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PUBLIC ECONOMIC ENTERPRISES IN TURKEY

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I. INTRODUCTION

Public Economic Enterprises (PEEs) have played a distinct role in promoting economic development and were instrumental in initiating the industrilization and facilitating a balanced regional development in Turkey especially during the early stages of economic development. However, during the last two-three decades, PEEs have acted as a major drag on the economic performance of the country and have caused some economic problems. Moreover, it has been argued that public economic enterprises ended up functioning as wealth creating institutions, but functioning as "social welfare institutions" to serve political and bureaucratic whims. In response to the problems of PEEs, privatization came to the political arena in the early 1980's. Currently, Turkish authorities tend to favaur for privatization policy .

In this study, I shall explore the public economic enterprises in general. In section II, the current legal framework concerning PEEs is explained. The next section addresses the problems of PEEs. Some basic indicators concerning the macroeconomic performance of PEEs within the Turkish economy is presented in the following one. The last section draws some concluding remarks.

II.INSTITUTIONAL FRAMEWORK OF PUBLIC ECONOMIC ENTERPRISES

The first known law related to public economic enterprises in Turkish Law system is Law No 3460, enacted on June 17, 1938. This law defined public economic enterprise as an entity, whose total capital was state owned. It is concerned with the management and the supervision of all enterprises. The purpose of this law was to combine an effective public accountability of public economic enterprises with a greater autonomy and a more flexible and businesslike management of the enterprises. Thus, the law provided control bodies, which would review and audit the performances of the enterprises and

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promote standardization in their management. At the same time, however, the law granted public economic enterprises a substantially high degree of operational freedom from the goverment (Singer, 1977; 23).

Since 1938, the law regarding public economic enterprises has been changed remarkably. On the other hand, a large number of studies were carried out to reorganize and restructure the PEEs. Even the problems of PEEs were diagnosed and proposed some reform solutions, never had it found a way to canalize them into practice. (see: Aktan, 1987; 40-51)

At present, the Decree 233 deals with the public economic enterprises. Before examining this decree, it would be appropriate to note that Turkish constitution contains the following article concerning public economic enterprises:

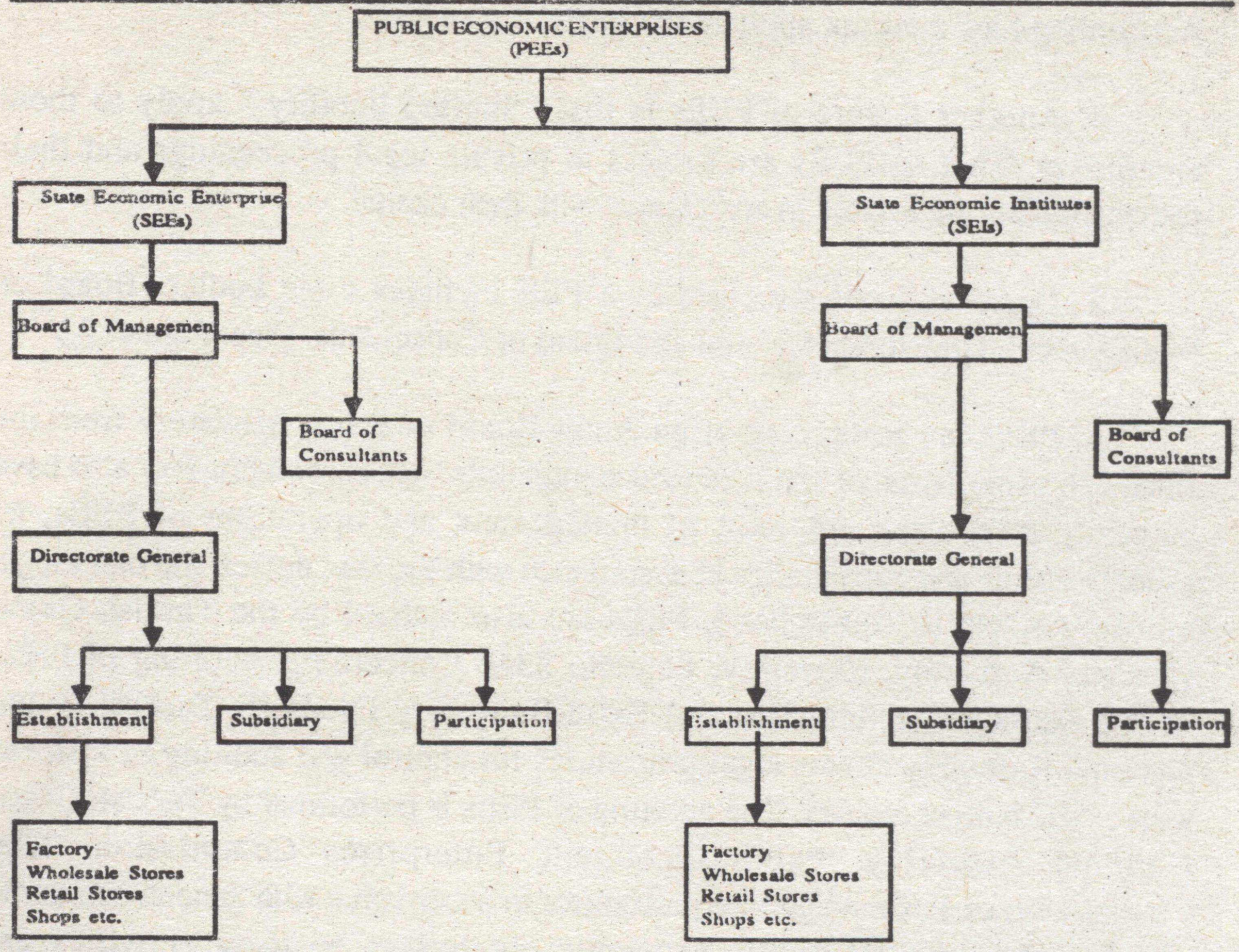
"The auditing procedures of public economic enterprises, in which government owns more than half of the capital, by Turkish Grand National Assembly are determined by a law. " (Article 165)

This article does not give a clear definition of public economic enterprises and only stipulates that a law be enacted concerning auditing of these enterprises by Turkish Grand National Assembly. Now, let us analyze the current law concerning PEEs.

According to the Decree 233, the PEEs are classified into two groups: State Economic Enterprises (SEEs) and State Economic Institutions (SEIs). The former is defined as an entity, whose total capital belongs to government wholly and operates in accordance with the principles of market economy. The latter is an entity, whose total capital is also publicly owned, however it produces and markets basic goods and services and hold an exclusive monopoly for the supply of some goods and services.

Both State Economic Enterprises and State Economic Institutions consist of Establishments and Subsidiaries and Participations. (See: Figure: 1) The list of SEEs, SEİs and their subsidiaries can be found at the end of this paper.

