

**ASSESSMENT OF TARIS OPERATIONS  
AND PRIVATIZATION POTENTIAL  
TURKEY**

REPORT BY

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**CENTER FOR PRIVATIZATION**

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ASSESSMENT OF  
TARIS OPERATIONS AND PRIVATIZATION POTENTIAL  
FINAL REPORT

Prepared for the  
Center for Privatization,  
Washington, D. C.

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PURPOSE OF PROJECT

AND

SCOPE OF WORK

1. BACKGROUND

As a result of prior contacts in 1985 and early 1986 between the General Manager of the Taris Unions of Sales Cooperatives of Izmir on the one hand and USAID/PRE, USAID/NE, the U.S. Embassy in Ankara and the Center for Privatization on the other, it was decided to send a team of privatization consultants to Turkey in April of 1986. The purpose of the consultants' visit was to attend the Turkish-American businessmen Conference in Izmir, consult with Government of Turkey officials attending the conference and have discussions with the management team and staff of Taris.

2. FORMAL DEFINITION OF THE SCOPE OF WORK

AID/PRE sent telex 103745 to the U.S. Embassy COMMATT in Ankara and the U.S. Consulate in Izmir. Language of the telex is reproduced below:

QUOTE:

UNCLAS STATE 103745

AIDAC IZMIR FOR CONSULATE AND ANKARA FOR COMMATT

E.O. 12346: N/A

TAGS:

SUBJECT: TARIS PRIVATIZATION

REF: BAROKAS TURKEY TDY FEB 85; GUR/HAIRE TELECONS

1. PRE PROPOSES CENTER FOR PRIVATIZATION CONSULTANTS RIFAT BAROKAS AND JEAN CROUZET INITIATE TARIS PRIVATIZATION ACTION BY TRAVEL TO TURKEY COMMENCING O/A APRIL 4 FOR INITIAL PERIOD THREE WEEKS WHICH INCLUDES ATTENDANCE CONFERENCE APRIL 5-9 IN IZMIR; CONSULTATION WITH GOVERNMENT OF TURKEY (GOT) OFFICIALS ATTENDING; DISCUSSIONS ON TARIS.

2. BAROKAS AND CROUZET SCHEDULED TO ARRIVE IN IZMIR O/A APRIL 5 TO ATTEND CONFERENCE AND CONSULT WITH GOT OFFICIALS APRIL 5-9, REMAINDER OF STAY WILL FOCUS ON TARIS. SCOPE OF WORK WILL INCLUDE:

"-----A. DEBRIEFING AND PROGRAM ASSESSMENT BY TURKS FROM THE OFFICE OF PRIVATIZATION IN THE PRIME MINISTER'S OFFICE WHO PARTICIPATED U.S. ORIENTATION PROGRAM IN WASHINGTON AND NEW YORK.

-----B. DEBRIEFING OF TURKISH PARTICIPATION ON INTERNATIONAL PRIVATIZATION CONFERENCE.

-----C. PLAN THE ACTIVITIES FOR IMPLEMENTATION OF TARIS PRIVATIZATION.

-----D. REVIEW STATUS OF OTHER ON-GOING AND POTENTIAL PRIVATIZATION EFFORTS.

-----E. PREPARE REPORT ON ACTIVITIES CARRIED OUT DURING VISIT.

3. ASIA/NE BUREAU FINANCING TARIS PRIVATIZATION BY INCREMENTAL FUNDING (QUOTE BUY IN UNQUOTE) OF THE PRE BUREAU'S PRIVATIZATION/DIVESTITURE CONTRACT IN CONFORMITY WITH APPROACH DISCUSSED BETWEEN GUR OF USCOMATT, TARIS PRESIDENT BUDAKLAR AND PRE CONSULTANT BAROKAS IN FEBRUARY.

4. ACTION REQUESTED: ADVISE ASAP ACCEPTABILITY ABOVE PROGRAM, ATTN: PAUL HAIRE, PRE BUREAU; COUNTRY CLEARANCE; AVAILABILITY GOT AND TARIS OFFICIALS FOR ABOVE PURPOSES. IF APPROVED, REQUEST RESERVATIONS BE BOOKED IZMIR EFES HOTEL 2 SINGLES AT GOVERNMENT/CONFERENCE RATES FROM APRIL 5-20 INCLUSIVE.

DRAFTER: PRE/PD:PHAIRE; APPROVAL: PRE/PD:HWENGER.  
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3. REMARKS

All of the above tasks were performed. The GOT officials who participated in the International Conference for

Privatization in Washington and the subsequent orientation program in New York last February were available. Discussions took place with three members of the group in Ankara and one member in Istanbul. Of the two government officials who represented Mr. Vahit Erdem at the AID privatization conference, only Mr. Mehmet Bilgig was available. The four individuals who attended the two week orientation program in Washington, D.C. and New York City, reiterated the short time available for the orientation and the paucity of information experienced in privatization. Furthermore, the certificates intended for these GOT officials had not been received by the U.S. Embassy.

EXECUTIVE SUMMARY

## Major Recommendations

- (i) The key to the future of the 431 agricultural sales cooperatives owned by 600,000 members and their 22 unions in Turkey lies in the expression of a formal government commitment to lessen the politicization of the cooperatives and the burdensome controls exercised by MOIC and TAB. A decree by the Prime Minister or the Council of Ministers to the effect that the Government is intent upon the strengthening of the decision making authority of the agricultural sales cooperatives would enable them to bring their operation to their full potential within and without the price support scheme for agricultural production. Such a commitment should be expressed quickly (i.e., within the next 3 to 6 months) to respond to the genuine operating needs of the agricultural sales cooperatives and alleviate some of the potential shocks to the Turkish agribusiness the system is likely to feel when the country joins the Common Market. Because of its overall sound financial position and leadership role in the regional and national agricultural sector, Taris should initiate discussions shortly with the Government and members of Parliament. Hopefully a new and less restrictive cooperative law will be enacted in the first six months of 1987.
- (ii) The replacement of the current structure of the Taris union with four distinct legal entities and shared management functions with a federated system of unions and cooperatives. Such a structure would be responsive to the need for Taris to consolidate its operations and increase their efficiency, especially in the areas of financial management, personnel costs and elimination of underutilized assets. Such a structure would be quite similar to that of large cooperative organizations in the United States and Western Europe. Such a structure could be implemented within three to six months following the enactment of the new cooperative law.
- (iii) The reaffirmation by Taris management of its commitment to upgrade the quality of services to grower members and to improve overall operating efficiency with a view to obtaining a higher return on Taris integrated activities. The consultants have identified nine major areas for the restructuring of Taris operations, namely:

