of various SEEs account for another 14 percent. Sale of shares
to international investors was the sale of TOFAS Car Manufacturing Company’s 16.67 percent
share in international markets.

Since 1986, 153 establishments were transferred to privatization administration for privatization.
These establishments were SEEs, their partnerships or their participations. Shares or assets of
129 of these establishments were sold, in 111 of them completely. Government shares remain
only in 18 of them. Government operations in cement, animal food, milk and meat and fish
products sectors were completely eliminated. Currently there are 42 establishments in the
privatization program. In 28 of these establishments governments share exceeds 50 percent.

Turkey has employed a wide spectrum of privatization methods depending on the nature of the
establishment to be privatized. Methods applied ranges from direct sale, sales to strategic
investors, sales through Istanbul Stock Exchange, IPO, transfer of ownership to employees,
give-away, granting concessions, granting operating rights, BOT’s, breaking government
monopoly by allowing free entry and closing down.

The significant characteristics of Turkish privatization can be summarized as follows:

**Concentration on Block Sales:** More than half of the privatization revenues came from block
sales, that is sales to strategic investors. Out of 87 plants or companies privatized through block
sales, 24 were cement factories of CITOSAN, a SEE which pioneered the establishment of
cement factories all around Turkey. Cement companies accounted for 47 percent of the block
sales revenues. Cement industry in Turkey is a fast growing, profitable industry, fuelled by fast
economic development. The industry is composed of private, public and mixed companies. In

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4 Covers the period until July 6, 1988.
cement industry it is believed that each company is able to exercise certain amount of monopoly power within its hinterland. So in privatizing cement companies special care is needed to bring competition to the industry. It seems that in Turkish case, revenue from sales was more important than improving competitive structure in the industry. \(^5\) Initial five of the privatized cement companies were sold to SCF (Société Ciment Française) a French company, and another eight of the privatized cement factories were sold to a single Turkish holding group. A research on privatization of cement industry indicated that, privatization has improved the competition in the cement market in some regions, but in others, especially in less developed regions, where transportation is not well developed, the semi-monopolistic market conditions were preserved.\(^6\)

**Contribution to the Development of Capital Markets:** Privatization efforts in Turkey contributed to the development of Istanbul Stock Exchange and the capital markets.

One of the often-stated objectives of privatization is broadening the ownership base and contributing to the development of stock market. These also ranked high among the objectives set for privatization in Turkey in 1986. The first major privatization implementation was a public offer in 1988. In that privatization exercise, TELETAS, a telephones and telecommunication switches producing company, was privatized by selling its shares to about 42 thousand small investors. Before the privatization, Turkish government had 40 percent stake in TELETAS and ALCATEL, an international company was the major foreign partner. 22 percent of the shares were offered to public. The offer met very high demand and shares were oversubscribed. Later in 1993, government sold the remaining 18 percent to Alcatel. And now, Alcatel owns and controls the company.

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Major public offerings, about 18 of them, took place between 1990 and 1991. Most of these offerings were selling government minority interests in well known private companies such as ARCELİK which is the biggest private company in Turkey, TOFAS, a well known car manufacturer with Fiat’s participation and MIGROS, the biggest supermarket chain in Turkey. In fact, some of these companies were private companies with foreign capital investments, such as TELETAS and NETAS both in the production of telephones and telecommunication switches. These IPO’s also include selling shares of some of its giant public companies. But, the percentage of capital offered to public was very small. In 1990, 8.08 percent of the shares of PETKIM, in 1991, 1.66 percent of TUPRAS both petrochemical complexes, and in 1990, 1.55 percent of Turkish Airlines were sold through Istanbul Stock Exchange. All the stocks sold to public were later registered in Istanbul Stock Exchange and are actively traded there. The total revenues obtained through public offers are $433 m, roughly 10 percent of the market capitalization of the exchange. The total number of people who purchased stock in these public offerings amounted to 292,000.

Privatization of SEEs through public offerings did make significant contributions to the development of capital markets in Turkey. In a study, which covered the period 1989 through 1993, 14 public offerings of privatized companies represented 15.7 percent of the total number and 42 percent in value terms of initial public offerings (IPOs) in Turkish capital markets. All these public offerings were underwritten by IS Bank. Their under-pricing during the first day of issue was much smaller compared to the private sector issues. On the other hand they provided better returns to investors in the long run.