Figure: 1 Organization Structure of PEEs



In accordance with the Decree 233, The main features of PEEs are summarized as follows:

1. The capital of PEEs belongs to the government wholly. As noted earlier, PEEs consist of State Economic Enterprises (SEEs) and State Economic Institutions (SEIs). A SEE operates within the commercial and economic fields in accordance with free market principles. However, SEIs, in general, produce, basic commodities and services, and some of them have monopoly status. Thus, the Decree Law makes a distinction between those PEEs, for which a "public service" orientation predominates, and those, founded in order to engage in activities in accordance with commercial activities.

2. PEEs are established by the decision of Council of Ministers.

3. PEEs are normally subject to private laws. The rules of General

Accounting Law does not apply to the PEEs.

4. Another feature of PEEs is that " limited liability " apply to those enterprises. That is, PEEs are subject to private legal proceedings and their responsibilities are limited in accordance with their capital.

5. Organizational structure of a PEE includes three bodies: Board of Management, Directorate General and Board of Consultants. (See: Figure: 2)

6. PEEs are audited by High Audit Board of Prime Ministery from the financial, administrative and technical standpoints. Affiliated Ministery also have authority to control and audit of management and operations of PEEs, its establishments and subsidiaries in accordance with the law, decree and other legal procedures. On the other hand, PEEs are also audited by the Turkish Grand National Assembly. Currently, Law No 3346 Concerning Auditing of PEEs Public Economic Enterprises and Extra-Budgetary Funds by Turkish Grand National Assembly covers legal procedures for control and auditing of PEEs as well as off-budget entities. The auditing of PEEs is performed by Turkish Grand National Assembly, Public Economic Enterprisès Commission. This Commission carries out auditing procedures in accordance with general economic policies and whether public economic enterprises business activities are appropriate to the legal procedures, long-term development plan and program.

The auditing of PEEs is basicly carried out by High Auditing Board (HAB) of the Prime Ministery. Law No 72 Concerning High Auditing Board requires that HAB should prepare an Annual Auditing Report and present to the Prime Ministery until October of the following year.

7. PEEs sends their long-term investment and finance programs to the Undersecretary of Treasury and Foreign Trade (UTFT) and State Planning Organization (SPO) upon completion of investigation by affiliated ministery. The Annual General Investment and Finance Program is prepared by UTFT.

8. PEEs carry out its investment and operations within the framework of the relevant plan, program and budget.

9. PEEs, (except those, which are dealt with banking and insurance businesses) are required to implement "Standart Accounting System"

10. PEEs can set up their own prices freely.Council of Ministars can intervene to the determination of prices if necessary. However, if the prices determined by the Council of Ministers were below the costs of goods and services supplied, in that case, the loss along with the expected profit for that year are met from the General Account Budget. According to the Article 35, "deprived profit" due to goverment interference are determined by adding 10 percent unto tne costs of goods and services. On the other hand, the amount of the loss is determined through the investigation of accounting records. This is called "duty loss" in the Decree.

11. The Decree states that the services are carried out by contracted personnel and workers in PEEs. The contracted personnel is not subject to the collective labor bargaining processes. Contracted personnel can be employed as well as dismissed by the authority of Board of Management. There are also some incentives for managers and workers foreseen in the Decree. Residual Claimant is one of the most important incentive for contracted personnel. (Article 46).

Decree 233 also formed three related bodies: Establishments, Subsidiaries and Participation. An "**Establishment**" is a body which consists of factories, wholesale or retail stores, shops etc. Note that, the total capital of an Establishment also belongs to the government and it operates under a PEE. An establishment can be set up by the offer of the Director General of PEE and by the approval of Board of Management. Establishment is also subject to the same rules applied to the PEEs.

A "**Subsidiary**" is an affiliated unit of a PEE, of which government holds more than 50 percents of the total capital. A subsidiary is established as a legal corporation and has the authority to issue equity stocks and offer them to the public. A new subsidiary is set up by the Decree of Council of Ministery. The present establishment or its subdivisions (wholesale or retail store, factory etc.) can be turned over the status of a subsidiary by the decision of High Planing Bourd. A subsidiary also operates within the framework of private laws.

And finally, a "**Participation**" takes place when a PEE or their subsidiaries owns a share in a private legal corporation not more than 50 percent and not less than 15 percent. Participation can be made by the approval of the High Planning Board upon an offer by PEE.

III. THE MAIN PROBLEMS WITH THE PEEs

Public Economic Enterprises have faced many problems since their establishments starting from early 1930's so far. Many reorganization studies have been carried out to diagnose the problems of PEE and to find solutions and restructure them. (See, Aktan, 1987;37-76) Almost none of the recommendations foreseen in these studies prepared by different councils or commitees have been put into effect. Today, PEEs suffer from some legal, administrative, financial etc. problems. In the folowing, the main problems of the PEEs are summarized.

A. The Institutional Framework

As already pointed out, the present institutional framework for public economic enterprises are determined by Decree Law 233.The main Inadequacies of the institutional framework are as follows:(OECD, 1991/1992, 98-99)

-The PEEs are not subject to the Commercial Code. As such, bankruptcy laws, standart reporting and auditing rules are not applicable for the PEEs. This has resulted in a lack of reliable standardized accounts.

-Decree Law 233, severely limit both the effective performance monitoring and the management autonomy. On the one hand, through Board of Directors composition rules, supervision of management is partially relegated to management itself. On the other hand, eligibility principles-including Article 128 of the Constitution which requires to be managed by civil cervants-as well as appointment procedures to board and high management positions, make room for political interference.

-Management autonomy in key areas like pricing, employment and investment decisions is restricted by formal or sometimes informal arrangements, involving the approval of a plurality of government bodies, including the Treasury, the State Planning Organization (SPO) and one or several "concerned" ministers.

B.Interference to Day-to-Day Operations of PEEs by Politicians and Bureaucrats

Each public economic enterprise carries out its operations under a single

ministery. The Affililiated Ministery coordinates the relationship of the enterprise with other branches of the government. It also approves the appropriateness of investments proposed to the SPO. Besides the affiliated ministery review the annual program of the PEE. Another important responsibility is that affiliated ministery plays a dominant role for the appointment of the Director General of the Enterprise. In sum, the Ministery responsible for the PEE, has direct and indirect interferences over the enterprises.

C. Investment

First of all, public economic enterprises make investments in the fields, where private sector investments are already available and efficient . Even though, Fifth Five Year Development Plan Stresses that: "...the public economic enterprises will, in alignment with the plan targets, focus their investment on the energy, mining, transportation and communications sectors and intensify them in the fields of rehabilitation and bottleneck elimination, refraining from new investment in areas where the private sector is proficient. " (SPO 1989; 37), the investments of PEE in some sectors, where private sector investmens are sufficient continue to expand.

The problem actually arises due to the lack of coordination and appraisal of investment projects. Projects apprasial, which is under the authority of the SPO does not always rest on a solid foundation of technical and economic studies, and the projects are often politically and technocratically inspired.

D. Finance

Some public economic enterprises' capital stock are insufficient in comparison to their scope and expanded investments. For many years, PEEs have been supported by the sources of General Account Budget. However, this does not seem to help them to solve their problems in the long-run. On the other hand, due to lack of capital stock, have kept trying to find credits from other sources. However, this movement resulted in high interest burden.