- Increase of paid in capital through members contributions based on a percentage of their sales without any ceiling;
  - Policy formulation for the proper distribution of processing profits to grower members consistent with statutory reserve requirements and Taxis financing needs;
  - Audit of the financial statements of all cooperatives by a reputable international CPA firm;
  - Upgrading of extension and other services provided by Taxis headquarters in Izmir to member coops and grower members;
  - Elimination of underutilized assets and reduction of operating costs (especially personnel and energy) with a view to improving Taxis return on assets;
  - Focus on marketing aimed at new product development (figs, raisins) and at a higher penetration of the domestic and international market places;
  - Upgrading of processing and production technology and quality control procedures;
  - Establishment of a management information system integrating general and cost accounting, financial data and other key management indicators;
  - organization building based on clearly defined job descriptions and manageable spans of control together with human resources development.
- (iv) The consultants agree with Taxis higher management upon the desirability of joint venture agreements with qualified offshore business partners to upgrade and broaden Taxis capabilities. The plan for the restructuring of Taxis activities will require an intensive and multi-disciplinary planning effort.
- (v) The level of effort required for the passage of new legislation, the adoption of a federated structure of cooperative unions and the design of a comprehensive plan for the restructuring of Taxis operations would call for the contribution of chartered accountants and eight other local professionals. These professionals would include two legal attorneys and six expatriate specialists in finance, as well as experts in finance, marketing, production, extension services and human resources under the leadership of a team leader. Such a level of effort has been estimated at 33 person/months equivalent to US\$377,000. Further details are available in Table 2, Section IV.

At a minimum, the preparation of the new legislation would require 5 person/months of local legal counsel and expatriate experts in corporate finance and agricultural economics. The total cost including travel and per diem expenses as well as 10 percent contingency has been estimated at US\$77,000. This technical assistance effort does not include any time estimate for Tavis higher management. If the preparatory work for a new cooperative legislation is to succeed, it will require the full cooperation and backing of Tavis management.

SECTION I

ASSESSMENT OF TARIS

Section I - Assessment of Taris

The industry enterprise checklist provided by the Center for Privatization was modified in order to fit the specific situation of the Taris Cooperative Unions.

A. Introduction

Taris is an informal conglomerate of four distinct unions regrouping 106 agricultural sales cooperatives with a combined membership of 85,000 members growing cotton, lives, figs and raisins which rank among the major crops of the Aegean Region. The unions are engaged in the growing, processing and marketing of these crops and derived products (e.g., yarn, lint, vinegar, alcohol, margarine, soap and detergents) within and without Turkey. Taris products enjoy a quality image in the domestic and international markets. Although each union is legally independent and has its own Board of Directors, certain management functions are centralized at the Izmir headquarters, namely a joint general manager appointed by the Ministry as well as legal and accounting services, agricultural external staff, personnel, input purchasing, import and export departments. Even though the Taris conglomerate is the third largest agricultural sales organization in Turkey in terms of membership, it has the highest sales turnover (US\$100 million per year). Taris - like other cooperative unions also acts as the agent of the Turkish Government to buy crops at support prices established by the Government. As such, Taris activities are closely monitored by the Ministry of Commerce and Industry, the Turkish Agricultural Bank and the Office of the Undersecretary for Treasury and Foreign Trade as specified under the Cooperative Law No. 3185 of May 1985. The foregoing illustrates the complexity and diversity of Taris activities spread over 64 locations, 25 processing plants and several investment positions in banking, insurance and other subsidiaries.

B. Economic Viability

1. Profitability Track Record: The Cotton Union is by far the largest Taris cooperative. It is profitable, thanks to the earnings generated by the cotton yarn and the margarine/detergent complex which are consolidated into its financial statement. Even without the assist of these earnings, the activities of the cooperative union for FY 1984 would have been profitable and would have shown a

return on assets of 10 percent. Further, if the price support system for cotton had been eliminated in 1984, the Cotton Union would have been self-sustaining and its profitability could have been improved through the elimination of idle assets and the increase of paid up capital. If this was possible, it would result in a lesser reliance on short term credit and reduced financing charges.

The condition of the Olive Oil Union is also a sound one. In FY 1984, in spite of a substantial loss on price support transactions, the Union was able to show a 42 percent return on assets. This is due to the strong domestic demand for olive oil coupled with the exports of refined oil and black olives. Over the past two years, there has not been any price support transaction for olive oil and related products. The profitability of the Union may be further improved by personnel cost reductions and the liquidation of older and less efficient pressing facilities.

The condition of the Figs Union exhibits sign of commercial strain. There exists an oversupply of figs which is encouraged by the price support system. Since the domestic and international demand for dried figs is stagnant, the Union is forced to use a high proportion of quality figs for the production of lower-priced eau de cologne and alcohol. The market for fig paste still remains to be tapped. Additionally, the Union has been affected by the high cost of short term borrowings. Thus, operations were unprofitable in FY 1984. The Union was still liquid and did not use its borrowing capacity but its long term viability outside the price support system was questionable.

The Raisins Union is in the worst situation. As recently as 1976, additional land was allocated to the growing of raisins and since then production has been increasing in the U.S. and Australia while the potential for increased exports to the EEC has been decreasing as a result of Greece's participation in the Common Market. At the same time, the Government has maintained high support prices. Private traders have been able to offer more attractive payment to growers who have sold Taxis a large quantity of lower quality raisins. These had to be stored by the Union and Taxis incurred additional storage and waste costs. The Raisins Union has made an effort to reduce its processing costs, especially in the area of personnel expenses but its processing capacity is not fully utilized. Thus, the Union has been unable to generate any profit for many years and it has been forced to operate with a negative working

capital and a depleted capital base. Consequently, the future of the Raisins Union remains cloudy. Support prices should be adjusted to more realistic levels and the scale of Tavis activities should be brought down while at the same time major efforts should be devoted to the promotion of new export markets (China, USSR and others) and/or new products.

Even though no consolidated financial statement of the Tavis Unions is required, the consultants have attempted to prepare a "consolidating" profit and loss statement and balance sheet for the Tavis conglomerate as a whole. In the absence of an audit which would make it possible to eliminate inter union transactions, only a "consolidating" as opposed to a "consolidated" statement may be prepared. This statement is shown in Table I. This statement indicates that even in spite of the combined impact of high financing charges, substantial losses for the Figs and Raisins Union and excessive assets, the Tavis conglomerate would have shown a modest profit corresponding to 5, 4 and 7 percent return on sales, assets and equity respectively in Fiscal Year 1984. Furthermore, the conglomerate would have been liquid and would have been able to generate additional long term debt. This approach is not inconsistent with reality. Although no Tavis conglomerate exists in a formal or legal sense, the operations of the four unions are closely intertwined. A number of assets are owned on a joint basis, field office expenses are shared and inputs are stored and handled for all cooperatives. Further, less than 5 percent of the grower members at the sales cooperative level grow only one crop. Thus, the consolidation of the financial results of the four unions for Fiscal Year 1984 makes sense and demonstrates that the Tavis conglomerate would have been a viable organization.