**Transfer of Ownership to the Employees:** Towards the end of 1993 a chain of stores belonging to Sümer Holding Company (SHC) were privatized by transferring ownership to the employees working in these stores. Out of 433 retail outlets of SHC, 291 were successfully privatized. These outlets which had been making losses for more than five consecutive years

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were privatized by transferring the ownership of the business to private individuals under agency contracts, giving priority to the employees working in SHC.

The retail outlets privatized were located mostly in small towns all around Turkey. They were merchandising outlets selling textile, ready-wear clothing and leather products mostly produced by SHC. One of the objectives of the privatization plan was to create new entrepreneurs in these communities helping the development of private initiative. Through this privatization scheme 330 employees who were civil servants working in these outlets became successful entrepreneurs. A survey was conducted among the new owners, shortly after the privatization exercise. The respondents, who were former civil servants, now the new entrepreneurs believed that this privatization exercise has been beneficial to most of the parties involved and Turkey as a whole.  

About 76 percent of the respondents believed that they were going to gain from this privatization exercise. 50 percent indicated that government, 36 percent indicated that SHC would gain from this privatization. It was quite interesting that 35 percent stated that customers would benefit from it. Those, who worked in the shops before as civil servant, knew that they were not treating their customers properly. The majority of the outlets were optimistic about the future. In fact another survey conducted a year later showed that most of the outlets made profit, expanded their business and were making plans for further growth. Some were considering establishing chain stores; others were planning to enter production.

This privatization took place in 1993. In November 1995, 88 somewhat bigger outlets were privatized transferring the ownership to 292 former employees. In 1996, 11 more of the outlets were privatized. Now SHC runs a small number of outlets, which require a different kind of privatization method, since they are big department stores, located in big cities.

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It is important to note here that, the privatization implementation of SHC retail outlets have been planned and executed by the management of the company from start to finish. This experiment may come to mean that, if they are properly guided and authorized, the managers of state economic enterprises can successfully design creative privatization schemes and implement them.

**Plant Give-Away:** In 1994 Turkey has privatized one of its steel plants by giving-away. Karabük Steel Plant was established in 1937. It is an integrated steel plant using domestic ore and coal in its production with a capacity of 600,000 tons/year. The plant was one of the pioneers in the economic and industrial development of Turkey, not only for the steel it produced, but also for the training of manpower for the further developments in the industry.

Lately, before 1994, the plant was incurring heavy losses due to redundant labor, very high interest burden, delayed renovations and unfavorable market conditions. In 1994 Turkey faced an economic crisis. In the austerity measures taken in April 5, government took the decision to privatize or liquidate the company before the end of 1994. By the end of 1994 the plant was privatized by transferring the ownership free of charge to the employees of the plant, members of the local chamber of industry and commerce and artisans associations, and citizens in the community.

In addition to transferring the ownership free of charge, government assumed the debts of the plant, paid severance indemnities to employees, provided working capital and funds needed to complete the current renovation program. The cost of the privatization program to the government was $358 m. The privatization scheme, which was originally designed for this specific case, is considered to be a successful one. In 1994, the company incurred $231 million loss, in 1995 the company was able to break-even; profit in 1996 was $26 million and in 1997 $44 million. Total number of employees of the plant was 5890 before privatization; it dropped to 5125 at the end of 1997. That is reduction in labor force was only 13 percent. The most significant reduction was among the white-collar
employees. Number of white-collar employees decreased to 283 from the pre-privatization figure of 783.

**Breaking Up Public Monopolies:** Although not shown among privatization efforts of Turkey, significant steps are taken in privatization of some government monopolies, by allowing private sector entry. Airlines industry is a good example. There are a number of successful private sector airline companies operating in the sector in Turkey. Another example is breaking up the monopoly on cigarette production. A Turkish and an American joint venture company have entered cigarette production already. Recently government is considering breaking up Turkish “raki” production, a well-known Turkish drink.

**D. 1998 Privatization Program**

In 1998 government has prepared a program of privatization which will bring $12.2 billion privatization revenues. $4.6 of this is expected to come from programmed privatization implementations of the Privatization Administration. There are two privatizations scheduled, which will account for almost half of the expected revenues. The first one is, selling 12.3 percent government shares in Is Bank, which is one of the major banks in Turkey. The shares have already been offered to public %38.85 in domestic and %60.15 in international markets, 80,798 buyers were involved and $596 million revenue is raised through sales. The second is the privatization of POAS a state owned petroleum products distribution company, through selling 51 percent of the shares to a strategic buyer or a consortium of buyers. Privatization of POAS is expected to produce another $1.2 billion revenue. In July offers from strategic buyers were collected. Through continuous bidding a strategic buyer was determined. Privatization Administration had not received the opinion of the Competition Board of Turkey. Now the privatization is awaiting the opinion of the Board.