The acconting system is also not satisfactory. PEE accounting system, which is based on generaly accepted accounting principles, is not uniformly or consistently applied and disclousure in general is poor. Professional training and experience among the accountants is lacking in many cases. The present

acconting system, is also inadequate to handle the distortions created by inflation.

Accounting system, of course, is important because it makes possible to measure financial performance in a fair, uniform, consistent and comparable manner. An enterprise's operating performance and financial condition can only be evaluated by adequatc accounting standarts.

E. Control and Auditing

As noted earlier, at present, the PEE's operations are controlled and audited by three seperate institutions: High Auditing Board (HAB) of Prime Ministery, Turkish Grand National Assembly and Affiliated Ministeries. A critique is always made that The PEEs lack with an effective auditing and control system.

In accordance with the Decree 72, High Auditing Board (HAB) performs auditing and control functions according to the following principles:

- Whether the enterprise's operation is consistent with the Five Year Development Plan and annual program or not,

- Whether the enterprises's budget is consistent with the necessities of the enterprise; whether cost accounts and balance sheets are consistent with the operations of the enterprise at the current year,

- Whether the enterprise operates in accordance with the contemporary business principles,

- Whether the operations of enterprise are carried out within the framework of the laws,

- Whether the enterprise operates in accordance with the principles of productivity and profitibility,

- Whether the enterprise is operated in financial loss or not,

The duties mentioned above do not really result in an effective auditing. In fact, HAB audits are designed to check for compliance with laws, regulations, and the investment budgets, and hence are inappropriate for investors.

Some other critiques can also be made for the effort of HAB. The First one is the time-lag for the preparation of auditing reports. HAB generally completes its studies on auditing report quite later than the end of the relevant period. Secondly, there is a lack of publicity . Thc HAB's reports on individual enterprises are never released and the summary report for all PEE are also late and provides only partial coverage. Furthermore , the programs of individual enterprises, against which their performance might be evaluated, are not publicly available. Thus, the public at large has nonc of the information required to evaluate the performance of the PEEs.

Finally, the HABs are directly linked to the Prime Ministery Office. It is allaged that the HABs have no administrative autonomy and their impartiality are questionable.

As noted earlier, the main auditing procedures are carried out by the HABs. However, the Turkish Grand National Assembly (TGNA) also controls and audits the operations and the performance of the PEEs every year. The TGNA stresses during the investigation of the process whether the PEE's operations are consistent with the general economic policies followed, long-term development plan and annual programs.

F. Employment

The PEEs have always lived with some important employment problems since their establishments, which goes as far back as 1930s. First of all, there appears to be lack of incentives, which applied both to high level officials and workers. Key manager's salaries and career development are not linked to the success of the enterprise. Due to insufficient salary and other compansations, a number of qualified personnel have already moved to the private sector. Nepotism, cronism, partisanship and excessive patronage have always dominated the appointment of high level managers. In sum, the lack of incentives for both managers and workers have resulted in low productivity in PEEs. Besides, overstaffing has always been a grave problem in the PEEs. This hidden unemployment obviously increased the production costs of the PEE in many fields and as a result made them incompetitive in the market.

Although the PEEs employees are, in general termsless skilled than the private sectar ones, they have been quite successful in raising real wages in

comparison to the raise occured in private sector.

G. The Budget Constraints

The PEEs are said to have soft budget constraints. One to their publicly owned status they can take some advantages, i.e., government guarantees (explicit or implicit) make it easy for them to borrow money from domestic or foreign lenders.

As expected, the PEEs borrow mostly from state-owned commercial banks, which do not make default allowance for loans to the PEEs. In addition, the PEEs benefit from financing through deferred payments to their creditors. When their debt burden reaches unacceptable levels, a sort of relief usually comes from the general account budget in the from of equity injections and debt consolidations.

Briefly, the soft budget constraint has led to weak financial discipline in the PEEs. In some cases, (electricity and petrochemical company) the soft budget constraint has helped the public enterprises to finance investment programs far beyond their self-financing capacities.(OECD, 1992;99)

Insofar as, we have summarized the problems and weaknesses of the PEEs in Turkey from several standpoints. The Following Table gives a short and comprehensive view on the problems and weaknesses of public economic enterprises.

Table: 1 The Problems and Weaknesses of the PEEs in Turkey

MICROECONOMIC VIEW:

1. Administrative Weaknesses

-Politicial influence on the operations of the PEEs.

-High level of bureaucracy

-Lack of flexibility

-Lack of coordination and market orientation

2. Personnel Policy Weaknesses

-Unclear renumeration system

-Overemployment due to political interference

-High rate of turnover among top management

-Insufficient number of human resource development and training programs

3. Supervision-oriented weaknesses

-Insufficient auditing, supervision and inspection.

-Too much interference in operational processes by both politicians and government.

4. Other Weaknesses

-Distorted prices (cost+mark up or subsidization)

-Inefficiencies in decision making process.

-Inability to adopt the technological changes quickly.

-Slowness in the realization of investment projects,

-Operation at the low capacity,

-Lack of effective quality control,

MACROECONOMIC VIEW:

1.Financial burden on government

2.Cause for Structural inefficiencies

3.Limits the competitiveness of downstream industry

4.Provides room for political power game

5.High social cost, as PEE's are viewed as welfare institutuons.

6.Limits the economic yield of the overall investment in Turkey:

Source: TUSIAD,1992; 3.163.

IV.THE PLACE AND THE WEIGHT OF THE PEEs IN THE TURKISH ECONOMY

A.The Share of the PEEs in GDP

The contributions of PEEs to the GDP are shown on Table: 2 In 1980, the PEEs share in GDP was 11.4 per cent with current prices and 11.8 per cent with constant prices of 1968. These figures rose up to 13.0 and 12.0 per cent respectively in 1990.

Table: 2 The Shares of PEEs in GDP (1980-1990) %

Years	Current prices	Constant prices (1968=100)
1980	11.4	11.8
1985	14.5	12.6
1986	16.6	15.0
1987	15.9	14.5
1988	13.8	11.9
1989	16.5	15.2
1990	13.0	12.0

Source: Prime Ministery, High Auditing Board, Public Economic Enterprises General Report, 1989 and 1990.

B. The Share of the PEEs in Production

The production of various goods and services by the PEEs and their share in total production are shown on Table: 3 As will be seen from the Table, the PEEs have a monopoly in the production of a number of goods and services such as; coak and copper in mining sector, cargo transport by railways etc. Similary the share of the PEEs in some goods and services are observed to be rather high.