Table I

Summary Financial Performance Indicators  
for Taris Cooperative Unions - Fiscal Year 1984

(All amounts in 10. or 100,000 TL)

	<u>Raisins</u> 6/29/84	<u>Cotton</u> 7/31/84	<u>Figs</u> 6/29/84	<u>Olive Oil</u> 6/29/84	<u>"Consolidating"</u> FY 1984
<b>1. <u>EARNINGS</u></b>					
-Earnings on Market Price Transactions	50.6	4786.3[1]	233.5	49.4	5120.3
-Earnings on Price Support Transactions	(3673.0)	1338.5	(2364.5)	846.6	(3852.4)
-Total Earnings (Loss)	(3622.4)	6124.8[1]	(2131.0)	896.5	1267.9
<b>2. <u>SALES REVENUES</u></b>					
-Market Price	638.5	1399.2	848.4	1060.1	3946.2
-Support Price	5092.9	9054.4	1833.9	6913.3	22894.5
-Total Revenues	5731.4	10453.6	1682.3	7974.4	26840.7
<b>3. <u>Assets [2]</u></b>					
-Current	1783.8	23549.6	1001.7	1006.5	27341.6
-Fixed	1163.0	4611.8	629.8	1122.8	7538.4
<b>4. <u>LIABILITIES [2]</u></b>					
-Current	3528.7	11255.5	642.6	1037.1	16463.9
-Long Term	3211.9	2052.1	488.2	646.5	6398.7
	316.8	9203.4	154.4	390.6	10065.2
<b>5. <u>NET WORTH</u></b>					
	(581.9)	16905.3	988.9	1103.2	18415.5
<b>6. <u>RATIOS</u></b>					
-Current	0.56	11.50	2.05	1.56	4.27
-LTD/Net worth	Infinite	0.54	0.16	0.35	0.55
-Return on Sales	Negative	0.59	Negative	0.11	0.05
-Return on Assets	Negative	0.22	Negative	0.42	0.04
-Return on Equity	Negative	0.36	Negative	0.81	0.07

Table I  
(Cont'd)

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7. SALES TURNOVER

Relative to:

-Total Assets	1.94	0.37	2.64	3.73	0.77
-Fixed Assets	4.93	2.27	4.26	7.03	3.56
-Current Assets	3.21	0.44	2.68	7.93	0.98
-Working Capital	Infinite	0.49	5.23	22.15	1.28
-Net Worth	Infinite	0.62	2.71	7.23	1.46

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- Notes: [1] includes 3,423.2 TL of earnings from cotton yarn and margarine/detergent complex.  
 [2] Excludes "Regulating Accounts" covering off balance sheet items such as contingent liabilities, etc.
- 

Source: Based on Financial Statements provided by Taris Agricultural Cooperative Societies

2. Price Support System: Each year the Government publishes a decree in the T.C. Resmi Gazete (official record) which guarantees prices for certain crops. Sales cooperatives are obliged to buy these products at the support price level from members as well as non-members. Naturally, the market price may or may not coincide with the actual market price. If losses are incurred as a result of lower market prices, they will be borne by the Government. Conversely, if the market price exceeds the support price level, a profit will ensue but the use of such earnings will remain at the discretion of the Government rather than the sales cooperative. In addition to raw cotton, dried figs and raisins, Taris has been requested by the Government to purchase soybeans and sunflower seeds for crushing as well as industrial figs and crude imported vegetable oil. Only purchases of olive and olive oil have fallen outside the scope of support prices over the past five years.

Support price transactions impact significantly upon Taris' operations. Sales revenues derived from the sales of Taris products under support prices account for no less than 85 percent of the total sales revenues for the Taris conglomerate. Further, these large transactions have increased the dependence of the Taris unions on lines of credit required for the trading of support prices commodities and products. This growing dependence on price support purchases and credit facilities provided exclusively by the Government owned Turkish Agricultural Bank has resulted on a tighter control of the Taris Unions and other cooperative organizations by the Turkish Government. Additionally, support prices have distorted the relationship between the supply and demand of several agricultural products. Not only are support prices determined independently from true production costs and/or international prices, but they have been the cause of oversupply in the case of raisins and figs for diversion of better quality products by growers and coop members to private traders rather than agricultural sales cooperatives. This has proved true for figs and raisins due to the lower level of support prices as compared to actual market price and/or the ability of private traders to grant more attractive payment terms.

3. Market Share (Turkish Market): The Taris Cotton Union is one of the key market participants in the Aegean region and in the nation. Over the past 6 years, Taris has purchased between 165,000 and 210,000 tons of cotton or

approximately 60 percent of the cotton grown in the Aegean region and one third of the national production. Taris accounts for 50 percent of the total ginning capacity installed by the cooperatives in the country (365,000 tons). The cotton yarn factory with 100,000 spindles and an annual production capacity of approximately 17,500 tons is reported to be the most modern in Turkey. The output consists of carded, combed, open-end and hosiery threads. Over the past four years, the output of the yarn factory has been sold mostly to the fast growing local textile industry which exports its products around the world. Taris is also a major factor in the national production of margarine. The Taris factory, with a stated capacity of 45,000 tons/year, exceeds that of the Trakyabirlik Union (30,000 tons). Finally, Taris is the only cooperative union to produce soap and detergents with stated capacities of 5,000 and 7,800 tons/year respectively.

Approximately 5,000 tons of local olive oil are purchased by Taris every year from members and non-members. This corresponds to 20 percent of all the olives harvested in the country. Taris crushing facilities include obsolete and state of the art equipment. Taris also imports crude oil whenever the local supply is insufficient to meet the local and occasional export demand. The crude oil is subsequently refined at the Izmir plant and then packed for shipment. Based on the current situation, Taris management estimates that the Taris Olive Oil Union markets approximately 20 percent of the olive oil sold in Turkey. Additionally, Taris markets black olives. Taris olive oil and black olives are reported to enjoy a quality image on the local market and command a slight premium over other brands.

The Taris Figs Union buys between 16 and 20,000 tons of dried figs each year from members mostly and also from non-members (85 percent). These purchases correspond to 80 percent of all the figs currently bought in Turkey under the Government price support scheme. Approximately 7 to 10,000 tons of higher quality figs are processed for export at the central fig plant and three smaller plants with a combined capacity of 20,000 tons. The balance is processed in the industrial alcohol and eau de cologne factories. Although Taris appears to enjoy a dominant share in this market niche, its processing capacity is not fully utilized.

The Taris Raisins Union buys 22,000 tons of Sultana raisins, or 80 percent of all the raisins currently bought

in Turkey under the government price support scheme. Taris' modern processing plant located in Alasehir has a production capacity of 40,000 tons which is not fully utilized. Taris exports an average volume of 10,000 tons per year, leaving a balance of 12,000 tons for the domestic market. In addition to sales of raisins on the local market, Taris markets vinegar and juice concentrates. Taris enjoys a very strong market share for these products and uses practically all of its processing capacity (11,000 tons for vinegar and 400 tons for concentrate).