In 1998, 34 percent of Turkish Telecom is expected to be privatized. This is assumed to bring another $3 billion. Selling GSM licenses to two private companies have already been concluded, resulting in $1 billion revenue. Towards the end of the year Ministry of Energy is expected to
privatize 8 energy producing plants and 20 distribution establishments. Privatization of this energy
generating and distributing companies is expected to produce another $3.6 billion revenues.

III. CONSTRAINTS TO PRIVATIZATION

As it was already mentioned, Turkey could achieve much more in privatization over the 12
years past, considering the size of its SEEs. It is true that, during this period Turkey lacked the
political stability that is usually a necessary condition for a successful privatization program. But,
in the Turkish case it is difficult to claim that lack of political stability has been the major cause of
limited success. Over this period, almost all the governments formed, seemed very determined
to accelerate privatization implementations in Turkey. Each government promised success in
privatization in their programs. Governments in charge set very optimistic revenue objectives for
privatization every year during the budget discussions. But, accomplishments were never, even
close to the targets. Recently privatization efforts of government seems to produce its results in
spite of the fact that 1998 privatization program seems to be a very ambitious one.

In the initial stage, Turkey seemed to approach privatization in a proper perspective.
Government decided that it needs a master plan to implement privatization. Morgan Guaranty
Bank, Industrial Development Bank of Turkey, Industrial Investment and Credit Bank, Muhas
Audit Company and Investment and Finance Corporation of The World Bank in a short time
prepared the Master Plan. Master Plan specified the objectives, defined strategy, provided
recommendations for implementation and classified SEEs into three categories in the order of
priority to be assigned to implement privatization. But unfortunately Turkey could not benefit
fully from the master plan prepared.

In the following sections we will attempt to explain the reason behind limited success in
privatization. Although the reasons are presented in order, they are interdependent in nature.
A. Political and Legal Constraints

Master Plan prepared by Morgan Guaranty Bank included a study of Turkish legal system to determine the factors that may present problems for privatization. The study reached the conclusion that Turkish constitution and relevant laws did not outlaw privatization. It was also found out that, in two specific areas some alterations in laws were needed to facilitate privatization. These were the special audit requirements that the SEEs are subject to and the personnel regime applicable to SEEs.

According to Turkish Constitution, SEEs are audited by the High Audit Council (Yüksek Denetleme Kurulu) attached to Prime Ministry. The constitution also requires the SEEs to be run by government civil servants. Therefore, the management scheme imposed by the constitution does not provide the management with tools that are needed to be successful in competitive market environment. The related laws do not provide sufficient authority, diffuses responsibility and lacks the incentive schemes needed in management.

Unfortunately, Turkey did not think that it had the time to make changes in the relevant laws to facilitate privatization. It attempted to carry out privatization without making the necessary changes in constitution and related laws. This strengthened the position of those who were against privatization in principle. Many of the privatization cases were challenged at the Constitutional Court and privatization decisions were reversed.

In Turkey the privatization laws attempted to establish governmental bodies to make the privatization decisions and to implement these decisions. The first law relating to privatization was passed in 1984 which was, interestingly enough, “Law to Motivate Savings and to Accelerate Government Investments”. This law authorised the government to securitize the revenues of hydroelectric dams and toll bridges by issuing “revenue sharing certificates”. Mass Housing and Public Participation Administration was established to implement decisions reached by Public Participation High Council.
In June 1986, the law was modified by empowering Council of Ministers to decide the privatization of SEEs. Decision to privatize the establishments or participation’s of SEEs were left to the Public Participation High Council (later called High Planning Council). The law enabled free of charge transfer of ownership of the SEEs to Public Participation Administration. The companies that are transferred to PPA were granted legal status of “corporations” automatically. This law did not provide sufficient legal environment to administer privatization and to solve some of the technical problems faced in its implementations. These implementation problems were related to labor, managerial and financial restructuring needs of the establishments.