Table: 3 The Share of the Selected PEEs Goods and Services in the Total Production Services

Sectors	1980	1985	1990	1991
Mining				
Coak	100	100	100	100
Lignite	92	92	83	76
Crude Oil	40	45	73	78
Iron ore (unprocessed)	57	64	60	64
Copper (blister)	100	100	100	100
Chromium (unprocessed)	37	52	21	32
Manufacturing				
1. Consumer Goods				
Carcass meat	9	6	10	10
Tea	100	100	79	58
Sugar	65	71	78	80
Composite fodder	20	19	13	12
Cigarette and Tobacco Products	100	100	100	100
2. Intermediate Goods				
Crude Liguid Iron	33	33	58	60
Petroleum Products	84	81	78	78
Cement	32	32	22	23
Cardboard	66	70	57	47
3. Investment Goods				
Train Cars	100	100	100	100
Agricultural Tractors	13	10	9	18
Energy				
power	83	88	92	92
coking coal	84	57	68	-
Transportation				
1. Passenger Transport				
Railways	100	100	100	100
Airlines	100	100	-	79
2. Cargo Transport	100	100	100	100

Source: Prime Ministery. High Auditing Board, Public Economic Enterprises General Report, 1985, 1989, 1991.

C. The Shares of the PEEs in Total Employment

The total employment in Turkey is about 17 million people as of 1990. About 5 per cent of them are employed within the PEEs in the same year.It should be noted that although the governments have always aimed to reduce the numbers of people employed in the PEEs, the total employment in the PEEs continued to increase mainly due to political interference.

Table: 4 The Shares of the PEEs in Total Employment (1980-1990) %

Years	Total Employment in Turkey (000)	Total Employment in PEEs (000)	The Shares of the PEEs in Total Employment (%)
1980	15.310	540	3.5
1985	15.955	764	4.7
1986	16.243	794	4.8
1987	16.500	810	4.9
1988	18.093	816	4.5
1989	18.477	800	4.3
1990	19.209	806	4.1
1991	18.171	791	4.3

Source: Prime Ministery, High Auditing Board, Public Economic Enterprises, General Report, 1985, 1991.

D. The Share of the PEEs in Total Investment

The shares of PEEs in total investment was 38.3 in 1985 and this rate decreased to 19.2 per cent in 1990. By contrast private sector's share in total investment increased from 37.3 per cent in 1985 to 54.3 in 1990. (See Table: 5)

Table: 5 The Shares of the PEEs in Total Investment (1985-1989) (constant 1981 prices) %

	1985	1986	1987	1988	1989	1990	1991
A.Public Sector							
1.PEEs	38.3	34.3	31.6	22.4	19.3	19.2	19.7
2.The rest of Public Sector	24.4	24.7	21.8	25.3	25.8	26.5	26.2
Total (A)	62.7	59.0	53.4	47.7	45.1	45.7	45.9
B. Private Sector	37.3	41.0	46.6	52.3	54.9	54.3	54.1
A+B	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Prime Ministery, High Auditing Board, Public Economic Enterprises, General Report, 1985 and 1991.

On the other hand, the volume of total fixed investments is shown by Table: 6. Between 1985 and 1990, the volume of investment fell by 77 per cent in manufacturing and by over 76 percent in mining. During this five year period, only telecommunucatioi sector experience a real fixed investment growth.

Table: 6 Real Fixed Investment Growth of the PEEs (As percentage of total amount)

	1985	1990
Total	100.0	100.0
of which		
Agriculture	0.1	0.2
Mining	15.1	3.6
Manifacturing	22.3	14.3
Energy	28.6	43.6
Transportation and Telecommunication	33.0	34.5

Source: SPO

E. Profitability and Productivity Performance of the PEEs

The profitability and productivity performance of the PEEs in comparison to the private enterprises are shown on Tables 7, 8, 9 and 10. According to the "500 Largest Industrial Firm in Turkey ", a study published yearly by Istanbul Chamber of Industry shows that profitability ratios were higher in the private firms than the PEEs in the years between 1980-1992 (See:Table: 7)

Table: 7 Profitability

	Sale Profitability			Capital Stock Profitability			Asset Profitability		
	Total	Public	Private	Total	Public	Private	Total	Public	Private
1980	7.3	4.8	10.5	28.3	16.2	50.7	-	-	-
1981	5.8	3.8	8.2	31.7	22.0	42.9	-	-	-
1982	6.0	5.5	6.5	31.1	25.3	37.6	6.7	4.8	9.4
1983	5.7	4.4	6.9	24.2	18.0	31.0	6.1	4.0	9.3
1984	6.7	6.4	7.0	24.5	20.6	30.7	8.7	7.9	9.6
1985	8.6	10.8	6.1	28.7	26.8	33.6	9.6	9.9	9.0
1986	6.9	7.8	6.1	24.6	19.6	35.3	7.5	6.7	8.8
1987	8.2	7.1	9.1	30.9	18.5	54.4	8.8	5.9	13.0
1988	7.5	6.3	8.5	27.4	16.8	46.4	8.1	5.3	12.3
1989	6.3	4.4	7.8	20.7	10.1	39.0	7.3	3.8	12.2
1990	4.7	0.9	7.5	16.2	2.3	37.0	5.5	0.8	11.5
1991	-2.3	-12.0	4.8	-10.0	-44.5	24.8	-2.8	-11.3	7.5
1992	0.2	-10.1	7.2	1.0	-38.2	42.3	0.3	-10.0	12.0
Average (80-92)	5.5	3.1	7.4	21.5	8.7	38.9	6.0	2.5	10.4
Average (85-92)	5.0	1.9	7.1	17.4	1.4	39.1	5.5	1.4	10.8

Source: Özmucur (1993), 114

According to the same study the average labor productivity in the period of 1985-1992 was realized around TL. 51. 4 million in the private and TL. 31. 0 million in the public sector. The capital ratio was realized at around 1.052 in the private sector and at 0.288 in the public sector. (see: Table: 8,9)

The average growth rate in total factor productivity, that is the weighted average of labor and capital productivity, was 4.9 percent in the private sector in the period of 1985-1992. In the public sector, the total factor productivity fell by -1.8 percent for the same period. (see Table: 10)

Table: 8 Labour Productivity (Net Value Added / Number of Employees) (Million TL)

Years	Total	Public	Private
1982	31.7	24.8	39.3
1983	25.3	17.3	36.0
1984	28.7	21.6	37.4
1985	30.4	25.4	36.4
1986	33.0	24.4	44.1
1987	42.5	34.3	51.8
1988	41.1	36.6	47.1
1989	39.9	35.2	46.2
1990	41.6	32.5	52.1
1991	42.4	26.6	61.9
1992	50.5	33.2	72.0
Average (85-92)	37.0	28.4	47.7
Average	40.2	31.0	51.4

Source: Özmucur (1993), 114

Table: 9 Capital Productivity (Net Value Added/Fixed Assets) (Million TL)

Years	Total	Public	Private
1983	0.626	0.406	0.969
1984	0.695	0.485	0.992
1985	0.442	0.276	0.933
1986	0.448	0.247	1.152
1987	0.514	0.303	1.096
1988	0.507	0.332	1.049
1989	0.502	0.325	1.063
1990	0.499	0.287	1.007
1991	0.489	0.243	1.070
1992	0.544	0.290	1.038
Average (83-92)	0.527	0.319	1.052
Average (85-92)	0.493	0.288	