4. Export Market Potential: Although exports of baled cotton and olive oil have decreased dramatically since the early 1980's, Taris total exports for Fiscal Years 1983-1984 amounted to U.S.\$37 million. As such, Taris accounted for at least 30 percent of all the products exported by Turkish agricultural sales cooperatives and 2 percent of all agricultural exports from Turkey.

Taris exports of cotton products are likely to decrease further. Exports of cotton products which were US\$13 million in 1983-1984 are likely to register another reduction as a result of the rapid growth of the Turkish textile and garment industry which will require all the cotton yarn produced locally. Exports of by-products such as cotton waste, linter and waste will remain minor.

Taris exports of olive oil used to be substantial export earners (US\$22 million in 1980-1981). However, they dropped to less than US\$17,000 in 1983-1984. One of the consequences of the termination of the support price for olive oil has been the reduced availability of olives for crushing which has required the importation of crude oil from Italy. Export demand is weak and Turkey must face competition from Italy, Spain and Tunisia, which virtually closes the EEC countries to Turkish olive oil. To date, promotion efforts have not succeeded in opening the U.S. market. Taris has become essentially oriented toward the high priced domestic market and exports occupy a distant second place. The only significant export market for refined oil at this point is the USSR.

Exports of figs and related products have averaged US\$5 million over the past four years. Taris exports of dried quality figs have remained stagnant. The European Common Market countries still account for the bulk of Taris offshore sales. In addition to the additional sales likely to result from Turkey's eventual membership in the EEC

community, export shipments may be increased with the promotion of fig paste which is increasingly used by food companies in Europe and North America.

Taris' export of raisins which amounted to US\$14 million in 1983-1984 have registered wide fluctuations between an all time low of US\$3.2 million in 1984-1985 and a record high of US\$37.3 million in 1978-1979. Although the EEC has established maximum prices for the import of raisins, Taris has been able to maintain a high level of exports to Europe which absorbs 50 to 60 percent of Turkey's production and open new markets such as the USSR and China. An additional potential is reported to exist within neighboring Arab countries.

If Taris is going to maintain a fairly high level of exports, it will have to diversify into textile activities (plans are underway) and promote the exports of its other products more aggressively. The impression left with the consultants was that Taris export activities are affected by an inadequate knowledge of the international market place and by a lack of promotion. Additionally, Taris' freedom of action is limited due to its adherence to seasonal prices officially approved by the Board of Directors. Finally, Taris is obliged to handle all transactions through letters of credit and/or cash against documents even with customers of long standing. These various practices which meet legal and other requirements are not adapted to the commercial realities of international trade.

5. Plant Productivity: Plant productivity has a definite potential for improvement. The consultants observed several redundant production facilities within the Oil and Cotton production belts. For instance, Edremit, Burhaniye and Ayvalik, which are separated by a total distance of less than 50 kilometers, are equipped with 3 storage facilities and 2 processing plants for crude olive oil. The processing capacity in the area is used at an average rate of 50 percent. The same situation was observed in the Soke-Aydin cotton producing area. The sawginning equipment in Aydin with a capacity of 40,000 tons produces only 22,000 tons. The roller and sawginning equipment at Soke with a total capacity of at least 70,000 tons per year only processed 25,000 tons in 1985. Yet, the two facilities are separated by an approximate distance of 70 kilometers. The new raisin processing plant with a capacity of 40,000 tons per year will not be used beyond 55 percent for the

foreseeable future. In addition to the redundancy and underutilization of production capacities, the condition of processing facilities varies very widely. This diversity was evidenced clearly, especially in the case of the olive oil production facilities where the level of technology ranged from 60 year obsolete and cost inefficient to state of the art equipment yielding higher grade products. Finally, even in the case of the cotton yarn factory which is well run and highly profitable, management conceded that substantial savings could be obtained from a stricter programming of electric energy (13 percent of the cost of goods sold) and the installation of power generating capability.

6. Infrastructure: The Taris plants and field offices are all connected to the national power grid system. Although occasional power failures occur from time to time, plant managers consider the source of power reliable and adequate. Further, all of Taris installations are connected by telephone. Of the 14 locations visited by the consultants, only one (Ortaklar) was reported to suffer from poor connections and obsolete telephone equipment. Transportation does not pose any special problem. Roads are good and most Taris locations are accessible by rail and by road. Taris uses rail transportation for its exports to the Russian border where products are transshipped on truck and/or railroad cars.

### C. Highlights of Taris Organizations

1. Role of Government: Under Cooperative Law No. 3186 of 1985, although agricultural sales cooperatives and their unions are owned by their members and/or their member cooperatives, they are subject to the control of the Turkish Agricultural Bank (TAB), the Ministry of Commerce and Industry (MOCI) and the Office of the Undersecretary for Treasury and Foreign Trade (UTFT). Cooperative members select representatives to unions and the representatives elect four members to the Board of Directors and two members to the Board of Controllers. At the union level, in addition to the elected directors and controllers, the government appoints the general manager and board chairman plus three government appointed directors (MOCI/TAB/UTFT) and two government appointed controllers (MOCI/TAB). Directors and controllers may be removed at the discretion of the government in case of non-compliance with the law and/or the contract establishing each union. In case of conflict, MOCI's interpretation and decisions are final and

binding. The government also exerts a tight control over day to day affairs. For instance, the limit of the authority granted to the Board of Directors and the general managers for any type of expenditure is equivalent to US\$2500. Foreign travel authorizations for second line managers and/or the removal of one olive tree require MOCI approval and the permission of the Ministry of Agriculture and Forestry which prohibits the cutting of a wide variety of trees. This excessive control has no doubt a detrimental impact on operating efficiency and the motivation of management at various levels within the organizations. It should be noted that of the 32 articles of the Cooperative Law, no less than 25 are strictly restrictive and identify government controls of day to day operations in great detail.

2. Staffing/Organization/Management: No formal official organization chart was made available to the consultants. Taris conveys the impression of a highly centralized organization. The decision making process is concentrated within the Board of Directors and the General Managers. Contrary to prior General Managers, the current one effectively delegates some authority to his two assistant general managers. However, delegation at the Department Manager's level is not apparent and responsibilities are not defined in a formal manner. Further, inter-union and inter-departmental communications appear to be limited. This point was illustrated during the consultants' presence at Taris when a meeting of all the crop managers of each union was convened in the same room. This was a very rare occurrence, if not a precedent. Participants expressed the view that such meetings making a meaningful exchange of ideas possible should be held more often.