In 1992 government recognised the fact that it needed a comprehensive legal base to accelerate privatization implementations and to meet the objectives set for privatization in Turkey. Instead of passing a comprehensive law for privatization, government decided to jump through the hurdles by designing new regulations. A single law was passed through the parliament in 1994 to empower council of ministers to pass governmental decrees in effect of law. Soon various decrees were passed in order to accelerate privatization. But, again soon, the law empowering the government to pass decrees in effect of law was challenged in the Constitutional Court. Both the law empowering the government and the decrees passed accordingly were cancelled by the Constitutional Court. The Court claimed that privatization requires laws passed through parliament, and that power can not be granted to Council of Ministers.

On November 24, 1994 the current privatization law was enacted. The law was welcomed as if it would solve all the privatization problems of Turkey. Public expectations were elevated with intensive propaganda. SEEs were declared to be the cause of all ills in Turkey including inflation. It was claimed that this law was to solve all the problems Turkey had. The law did not, in principle, bring anything new. Public Participation Administration was renamed Privatization Administration. The authority to make privatization decisions, including decisions to determine the companies to be privatized, means and methods of privatization and finalising the sale, was granted to High Council of Privatization. High Council of Privatization was to be
composed of Prime Minister, a State Minister, Minister in charge of Privatization, Minister of Finance and Minister of Industry and Commerce. The law was designed to facilitate the sale of SEE's. In practice the law did not accomplish the expectations created by it.

Another legal issue, which needs careful consideration, is protecting the public from the abuses of monopolies. It is a well-known fact that privatization is more successful in competitive environments. In case of privatization of natural monopolies, it is essential that regulatory environment is well established to eliminate possible exploitation of customers and deterioration of services.\(^{10}\) It took time for Turkey to establish the legal structure to strengthen competition. Competition Board (Rekabet Kurulu) is recently established. But, we should note that it will take some time to develop the “competitive culture” needed for the success of privatization. Turkey still needs special care in privatization of its natural monopolies. Recently, Turkey is making plans to privatize its telecommunications services. Still Turkey has not designed a system, like the OFTEL of England, to protect the interests of the public.

Recently in relation to the privatization of POAS, state owned petroleum products distribution company, Privatization administration has informed Competition board about the sale but had not received their opinion. Competition Board declared that, the sale can not be finalized until they study the case and see if the public is protected from monopolistic abuses. Currently Competition Board experts are studying the case.

The lack of sufficient attention to the legal framework of privatization has been the most important reasons for limited success in privatization in Turkey. The lesson to be learned is that, it is better to take the time needed to formulate the legal framework before the privatization. The strong legal base will lead to an accelerated and successful privatization.

B. Labor Constraints

One of the reasons for the inefficient performance of SEE’s is their redundant labor. It is unfortunate that we do not have good and reliable estimates of labor redundancies in SEEs. In fact, the problem is not uniformly distributed among SEEs. In some cases redundancies are in the magnitude of 10 percent, in other cases it may go up as much as 300 percent. An interesting case is TKI (Turkish Coal Enterprises) case in Zonguldak. In 1994 the establishment employed about 32,000 employee, where some feasibility studies indicated that 12,500 employees would be enough for profitable operations. TKI case has been used as an example for inefficiencies in SEEs extensively by proponents of divestiture. Many claimed that the government would be better off paying the labor their wages, let them stay at home and close the company. But, TKI case is an exception rather than a rule. It does not set an example for even similar cases. It was long claimed that Karabuk Steel Plant case is similar to TKI case in terms of labor redundancies. But, as it was mentioned above, in Karabuk Steel Plant case, three years after the privatization the employment decreased by only 13 percent.

In 1985 non-financial SEEs were employing 635 thousand employees, which was about 4.14 percent of the total labor force in Turkey. In the early phase of privatization till 1991 this figure almost remained constant, around 630 thousand. Later, due to privatization of some SEEs and early retirement plans to eliminate redundant labor, the employment in SEEs decreased to 463 thousand in 1997. Table 2 presents SEEs share in employment in different sectors in Turkey for 1985 and 1991. As seen in the table, SEEs provide employment opportunities to a significant portion of labor force in mining, production, energy, and transportation and communication sectors.