Source: Özmucur (1993), 115

Table: 10 Total Factor Productivity Growth Rate %

Years	Total	Public	Private
1983	-14.3	-30.5	3.1
1984	11.9	21	3.0
1985	-34..	-41..	-4.9
1986	4.2	-8.1	16.7
1987	21.3	31.2	13.7
1988	-2.1	8.8	-6.2
1989	-1.8	-2.8	-3.7
1990	2.0	-9.0	6.5
1991	0.7	-17.9	6.2
1992	16.9	25.1	11.3
Average (83-92)	0.5	-2.3	3.9
Average (85-92)	0.9	-1.8	4.9

Source: Özmucur (1993), 115

V. THE WEIGHT OF THE PEEs IN THE TURKISH ECONOMY WITH COMPARISON TO THE SELECTED OECD COUNTRIES

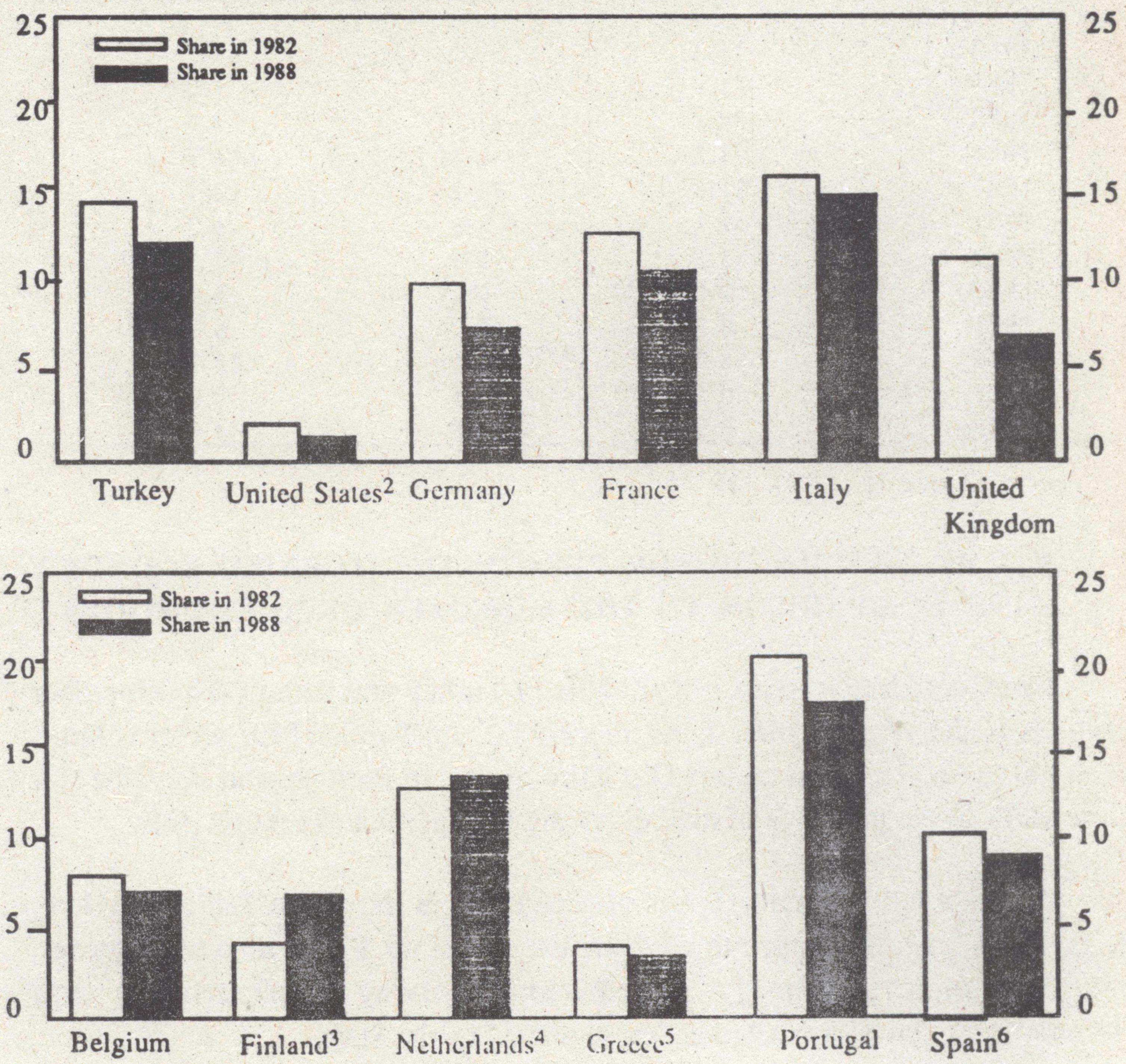
The Comparative sizes of the PEEs in Turkey and some OECD member countries is shown on Figure: 2. As understood, the Turkish PEE sector is large, but not of the range found among OECD countries. In Portugal and Italy, the size of the PEEs as a percentage of total economy is larger than Turkey's PEEs.

Another comparison in terms of sector size is shown on Table: 11. Here, the global index is developed to compare the size of the PEEs. In most countries, activities such as energy distribution, railway transportation and telecommunication are operated and/or regulated by the State.

In comparison to the selected OECD economies, the share of the PEEs is larger in Turkey. In telecommunication services, the state holds monopoly status. However, except for Denmark, in most OECD member countries, the telecommunication sector is opened to the competition in the 1980's. On the other hand, the size of the PEEs in energy, mining and transportation in Turkey is still large.

Figure: 2 RELATIVE SIZE OF PUBLIC ENTERPRISES1

As a percentage of total economy



1.Average of value-added, employment and gross capital formation.

2.Average of value-added and employment.

3. Share in 1986.

4. Employment only.

5. Average of gross capital formation and employment.

6. Share in 1985.

Source: OECD Economic Surveys, 1991-1992, P. 90.

Table : 11 Share of Public Enterprises in selected OECD Economies, 1988 Global Index1, per cent

	Belgium	Denmark	Spain	France	Nether-lands	United Kingdom	Austria	Italy	Turkey
Energy	}	81.0							90.0
Mining	14.4		32.3	72.0	11.9	50.6	88.0	86.7	74.0
Industry	0.1[2]	0.5	4.0	16.4		2.3	20.0	11.3	33.0
Transportation	44.8	40.0							58.0
Telecommunication	87.8	100.0	28.6	57.9	}53.5[3]	14.3	54.3	82.7	100.0
Financial services	--	—	92.3	34.2[2]		—	39.3		25.0
Other services	--	1.0	28.0[3]		—	—	—	32.0	
Wholesale and retail trade	--	1.0	0.3	3.2	—	—	2.0	7.0	

1.Avarage of following ratios: 1) share of public enterprises in sales, 2) in employment, 3) in fixed investment. 2) Share in employment only.

3) Share in sales and employment only.

Source: OECD, Economic Surveys, 1991-1992, P. 91.