Current management appears to be focusing its attention principally on agricultural production, processing and relations with the Government. This is not surprising in view of the training and experience of the general management team consisting mainly of engineers and the necessity to cope with the numerous layers of government controls and requirements. At the same time, the Taris organization presents many of the symptoms of "marketing myopia" such as limited knowledge of the market place(s), exaggerated conception of product quality and uniqueness, limited promotion and public relations, lackadaisical performance of sales agents in Turkey and abroad, etc.

Although the consultants have emphasized several weaknesses of the Taris organization, it is appropriate to note some real strengths. In spite of an inadequate level of compensation and rewards, the Taris staff in Izmir and the field is highly dedicated and have developed a strong sense of cooperative identity. Another positive element is the awareness of inadequate compensation at all levels on the part of the General Manager. Although his freedom of action is limited, he has actively promoted the training of first and second level managers. It should be emphasized that the current management team has acquitted itself well in resolving the issues and problems which had accrued prior to fiscal year 1983-1984. During eight years, there were no general assemblies and/or board meeting of the agricultural sales cooperatives due to political reasons which prevented the election of representatives by cooperative members and the election of directors to the unions board of directors and controllers.

3. Dependability of Accounting Records: Although day to day business went on as usual between 1976 and 1984 under the guidance of several Government appointed general managers (one is reported to have had a tenure of 27 days), and although accounting records were kept and subjected to minute controls by the Government, there was no formal approval of the accounts of the agricultural sales cooperatives and their union by their respective directors and controllers and general assemblies. Over the past thirty months, the current management team has regularized the situation. In spite of their compliance with official government procedures, these statements are of limited value from a management standpoint. Further, some of the accounts may be questioned. For instance, the provision of uncollectible accounts of the cotton union has remained constant at an infinitesimal level in spite of the increase in the level of receivables. This would suggest that the receivables account is overstated and/or includes many items of dubious collectibility. Another important issue which remains to be resolved is that of cross arrears involving Taris and the Turkish Government. The Turkish Government has alleged that the cotton yarn factory was financed not only by the initial capital contributions of the unions and their members plus undistributed profits, but also by unpaid loans to the Cotton Union by the Turkish Agricultural Bank. It is clear that only an independent audit will resolve this delicate issue. In the meantime, available financial statements should be read and interpreted with caution.

D. Need for Increase in Paid Capital

The group of Taris cooperative unions represents the most influential cooperative organization in Turkey. The sound condition of the Taris Group is the key to its survival and further growth and profitability. In addition to the need for the elimination of obsolete and/or uncollectible assets and the exact determination of cross arrears involving the Taris unions and the Turkish Government, the paid-in capital of the unions which is extremely low would have to be increased substantially. The new cooperative law provides that coop members shall invest 3 percent of their annual sales up to a maximum amount of 500,000 TL and that coops will in turn increase their equity investment in their respective union by a like amount. This represents a potential aggregate equity contribution of TL42.5 billion or US\$70.8 million of which TL26 billion would accrue to the cotton union, TL7.2 billion to the raisins union, TL5.6 billion to the olive oil union and the balance of TL3.6 billion to the figs union. If and when this new equity investment is fully paid, Taris could easily finance its expansion/diversification plans, reduce its dependence on long and short term loans and significantly improve its profitability through the elimination and/or reduction of interest charges. Two unions (cotton and olive oil) will probably be able to increase their paid in capital in this fashion within the next five years and at the same time meet most of their funding needs and comply with their contractual requirements for allocating their profits between statutory reserves and funds and returns to their members. However, the two other unions will face a much more difficult situation, especially the raisins union if current trends continue.

SECTION II

CRITICAL ISSUES

Section II - Critical Issues

The current situation reflects five critical issues:

- (i) The uncertain future of the agricultural sales cooperatives in Turkey;
- (ii) Government controls versus operating freedom for the agricultural sales cooperatives;
- (iii) Timing of legislative reforms;
- (iv) The need to identify the structure best adapted to defend the interests of all Taris unions and cooperatives; and
- (v) The need for restructuring Taris operations.

1. The uncertain future of the agricultural sales cooperatives in Turkey. There are 22 cooperative unions regrouping 431 agricultural and sales cooperatives with a membership of 600,000 growers. Thus, the cooperative movement has a widespread and firm foundation. One of the cardinal principles of agricultural cooperatives is the right of members to benefit from common services such as purchasing of inputs and agricultural extension, to market their crops more efficiently and to share in the profits of integrated processing operations on the basis of the initial capital investment and their on-going activities within the cooperative. Conversely, members are expected to share in the losses of the cooperative. It follows that agricultural sales cooperatives are legally owned by their grower members and in turn cooperative unions are legally owned by their member cooperatives.

However, these principles have been violated frequently in the history of Turkish cooperativism which started at the end of the last century. Services to members have been limited or of uneven scope. Member loyalty is frequently breached and a significant proportion of grower members market their crops to private traders rather than to Taris who is compelled to buy lower grade products at support prices. At the same time, traders buy higher grade products from coop members at premium prices and/or under more attractive payment terms. This lack of loyalty has been caused by the deterioration of the value of the members' initial capital contribution reflecting the rate of inflation and the determination by the government not to

distribute accumulated earnings to unions and their member cooperatives. Thus, cooperatives and their members have not been able to share in the earnings of profitable operations such as the cotton yarn and other processing facilities. Over the past two years, the Government has promoted the concept that the cotton factory - a subsidiary of the cotton unions owned by the members of the Cotton Agricultural Sales Cooperatives - should be privatized and that a significant but minority share of the capital stock should be sold to outside private investors. Although majority ownership would belong - initially, at least - to the Taris Cotton Union, cooperative members have been unhappy about this proposal which they consider unfair and contrary to their legal rights. They are also worried that the decision making power would eventually shift to investors outside the cooperative movement. According to Temporary Sub-Article No. 3 under Article 30 of the Cooperative Law of 1985, the Ministry of Commerce and Industry can for a period of two years following the date of publication of the law "identify those industries and factories which belong to unions and cooperatives which would benefit from the sale of their stock and would become separate corporate entities provided that the rights of the members are fully protected". Thus, the pressure to further "privatize" privately owned assets and activities legally owned by cooperative unions and the individual members of their agricultural sales cooperatives by selling capital stock to outside private investors - is a real one. The consultants are of the opinion that such a change of ownership would be contrary to the long term interests of the agricultural sales cooperatives in Turkey even though the issue of new stock to outsiders would yield in the short term the working capital required for the smooth operations of such plants and factories. However, the issuance of stock to outsiders would be redundant since cooperatives unions and their member cooperatives have been mandated by the new cooperative law to increase their capital in an amount equivalent to 3 percent of the members' annual sales to the agricultural sales cooperatives. At any rate, it would seem appropriate to expect that the agricultural sales cooperatives and their unions would be consulted formally prior to any decision regarding the future of the integrated processing facilities which they legally own.