Table 4
SEEs Share in Employment
(in percentages)

<table>
<thead>
<tr>
<th></th>
<th>1985</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>0.16</td>
<td>0.11</td>
</tr>
<tr>
<td>Mining</td>
<td>48.07</td>
<td>44.60</td>
</tr>
<tr>
<td>Industrial Production</td>
<td>13.65</td>
<td>10.79</td>
</tr>
<tr>
<td>Energy</td>
<td>54.16</td>
<td>53.84</td>
</tr>
</tbody>
</table>

11 SPO, Main Economic Indicators, March 1998.
<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport. and Communications</td>
<td>29.40</td>
<td>31.02</td>
</tr>
<tr>
<td>Commerce and Others</td>
<td>1.70</td>
<td>1.40</td>
</tr>
<tr>
<td><strong>Total Contribution</strong></td>
<td><strong>4.14</strong></td>
<td><strong>3.68</strong></td>
</tr>
</tbody>
</table>

The main difficulty related to labor redundancies in SEE's in Turkey is that, the redundancy rate is very high in the relatively under-developed regions in the country. In spite of the fact that Turkey has accomplished much in its economic development and in integrating its economy with the rest of the world, Turkey was not successful in reaching even distribution of development in all of its regions. Income distribution is still one of the worst among the developing countries. And, there are many SEE's in the under developed regions providing job and income for the local community.

Creating safety nets, and training work force for new job opportunities is not easy. Parallel to privatization programs in Turkey many studies were done to search for ways to create new job opportunities. In fact, various privatization schemes are proposed to handle the redundant labor problem of SEE's operating in less developed regions. But, it seems that solutions require much longer time than available for accelerated privatization. For that reason it was not possible for Turkey to privatize SEE's where high labor redundancies exist, especially if these SEE's are in less developed regions.

The current privatization law, which was enacted in 1994 attempts to bring some solutions to labor redundancy problems. These solutions can be summarized as:

- If an employee loses his job during or after privatization implementations, he will be entitled to a supplementary unemployment indemnity in addition to the severance pay and termination indemnity paid in accordance with the current laws.
- In order to induce early retirement, personnel of the SEE's under privatization program, who are subject to Government Pension plan may receive their retirement benefits with 30 percent premium, if they apply to retire within two months following their acquisition of the right to retire.
Civil servants or personnel working under special contracts with SEE's who lose their positions due to privatization implications will be transferred to other public institution where positions are available.

Since privatization implementations started by privatization of profitable enterprises, labor issues did not create any significant problem in Turkish case. The above measures, which were brought in 1994, helped to ease the burden of privatization on employees. In Karabuk Steel Plant case, employees used their unemployment indemnities, severance pay and termination indemnities to purchase stock in the newly formed company. Since the stocks have increased in value many of the employees made small fortunes.

On the other hand, in less developed regions, financial compensation can hardly make up for the damage created by losing job since other opportunities may not be available. Loss of job may mean permanent unemployment. Therefore, for the successful privatization implementations job creation programs are needed. In Turkey many studies are made to find ways to develop job opportunities in the regions where SEE's are making heavy losses. But it is hard to claim any success in this area.

C. Constraints in Implementation

In Turkey privatization implementations have had very slow take-off. This created some problems of its own. As the time passed, privatization objectives were changed, it was difficult to keep the favorable attitude of the public towards privatization and to maintain their support. Since the privatization took too long, after the SEE's were transferred to Privatization Administration, morale, financial position and the technology of the institutions deteriorated fast. We will shortly explain the constraints resulting from slow implementation of privatization plan.

Changing Objectives and Undue Emphasis on Cash Gains: When the privatization master plan was prepared, Morgan Guaranty Bank together with Wyvern Research Associate prepared an ordered list of objectives for privatization in Turkey. To prepare the list, opinions
of ministers, undersecretaries, directors in the public sector were gathered through a questionnaire. In the study 14 objectives were determined and presented in the order of importance. These objectives included objectives like improving market mechanisms, improving efficiency, contributing to the development of capital markets and contributing to the widening of ownership distribution of industry. Reducing SEEs burden on Treasury was among the efficiency objectives. Other efficiency objectives were attracting modern technology and management techniques. Included in the objectives was strengthening the economic and political relations in international arena through strategic alliances with foreign capital. The last on the list was generating revenues for government.\textsuperscript{12}

Unfortunately, as the years went by, the last objective, objective ranked number 14, became the main objective for privatization in Turkey. The main reason for that was the desire to reduce public sector borrowing requirements (PSBR) in order to control inflation. Privatization of SEEs seemed to be an efficient tool to control inflation. Even if this reasoning was correct, the implementation did not help to reduce PSBR in Turkey since, not the inefficient but mostly the profitable SEEs were privatized.