VI. CONCLUSION

Needless to say, the PEEs have played important roles for the economic development in Turkey. During the first phase of the economic development (1923-1940), the PEEs acted as the driving force of economic development when the capital market size and the number of private entrepreneurs are insufficient for a rapid economic development. During the years of 1940-1980, the PEEs supplied inexpensive goods and services in the "basic" economic sectors. The PEEs also balanced supply and demand by functioning as financing and investment enterprises and ensured a regionally balanced distribution of wealth and income. In the years between 1980 and 1990, the PEEs served as institutions helping realize macro-economic goals, by increasing investment in backward regions inflation, reducing unemployment etc. In the post-1980 era, the PEEs behaved pioneering foundation of production and/or acquisition of know-how in important innovation fields of the industrial technology when a market or even a product was not yet fully developed.

However, especially during the last two decades, the PEEs have faced many problems and weaknesses such as political influence on the operations of them, high level of bureaucracy, overemployment, insufficient auditing, supervision and inspection distorted prices through mark up or subsidization, financial burden on government, limits competitiveness of downstream industry etc.

Currently, the PEEs still have a distinct place and weight in the Turkish Economy. The Turkish government has already undertaken a policy measure to privatize the PEEs within a timetable. Insofar as, several subsidiaries and participations have been privatized.

APPENDIX: 1 The List of State Economic Enterprises (SEEs)

1. Turkish Agricultural Bank (Ziraat Bank)	Banking
1.1. Guven Turkish Insurance Co. (Subsidiary)	Insurance
2. Turkish Real Estate Bank (Emlak Bank)	Banking
2.1. Construction and Public Works Co. (Subsidiary)	Banking
3. Public Bank Co. (Halk Bank)	Banking
4. Sümerbank	Textiles and Banking
4.1. Antalya Cotton Textile Ind. (Subsidiary)	
4.2. Bergama Cotton Yarn and Weaving Ind. (Subsidiary)	
4.3. Manisa Cotton Textile Ind. (Subsidiary)	
4.4. Turkish Wool and Mohair Ind. (Subsidiary)	
5. Turkish Cellulose and Paper Factories (SEKA)	Pulp and Paper
6. Turkish Cement Ind. Co. (ÇİTOSAN)	Cement
7. Turkish Iron and Steel Enterprises (TDCI)	Steel
7.1. Gerede Steel Construction and Equipment Factories Ind. (GERKONSAN) (Subsidiary)	
8. Etibank	Banking
8.1. Kardeniz Copper Enterprises (Subsidiary)	
8.2. Zink and Lead Industries Inc. (CINKUR) (Subsidiary)	
9. Turkish Petroleum Inc. (TPAO)	Crude Oil Exploration and production
9.1. Turkish Petroleum Office Inc. (POAS) (Subsidiary)	Distribution of petroleum products
9.2. Maritime Enterprise and Tanker Inc. (DITAS) (Subsidiary)	Oil refineries
9.3. Turkish Petroleum Refinery Inc. (TUPRAS) (Subsidiary)	Oil refineries
9.4. Pipelines and Oil Transport Inc. (BOTAS) (Subsidiary)	Oil Pipeline
9.5. Istanbul Fertilizer Ind. Co. (Subsidiary)	
10. PETKİM Petrochemical Inc.	Petrochemicals
10.1. Petlas Tire Ind, Inc. (PETLAS) (Subsidiary)	
11. Turkish Fertilizer Ind Inc. (TUGSAS)	Fertilizer Ind.
12. Turkish Coal Production Enterprise (TTK)	Coal
13. State Supply Office (DMO)	Stationary and printing
14. Turkish Sugar Factories Inc.	Sugar Processing
15. Turkish Machineries and Chemical Ind. (MKEK)	Machinery and Chemicals
16. Heavy Industry and Automative Ind. (ASOK)	Machine work-bench
16.1. Machine-Tools Ind. and Trade Inc. (TAKSAN) (Subsidiary)	Machine work-bench
16.2. Turkish Motor Ind. (TUMOSAN) (Subsidiary)	Motor vehicles
16.3. Asil Çelik Ind and Trade Inc. (Subsidiary)	High Quality Steel
17. Turkish Coal Enterprises (TKI)	Lignite
18. Meat and Fish Enterprise(EBK)	Meat and fish processing
19. Soil Products Office (TMO)	Soil Products and subsidization of agricultural products
20. Turkish Dairy Products Ent. (TSEK)	Dairy Products
21. Animal Feed Ind. Inc. (YEMSAN)	Animal Feed
22. Turkish Agricultural Products Enterprise (TZDK)	Agricultural Equipment and Fertilizer Distribution
23. Forest Products Ind. Inc. (ORUS)	Forest Products
24. TURBAN	Tourism
25. Turkish Maritime Enterprise (TDI)	Seaport Administration
26. Turkish Ship Ind. Co. (GEMSAN)	Shipbuilding

APPENDIX: 2 THE LIST OF STATE ECONOMIC INSTITUTES (SEIs)

1. Turkish Electricity Agency (TEK)	Power
1.1. Turkish Electromechanical Ind. Co. (TEMSAN) (Subsidiary)	Electromechanics
2. Turkish State Railways (TCDD)	Railways
3. Directorate General of Turkish Post, Telegraph and Telephone (PTT)	Post Telegraph and Telephone
4. Directorate General of State Aviation and Airports (DHMI)	Airport Administration
5. Turkish Airlines Co. (THY)	Airlines
6. Directorate General of Turkish Tea Production Enterprise (ÇAY-KUR)	Tea processing
7. Directorate General of Tobacco, Tobacco Products, Salt and Alcahol Enterprises (TEKEL)	Tobacco and Alcaholic Beverages.
8. Directorate General of Agricultural Enterprises (TIGEM)	Agricultural Enterprises

APPENDIX: 3 PUBLIC ECONOMIC ENTERPRISES BY BRANCH OF ACTIVITY

Agriculture	
TMO	Soil products
ORUS	Forest products
YEM SAN	Animal feed
TZDK	Agricultural equipment and fertiliser distribution
TÜĞSAŞ	Fertilizer Ind.
TİGEM	Agricultural Enterprises
Banking-Insurance	
ZİRAAT BANK	
EMLAK BANK	
HALK BANK	
SÜMER BANK	
ETİ BANK	
Communication	
PTT	Post, telegraph and telephone
Energy	
TEK	Power
Temsan	Electromechanics
Manufacturing	
ŞEKER	Sugar processing
EBK	Meat and fish processing
TSEK	Dairy products
ÇAYKUR	Tea processing
TEKEL	Tobacco and alcoholic beverages
SÜMER BANK1	Textiles and banking
Yapagil	Wool and mohair
SEKA	Pulp and paper
DMO	Stationary and printing
Tüpras1	Oil refineries
PETKİM1	Petrochemicals
TUGSAS	Fertilisers
CITOSAN	Cement
TDÇİ	Steel
Gerkonsan	Steel construction
MKEK	Machinery and chemicals
Taksan	Machine work-bench
Tümosan	Motor vehicles
Asil Çelik	High quality steel
GEM SAN	Shibbuilding
Mining	
TPAO	Crude oil exploration and production
ETİBANK	Mining, aluminium, banking
KBI	Copper
Cinkur	Zinc and lead
TTK	Coal
TKI	Lignite
Services	Oil pipeline
Botas	Distribution of petroleum products
Poas1	
Transportation	
TCDD	Railway
DHMI	Airport administration
TDI	Seaport administration
D.B. Deniz Nakliyat	Cargo lines
THY1	Airlines
Tourism	
TURBAN	Hotel Chains