2. Government Control versus Operating Freedom for the Cooperatives: The price support scheme and the obligation of Taris and other agricultural sales cooperatives in

Turkey to purchase all agricultural commodities grown in their region from members and non-members, coupled with the necessity to borrow short-term funds for such operations have resulted in the politization and absolute control of the operations of the cooperatives by MOCI and TAB. At the growers' level, this long reliance upon guaranteed prices and outlets has generated a total dependence on the government subsidy program for their livelihood. Many raisin and fig growers are mentally conditioned to think that support prices are necessary. For the other crops grown in the Aegean, the psychology of the grower (cotton, olive) is very different and shows the willingness to accept risks and rewards associated with a laissez faire system. The recent experience of the Olive Oil Union of Cooperatives demonstrates that controls of day to day operations are substantially relaxed as soon as dependence on support price ends and that a limited operating autonomy is possible. Actually, an intermediate position should be mentioned although it would represent a radical change from the tradition of cooperativism in Turkey. Although government price support systems exist for dairy and other products in Holland and the United States, it is possible for such cooperatives as Land O' Lakes to operate relatively freely and be subjected to reasonable controls for the accounting of price support programs and income tax determinations. The revision of the current cooperative law is a must. Already, its constitutionality is challenged by the opposition. If agricultural cooperatives are going to play an important role in the growth of Turkish agriculture, they must be allowed to operate in an environment of laissez faire and reasonable but limited regulatory controls by the Government. The consultants have emphasized to Taris management the need for a strong signal by the Government (e.g., a decree by the Prime Minister or the Council of Ministers) that it is intent on lessening political interference and the burden of administrative controls and, at the same time, strengthening the decision making authority of the agricultural sales cooperatives and their unions.

3. Timing of Legislative Reform: The time frame for the replacement of Cooperative Law No. 3186 by less restrictive legislation is deemed to be approximately one year. The new legislation would have to be based on sound business and management principles. It would also require a concerted preparatory effort at the level of specialized Parliamentary Committees and at the level of representatives from agricultural districts. The need for

quick action is obvious. First, the new legislation should be passed before the end of Calendar Year 1987 when Members of Parliament and government officials start preparing for the next general election in the Fall of 1988. Second, the timely passage of this new legislation reflects the sense of urgency in preparing the Turkish agribusiness production and distribution systems to the potential shocks of the expected full participation of Turkey in the Common Market within the next 3 to 5 years. Thus, time is of the essence. The consultants believe that the Taris unions and member cooperatives who are a leader in the cooperative sector should take the initiative and play the role of catalyst in the reform of Cooperative Law 3186 and the depoliticization of agricultural sales cooperatives.

4. Identification of the Structure Best Adapted to Defend the Interests of Taris Unions and Member Cooperatives:

Once the legislative process is underway and Taris management feels reasonably confident that the legislative reform process will indeed result in a less controlled operating controlled environment, special attention should be paid to the future structure of Taris. At present, the coordination between the four Taris unions is limited to a number of centralized management functions. However, the four unions pursue different strategic aims. The existing structure is not necessarily in the best interests of the members of the Taris agricultural sales cooperatives. Growers often belong to more cooperatives. Although cotton growers (55,000) tend to pursue monoculture, other grower members often grow two or more crops including cotton. The number of members devoted exclusively to the monoculture of figs, raisins and olives is estimated at less than 10 percent of the total Taris membership. The polyvalent activities of an important number of Taris grower members raises several major issues. Their resolution will have a significant impact on the future structure and mission of the Taris organization, namely:

(i) Should the defense of Taris member's rights and interests continue to be entrusted to four separate unions and their directors and controllers?

(ii) Should this responsibility be rather undertaken by a federation of unions with a distinct board of directors selected from the unions' directors?

(iii) Which specific strategic gains would be achieved by establishing a federative or global approach?

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(iv) To what extent should the strong unions (cotton, olive oil) subsidize the weaker ones (figs and raisins)?

(v) Should the Taris federation be role structured as a cooperative organization or a corporate holding conglomerate?

(vi) Should the Taris unions be structured as cooperative organizations or as a corporation (Anonim Sirket)?

(vii) Should the Taris agricultural sales corporations be structured as a cooperative organization or as corporations (as would be the case for the larger ones) or limited liability corporations (as would be the case for smaller ones)?

The consultants have reviewed the above mentioned options and have concluded that the most effective structure for the defense of Taris members would be the federated system of unions and agricultural sales cooperative which exist in Holland, Germany and the United States. The implication of this approach would require an independent audit of each union and a legal input for the capitalization of the proposed federation and the preparation of a draft contract between the Taris federation and its four component unions.

5. Restructuring of Taris Operations: Following the passage of a less restrictive cooperative legislation, it will be possible to proceed with a comprehensive restructuring of Taris operations. If Taris is going to fully realize its growth and profit potential, it must combine the profit motive and the management techniques of the private sector and, at the same time, improve the scope and quality of its services to its members. The planning phase of such a restructuring should be essentially completed within the next 6 to 9 months. The specifics of the plan for the restructuring of Taris operations as envisioned by the consultants would consist of four major components, namely:

- (i) Increasing the capital base;
- (ii) Improving return on assets;
- (iii) Upgrading technology; and
- (iv) Organization building and human resources development.

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The increase of the capital base has already been discussed (see Section I - D). The new cooperative law should provide that the additional capital contributions by members be based strictly on a fixed percentage of sales without any stated ceiling. This provision combined with the freedom given to the unions and cooperatives to distribute a reasonable share of profits after the proper allocation to statutory reserves and funds would generate adequate funds to broaden Taris' capital base over the next five years.

The potential to improve the return on assets is a real one. The restructuring plan should focus specifically on the opportunities to:

- Liquidate and consolidate excessive and underutilized assets; and
- Reduce operating expenses especially in the area of personnel and energy costs.

The identification and assessment of these opportunities will require a series of technical (engineering, production, management and accounting) inputs particularly at the level of processing plants, field collection and storage centers and the Izmir headquarters. It should be pointed out that the return on assets should be substantially improved following the increase in Taris' capital base and the concomitantly lower dependence on bank credit resulting in lower financing costs.

The upgrading of technology offers a special challenge. At present, Taris presents a wide array of technologies ranging from the most sophisticated state of the art to obsolete modes. The restructuring plan will focus on the opportunities to upgrade Taris' technology in the following areas:

- Agricultural and extension services for the benefit of member growers;
- Production standardization, increased productivity and quality control systems;
- Research and development of new products to counter the stagnant domestic and external decreased demand for figs and raisins.

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- Marketing/advertising/public relations with a view to increasing Taris' market share within and outside Turkey, identifying new products and improving Taris' image.
- Integrated accounting/financial management and management information systems in order to provide current and quality data to management for sound decision making.