Since raising revenues for government has moved up in the list of priorities, privatization in Turkey is now viewed as selling the state owned companies and assets. Less attention is paid to improving the competition, improving management and gaining strategic advantages.

**Over-promoting the Results of Privatization:** Instead of explaining the benefits sought in the privatization program, Turkey used intensive propaganda to improve the climate for privatization in Turkey. In fact, the propaganda was successful but overdone.

Since the start of privatization in 1986, SEEs were blamed in Turkey to be the “cause of all ills”. They were declared to be “burden on the economy”; they were “bleeding wounds of economy”,

\textsuperscript{12} Kilci, Metin: Op.Cit.
“misery for all”. This propaganda has been so successful that, privatization became a “myth” in Turkey. Common people on the street expected wonders from privatization implementations.

Privatization implementations on the other hand caused confusion in public opinion since privatization did not produce miracles. The small minority which was against privatization on ideological grounds could benefit from this confusion. Privatization did not solve the economic problems people were told it would: PSBR did not go down, inflation was still on an upward trend. Yes, people still thought that privatization was good but they did question the way it was implemented.

We believe, if Turkey accepted the fact that privatization is a tool to improve efficiency and competitive position, determined its objectives and explained the objectives clearly, we could have received strong and effective public support.

**Deterioration in Financial Position, Morale and Technology of the SEEs:** Since the privatization took much longer time than expected, the financial position, the morale and the technology of the SEEs deteriorated fast. In some cases deterioration is so significant that some of the privatization options are eliminated by it.

Master Plan made some specific recommendations of crucial importance. These recommendations were:

- Privatization implementation should not impair the investment plans of SEEs,
- Since privatization implementations are likely to take quite long time, public sector reforms need to continue at accelerated pace.

Unfortunately in Turkey the investment plans of the SEEs that were transferred to Privatization Agency were cancelled. These investments included investment in growth, technology and human resources. Cancelling the investment plans is understandable if the privatization is
implemented fast. Since the pace of privatization was slow, the plant, technology and human capital of SEEs deteriorated fast, reducing their marketability.

IV. CONCLUSIONS

Although Turkey has started privatization implementations more than 12 years ago, it has accomplished much less than its potential.

Perhaps the major lesson we should get from Turkish experience is that privatization is more complicated than simple “sale” of government assets. It needs not only intentions, but also special care and preparation.

Privatization programs of different countries could differ due to differences in the environment and the objectives set for privatization. But, in all cases the privatization should at least serve to improve competition, to improve management techniques of the enterprises and should help enterprises to gain strategic advantages.

The privatization move must start with “success stories”. Here by success stories, we mean that all the parties involved and the country at large should gain from the results of the privatization programs. Government should capitalize on these success stories rather than relying only on simple propaganda.

At the start of the privatization move in a country, time and care is needed to make the necessary changes in the legal environment. If the legal environment is not suitable for successful privatization, privatization implementation can not succeed just by using better privatization techniques. Improving the legal structure will also benefit the privatization programs by getting the involvement of the parliament. This will improve the process of reaching the consensus needed in different sections of the public.
Other programs geared for job creation must support privatization programs. This is especially important in the less-developed region of the counties where alternative job opportunities are not available. Unemployment benefits and similar financial compensation schemes may not be sufficient to make up for the jobs lost. Indirect social costs of massive unemployment have to be accounted for in the measures developed.

It is important to be sincere with the public at large, in all phases of privatization. This includes the objectives, strategy and implementation. These all needs to be explained well to the public at large. People must agree on the performance measures. Verifiable objective criteria for the measurement of success is needed to be developed in order to reduce confusion and to eliminate unnecessary discussions.

A realistic timetable for privatization is needed. When the designated institutions are included in the divestiture program, divestiture needs to be implemented fast. Otherwise, financial position, moral and technology of enterprises deteriorate fast. Management in all SEEs must improve independent of their position in privatization timetable. This requires a “public sector reform” program to be implemented parallel to the privatization program.

Investment programs of SEEs that are to be included in divestiture programs in later periods in privatization timetable must continue in order to improve the privatization options available for them their privatization. If some enterprises are not taken under the divestiture program and their investments in technology, manpower and management stops, their structure may deteriorate so much that it may closing down may remain as the only option available. Closing a plant down is very difficult especially in less-developed regions of the country.

These seem to be the major lessons we have learned from our case, the Turkish case of privatization. Our discussions here may help to improve our understanding of our mistakes and successes.