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APPENDIX 4: SUMMARY PEEs INDICATORS (1980-1990)

	1980	1985	1990
PEE Share in GDP (with fixed prices of 1968)	11.8	12.6	13.0
PEE Share in GDP (with current prices)	11.4	14.5	13.0
PEE Share in total employment	3.5	4.7	4.1
PEE employment (in numbers) (000)	540	764	797
PEE Share in total investments	36.8	38.3	19.2
Public Sector Share in total investments	61.8	62.7	45.7
Private Sector Share in total investments	38.2	37.0	54.3
PEE BR (Percent of GNP)	-6.4	-3.1	-5.2
Total PSBR (Percent of GNP)	-10.3	-4.6	-10.5
Share of wages and Salaries (Percent of net sales)	20.8	11.7	24.0
Share of interest paid (Percent of net sales)	0.9	3.5	6.0
PEEs duty loss / GNP	1.7	1.6	
PEEs Profit-loss/GNP		4.6	-0.3
Budgetary transfers to PEEs/GNP	3.45	0.65	0.44

Source : SPO, UTFT

APPENDIX : 5 PROFIT AND LOSS ACCOUNT OF OPERATIONAL PUBLIC ECONOMIC ENTERPRISES

Years	Profit	Loss	Net Profit / loss
1980	67	13	55
1981	139	17	122
1982	197	32	165
1983	234	77	156
1984	812	11	801
1985	1.307	32	1.274
1986	1.277	153	1.124
1987	1.505	296	1.209
1988	1.994	836	1.157
1989	2.724	1.621	1.103
1990	3.867	4.787	-920
1991	2.391	20.015	-17.625

Source : Under-Secretariat of the Treasury and the Foreign Trade, *Treasury Monthly Indicators.*

APPENDIX : 6 OPERATING PERFORMANCE OF PEEs

(As percent of net sales)

		1980	1985	1990
1	Nets sales	100.0	100.0	100.0
2	Input cost	78.2	69.5	57.2
3	Value added (=1-2)	21.8	30.5	42.8
4	Wages and salaries	20.8	11.7	24.0
5	Other expenses	0.0	5.8	9.6
6	Subsidies	6.5	5.3	1.9
7	Gross operating surplus (=3-4-5+6)	7.5	18.3	11.1
8	Non-operational revenues	0.0	5.7	5.5
9	Interest paid	0.9	3.5	6.0
10	Cash flow (=7+8-9)	6.6	20.5	10.6
11	Direct taxes	1.3	3.1	1.6
12	Dividends	0.0	0.0	0.6
13	Internally generated funds (=10-11-12)	5.3	17.4	8.4
14	Depreciation	2.0	4.5	8.5
15	Provisions	0.0	0.7	3.6
16	Net after-tax profit (=13-14-15+12)	3.3	12.2	-3.1

Source: Under-Secretariat of the Treasury and the Foreign Trade, *Treasury Monthly Indicators.*

APPENDIX: 7 PROFIT AND LOSS STATEMENT OF PEEs (Billions of TL.)

	1985	1990	1991
Sales of goods and services	9297	76,931	79,315
Other sales revenue	21	549	1,260
Nonoperating revenues	475	3,455	4,658
Total current revenues	9794	80,934	85,234
Costs of goods and services sold	-6753	-50,827	-53,277
Depreciation	-375	-5,341	-7,210
Interest payments	-289	-3,730	-8,427
Provisions	-33	-648	-841
Provision for exch. rate diff.	-29	-1,613	-10,039
Other expenses	-1481	-20,868	-28,787
Total current expenditures	-8961	-83,027	-108.581
Of which: wages and salaries	-973	-15,030	28,895
Operating surplus / loss	834	-2,093	-23,348
Direct taxes obligations	-257	-1,031	-1,395
Operating surplus / loss after tax obligations	576	-3,124	-24,742
Subsidies	0	22	28
After tax available income	576	-3,102	-24,714
Of which: Declared dividends	0	362	0
Retained earnings	576	-3,464	-24,714
Duty losses on goods sold	441	1,151	5,695
Operating surp / deficit, adjusted for accrued duty losses	1274	-920	-17,625

Source: UTFT

APPENDIX: 8 FINANCING OF OPERATIONAL PUBLIC ECONOMIC ENTERPRISES (Billions of TL.'s) **(1980-1991)**

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
TOTAL SOURCES OF FUNDS	716	912	1,148	3,173	5,575	5,789	7,765	13,446	24,740	42,704	63,143	76,516
TOTAL USES OF FUNDS	740	955	1,080	2,999	5,125	5,172	6,506	11,575	22,240	38,574	56,874	77,259
SURPLUS OR DEFICIT	-24	-43	68	174	450	617	1,259	1,871	2,500	4,130	6,268	-743
FIXED INVESTMENT	281	406	533	769	1,171	1,984	2,872	3,316	5,130	6,929	9,861	13,144
FINANCING REQUIREMENT	306	449	465	595	721	987	1,147	1,445	2,630	2,799	3,592	13,887
TOTAL FINANCING	306	449	465	595	721	987	1,147	1,445	2,630	2,799	3,592	13,887
BUDGETARY TRANSFERS	153	230	205	292	239	181	138	446	1,025	1,223	1,265	12,200
STATE INV ESTMENT B. (TURKEXIM)	16	52	52	39	51	28	92	22	0	0	0	0
FOREIGN PROJECT LOANS	83	94	114	155	258	530	758	977	1,605	1,576	2,237	1,688
SUPP. AND PRICE STAB. FUND	31	74	76	108	173	248	159	0	0	0	0	0
OTHER SOURCES	23	0	18	0	0	0	0	0	0	0	0	0
GNP	4,435	6,554	8,735	11,552	18,375	27,789	39,370	58,565	100,582	170.633	287.254	454.838
CHANGE IN SURPLUS OR DEFICIT PREVIOUS YEAR		177%	158%	255%	258%	137%	204%	149%	134%	165%	152%	-12%
CHANGE IN FIXED INVESTMENT PERVIOUS YEAR		44%	31%	44%	52%	69%	45%	15%	55%	35%	42%	33%
SURPLUS OR DEFICIT/ FIXED INVES.	-9%	-11%	13%	23%	38%	31%	44%	56%	49%	60%	64%	-6%
BUDGETARY TRANSFERS/ TOTAL FINANCING	50%	51%	44%	40%	33%	18%	12%	31%	39%	44%	35%	88%
FOREIGN PROJECT LOANS / TOTAL FINANCING	27%	21%	24%	26%	36%	54%	66%	68%	61%	56%	65%	12%
BUDGETARY TRANSFERS to PEEs/ GNP	3.45%	3.50%	2.35%	2.53%	1.30%	0.65%	0.35%	0.76%	1.02%	0.72%	0.44%	2.68