The formulation of the restructuring plan will require an integrated approach combining food technology, agricultural extension, production management and quality control, market research, public relations and marketing management, as well as a broad base in managerial accounting and financial management. Joint ventures between Taris and qualified overseas investors (cooperatives and/or corporations) could provide an effective channel for the broadening and upgrading of the technologies currently available within Taris. The consultants would be prepared to identify potential joint venture candidates for Taris.

Finally, the restructuring plan should focus on organization building and human resources development. The participants will assist management in the following tasks:

- The preparation of a formal organization chart with clearly defined relationships and lines of authority and job descriptions;
- The definition of organizational alternatives (functional structure versus product line structure) and the selection of the alternative better adapted to Taris' specific situation;
- The review and qualitative assessment of existing human resources;
- Manpower planning;
- The definition and scope of training programs; and,
- The outline of a management by objectives (MBO) and performance appraisal systems.

SECTION III

ACCOMPLISHMENTS

S.III-1

Section III - Accomplishments

The major achievements of this preliminary mission consisting of Rifat Barokas, President of International Phoenix Corporation, and Jean G. Crouzet, Vice President, Finance and Marketing, may be summarized as follows:

- (i) Attending the Turkish-American Businessmen's Association in early April;
- (ii) Establishing contact in Izmir, Ankara and Istanbul with Government officials responsible for the privatization of State Owned Enterprises and the review of privatization efforts to date;
- (iii) Meeting with the management team and the directors of the four Taris unions of agricultural sales cooperatives covering general presentation of Taris, review of financials, discussions of price support systems, relationship between supply and demand and outlook;
- (iv) Visits to collection/storage/processing centers owned and operated by the Taris agricultural cooperatives. In three field trips in the North, South and East Aegean, the team traveled 2000 kilometers, visiting 24 agricultural sales cooperatives in 14 out of a total of 64 locations. In each location, the team held discussions with cooperative managers, technical personnel, cooperative members and directors;
- (v) Visits to the Cotton Yarn Factory, a wholly owned subsidiary of the Cotton Union of agricultural sales cooperatives and the Vegetable Oil Refinery, a division of the Olive Oil Union. In addition to brief visits of the facilities, the team discussed financials as well as labor and marketing problems with the management of each plant;
- (vi) Independent review of Cooperative Law 3186 of 1985 in its entirety, portions of Cooperative Law 2834 of 1935, parts of the Cooperative Law of 1969 and the draft contractual agreement between Taris Unions and their agricultural cooperatives;
- (vii) Meetings with Taris unions legal counsel, tax advisor and chief accountant;

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- (viii) Meetings in Ankara with MOCI, TAB, UFTF government officials responsible for the supervision and control of Taris unions and agricultural sales cooperatives;
- (ix) Closing group meetings with crop managers of the four Taris unions;
- (x) Closing meeting with Taris general manager for the purpose of discussing contents of draft telex to be sent by Taris to USAID/PRE through the Commercial Attache, U.S. Embassy, Ankara. The general manager agreed with the teams' approach and recommendations for the second phase. The general manager emphasized the desirability and importance of joint ventures. The general manager also indicated he would discuss the contents of the draft telex with the directors of Taris unions prior to sending this telex, and
- (xi) Informational meeting with U.S. Embassy personnel in Ankara and discussion of above mentioned draft telex.

It may be inferred from the foregoing that the mission was brief but very intensive. Additional details concerning the consultants' activities in Turkey may be found in Appendix II.

SECTION IV

RECOMMENDED STRATEGY

FOR THE

PRIVATIZATION OF AGRICULTURAL SALES COOPERATIVES

AND THE

RESTRUCTURING OF TARIS OPERATIONS

Section IV      Recommended Strategy for the Privatization of  
Agricultural Sales Cooperatives and the  
Restructuring of Taris

Future USAID assistance for the privatization and decontrol of agricultural sales cooperatives and cooperative unions and the restructuring of Taris will be contingent upon a clear and strong commitment by the Government to depoliticize and decontrol cooperatives as well as a formal request by Taris higher management for technical assistance.

Assuming that the government issues such a commitment by July 30, 1986, technical assistance would start in the last quarter of this calendar year. New cooperative legislation would be expected to be passed by the Turkish Parliament within the first six months of FY 1987. On the basis of this schedule, the federative structure proposed for Taris should be in place before the close of 1987. This means that the proposed capital increase and operations restructuring of Taris would start in the last quarter of next year and would be implemented over a period of two years.

The schedule and estimated cost of the technical assistance effort required for the privatization and restructuring of the Taris organization are presented in Table 2. The overall level of technical assistance effort has been budgeted at 33 person/months equivalent to US \$376,700. The programming of the effort allows the implementation of one component at a time in the sequence indicated by the consultants.

The kingpin of the recommended effort is the preparation of a new cooperative law which would give agricultural sales cooperatives and their unions the right to operate without the burden of political interference and unduly restrictive Government controls. The level of effort required for this component would require 5 person/months or U.S. \$77,000. Naturally, a clear signal from the government that it is prepared to give agricultural sales cooperatives complete operating authority would be needed prior to starting any mandatory work for the replacement of Cooperative Law No. 3186.

Steps, Scope and Estimated Cost of Technical Assistance Effort Required for Enactment of New Legislation, Design of Taris Federated Structure and Planning for the Restructuring of Taris Operations

Fundamental Assumptions

- (i) New cooperative legislation to be enacted in the first semester of 1987;  
(ii) Federated structure of Taris unions to be in place in the third quarter of 1987; and,  
(iii) Implementation of restructuring plan for Taris operations to start in the third or fourth quarter of 1987.

Activity	Estimated Completion Date	Estimated Duration Person/Month	Estimated Cost US\$	Required Skills and Qualifications
1. Preparation of new cooperative legislation	11/30/86	<ul style="list-style-type: none"> <li>• local lawyer: 3PM</li> <li>• financial specialist: 1PM</li> <li>• Team Leader: 1PM</li> <li>• Subtotal: 5PM</li> </ul>	30,000 12,000 12,000 54,000	<ul style="list-style-type: none"> <li>• Local lawyers - knowledge of cooperative/commercial law and legislative process. Good connections with officials of executive and legislative branches. English language capability.</li> <li>• Financial expert - knowledge of economics and administration in Turkey.</li> </ul>
2. Audit	11/30/86	<ul style="list-style-type: none"> <li>• Junior Accts: 16PM</li> <li>• Partner 2PM</li> <li>• Subtotal: 18PM</li> </ul>	80,000 30,000 110,000	<ul style="list-style-type: none"> <li>• Leading international CPA firm in Turkey. Cooperative experience desirable but not required.</li> </ul>
3. Design and Implementation of Structure of Federated Union	10/1/86	Local lawyer: 1 PM	10,000	<ul style="list-style-type: none"> <li>• Background in cooperative legislation and close liaison with Taris General Counsel for preparation of recording of documents.</li> </ul>