Source :UTFT

APPENDIX: 9: EVALUATION OF OPERATIONAL PEEs (Billions TL's) 1988-1992

	1988	1989	1990	1991
SOURCES OF FUNDS	24,740	42,704	63,143	76,516
USES OF FUNDS	22,240	38,574	56,874	77,259
SURPLUS OR DEFICIT	2,500	4,130	6,268	(743)
PEEs FIXED INVESTMENT	5,130	6,929	9,861	13,144
FINANCING REQUIREMENT	(2,630)	(2,799)	(3,592)	(13,887)
FINANCING:	2,630	2,799	3,592	13,887
BUDGETARY TRANSFERS	1,025	1,233	1,265	12,200
CAPITAL	664	1,024	874	10,248
DUTY LOSSES	350	190	378	1,943
UNREQUITED PAYMENT	11	9	13	9
FOREIGN PROJECT LOANS (FPL)	1,605	1,576	2,327	1,688
PEES BORROWING REQUIREMENT (PEEs BR)	2,691	4,505	15,801	21,201
PUBLIC SECTOR BORROWING REQUIREMENT (PSBR)	6,235	12,162	30,085	65,371
TOTAL PUBLIC FIXED INVESTMENT	11,494	17,351	28,097	47,030
TOTAL FIXED INVESTMENT	24,182	38,304	64,580	102,393
PEEs CONSAOIDATED PROFIT-LOSS	1,157	1,103	(920)	(17,625)
PEEs CAPITAL				
NOMINAL	7,138	11,442	22,341	31,640
PAID	4,307	8,009	11,573	26,732
NUMBER OF EMPLOYEES IN PEEs	612,994	602,571	595,794	561,589
NUMBER OF PERMENANT EMPLOYEES (CIVIL SERVANTS)	76,715	38,276	26,505	15,587
CONTRACTED EMPLOYEES	126,073	167,403	177,161	183,231
TOTAL WORKERS	410,206	396,892	392,128	362,771
UNION MEMBER	300,307	309,474	314,139	279,962
NON UNION M EMBER	38,008	19,739	6,028	14,382
TEMPORARY	71,891	67,679	71,961	68,427
TOTAL EMPLOYMENT EXPENSES	3,075	7,445	15,031	28,895
TOTAL EMPLOYMENT	18,093,000	17,997,000	18,681,000	181,171,000
CONSALIDATED BUDGET EXPENDITURES	21,447	38,871	68,521	130,263
GNP	100,582	170,633	287,254	452,425
SURPLUS OR DEFICIT / GNP	2.49%	2.42%	2.18%	-0.16%
PEEs BR /GNP	2.68%	2.64%	5.50%	4.66%
PEEs BR / PSBR	43.16%	37.04%	52.52%	32.43%
PEEs FIX. INVESTMENT / TOTAL PUB. FIX. INV.	44.63%	39.93%	35.09%	27.95%
PEEs FIX. INVESTMENT / TOTAL FIX. INVESTMENT	21.21%	18.09%	15.27%	12.84%
PEEs FIX. INVESTMENT / GNP	5.10%	4.06%	3.43%	2.89%
FINANCING REQUIREMENT OF PEEs / GNP	2.61%	1.64%	1.25%	3.07%
BUD. TRANS. TO PEEs / GNP	1.02%	0.72%	0.44%	2.70%
BUD. TRANS. TO PEEs / CON. BUD. EXP.	4.78%	3.15%	1.85%	9.37%
FPL / PEEs BR	59.65%	34.99%	14.73%	7.96%
PEEs CONSOLIDATED PROFIT-LOSS / GNP	1.15%	0.65%	-0.32%	-3.90%
PEE EMPLOYMENT / TOTAL EMPLOYMENT	3.39%	3.35%	53.0%	3.09%

Source : UTFT

APPENDIX: 10 FINANCING REQUIREMENT OF PEEs (Billions of TL.) 1985-1991

	1985	1986	1987	1988	1989	1990	1991
Fixed investment	-1708	-2,406	-3,316	-5,130	-6,929	-9,861	-13,144
Change in stocks	-536	-580	-1,351	-2,074	-3,730	-12,159	-13,552
Change in fixed assets	-32	-29	-315	-482	-410	-3	39
Equity in joint venture comp.	-18	-20	-10	2	-53	-68	-21
Legal requirements, funds	-25	-70	-65	-74	-122	-165	-207
Total financing Requirement	-2319	-3,104	-5,058	-7,758	-11,244	-22,256	-26,885
Internally generated funds	1014	1,444	2,004	3,993	5,099	4,495	-6,624
Retained earnings	576	268	360	147	-508	-3,464	-24,714
Depreciation	375	778	1,284	2,316	3,960	5,341	7,210
Provisions	33	47	87	137	243	648	841
Provis. for exchan. rate diff.	29	349	254	1,393	1,221	1,613	10,039
Dividends other than Treasury	0	1	20	0	183	357	0
Finan. requir. from outside sour.	-1305	-1,661	-3,053	-3,765	-6,145	-17,760	-33,510
Budgetary transfers	199	156	470	1,053	1,259	1,394	12,359
Capital	136	36	280	644	1,024	874	10,248
Duty losses	45	102	166	350	190	378	943
Aid	18	18	24	40	44	142	168
Support and Price Stab. Fund	248	159				0	0
Support and Development Fund	-858			20	381	565	949
PEE Borrowing Requirement	799	-1,345	-2,584	-2,691	-4,505	-15,801	-21,201
Deferred payments	-786	961	2,111	2,678	5,547	13,153	24,659
Advence payments	-845	-585	-2,093	-1,948	-3,099	-4,779	-10,407
Cash Financing Requirement	845	-969	-2,566	-1,962	-2,057	-7,426	-6,949
Financing	-171	969	2,566	1,962	2,057	7,426	6,949
Change in cash balances	6	-502	268	-492	-1,178	-500	-931
Domestic bank lending, net	581	583	1,452	666	2,231	5,298	9,450
Central bank	80	6	576	308	0	0	3,829
Commercial banks	510	612	754	305	2,474	5,225	5,606
Eximbank	-9	-35	121	52	-243	73	16
Foreign borrowing, net	430	887	1,282	1,699	964	2,537	-1,570
Receipts	731	1,339	1,912	2,620	3,926	7,032	4,914
Repayments	-302	-452	-630	-921	-2.963	-4496	-6.484
GNP	27,789	39,370	58,565	100,582	170,633	287,254	452.838
PEEs BR / GNP	3,09	3.42%	4.41%	2.68%	2.64%	5.50%	4.66%

Source : UTFT