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Activity	Estimated Completion Date	Estimated Duration Person/Month	Estimated Cost US\$	Required Skills and Qualifications
4. Design of Plan for Restructuring of Taris Operations	12/10/86	EXPATRIATE SPECIALISTS: ● MIS: 1PM ● Extension: 1PM ● Production: 2PM ● Marketing: 2PM ● Human Resources: 2PM ● Team Management: 9PM	12,000 12,000 24,000 24,000 24,000 108,000	<ul style="list-style-type: none"> <li>● MIS specialist - prior experience in MIS implementation combined with background in financial management and managerial accounting.</li> <li>● Extension specialist - strong extension background, preferably with cooperatives.</li> <li>● Production specialist - strong technical background in processing of agricultural products and quality controls, preferably with cooperatives.</li> <li>● Marketing specialist - proven track record in marketing of agricultural products/derivatives. International experience a must. Cooperative experience preferred.</li> <li>● Human Resources Specialist - Experience in organization design, job descriptions, training/monitoring progress and MBO systems. Intercultural sensitivity a must. Cooperative background preferred.</li> <li>● Team leader - knowledge of economics and/or business administration with emphasis on agribusiness. Proven leadership skills.</li> </ul>
5. Technical Assistance Cost Summary (1 - 4)		33 PM	282,000	

Activity	Estimated Completion Date	Estimated Duration Person/Month	Estimated Cost US\$	Required Skills and Qualifications
6. Travel				
Foreign Experts				
- International Travel		6 X 1800	10,800	
- Local Travel		6 X 1000	6,000	
- Subtotal			16,800	
7. Per Diem				
Foreign Experts				
Subtotal		6 X 70 X 30	12,600	Not applicable
8. Subtotal				
5 + 6 + 7			311,400	Not applicable
9. Contingency				
10% of 3			31,100	Not applicable
10. Sub-total				
8 + 9			342,500	Not applicable
11. Fee @ 10%			34,200	
12. Grand Total		33 PM	376,700	

Source: Consultant's estimates.

APPENDIX I

COUNTRY ASSESSMENT

COUNTRY ASSESSMENT

A. Host Government Attitude Toward Privatization

1. Top Level Commitment: Although Prime Minister Turgut Ozal, a devout free marketer, was instrumental in the passage of the 1984 and 1985 laws dealing with the issuance of revenue sharing bonds by state owned enterprises and the privatization of parastatals, Turkey as yet has plans rather than achievements in the privatization of state owned enterprises.

2. Current Policy: The current policy of the Turkish Government is to divest itself of large and small state economic enterprises with or without foreign investment/management and induce these enterprises to survive and prosper under private ownership or entertain the liquidation option when necessary. The GOT has put in place mechanisms to receive and disburse funds from such sales into new infrastructure investments. These funds may also be used for financing consulting studies. In addition, the government has reached agreement with the World Bank for the financing of consulting studies as well as funding such activities from its internal resources.

To date Lazard Freres has presented a plan for the phased sale of government owned Turkish Airlines. Morgan Guaranty has also been awarded a contract to prepare a master plan for the privatization of 32 state owned enterprises, 28 of which were reportedly profitable and saleable. Preliminary reports have been submitted and are under review. Privatization will not be implemented until full agreement is reached on the strategy best adapted to divest SOE's. The public participation and housing fund in the Prime Minister's office is also discussing the divestiture of Government owned plants with local enterprises. The sale of a small dairy and a food mill to the Development Foundation of Turkey is expected to be consummated in June of 1986.

3. Power to Implement: The Public Participation and Housing Fund attached to the Office of the Prime Minister is the authority responsible for the privatization of parastatals. The Fund resources consist of the proceeds of the sale of parastatals equity and the proceeds of the issuance of revenue sharing bonds by parastatals (e.g., Bosphorus Bridge). To date, no privatization has taken place. There have been technical, financial and legal studies of a wide range of parastatals including steel mills,

fertilizer plants and textile mills. At this point, it is difficult to estimate the timing of the sale of any parastatal stock.

4. Mid/Lower Level of Commitment: In spite of official pronouncements in favor of privatization based on the consultants contact with government officials, a strong commitment by mid/lower level staff does not appear to be in evidence. Skepticism was expressed with respect to hasty and superficial privatization studies by offshore experts.

5. Accessibility for Dialogue is generally good. Privatization was discussed with government officials in Ankara. The Prime Minister's Office appears to be committed to a comprehensive step-by-step privatization plan as opposed to quick and isolated privatization deals. Taris officials also discussed the challenge of privatization at length with the consultants. Other government officials in Ankara favor the issuance and sale of new stock of the cotton yarn and margarine factories legally owned by the Cotton Cooperative Union and the cooperative belonging to the union.

6. Awareness/Availability of SOE Costs: Cost data within the Taris unions are generally available. Except for the General Manager and his two assistant general managers, the degree of cost awareness among the personnel of the Taris unions is closer to that of government owned enterprises where the concept of accountability is not always in evidence.

7. Private Sector Influence on Policy: Appears to be limited. There is a strict separation between public and private sector enterprises and a limited dialogue between both sectors. The Government influence permeates public sector enterprises through controls of day to day operations, credit extension, price fixing, natural monopolies and other restrictive barriers. The Government appears to be extremely jealous of its rights and prerogatives as they pertain to parastatals. Most parastatals in Turkey would benefit from the introduction of private industry management techniques and there exist a number of well managed and successful privately owned companies in Turkey. However, high level managers in the private sector are not invited by the political leaders and/or Government technocrats in sufficient quantities to share their experience and management skills or serve for a limited time in a management capacity with state owned enterprises. Nevertheless, the general manager of

Taris was a successful executive with one of the largest and most successful Turkish conglomerates prior to his being recruited by the Prime Minister to head up Taris.

8. Officials' Dependence on Outside Income: The average monthly compensation for a department manager within the Taris organization is around US \$275.00 including allowances and mandatory bonuses. The assistant managers reporting to the General Manager of Taris receive a monthly compensation not exceeding US \$1,000.00. There are a number of retired superior Army officers in the organization acting as managers. They combine their military pension with their compensation package. The same pattern was observed at the cotton yarn - a subsidiary of the Cotton Union and at the oil refinery plant, a division of the Olive Oil Union. The yarn plant is a modern and well run facility with a US \$20,000,000 sales turnover yielding a net profit of US \$4,000,000. The general manager of the yarn factory commented on the difficult problem posed by inadequate compensation at all levels within the organization.

9. Open Economy versus Managed Economy: State owned enterprises and agricultural cooperatives which are owned by its members but subject to strict and pervasive controls by the Government play a predominant role within the Turkish economy. Certain industrial sectors (steel, fertilizers, textiles, airlines) are dominated by the state. Additionally, the state has enjoyed traditional "natural" monopolies such as tobacco. Agricultural sales cooperatives account for a substantial share of the national production: 60 percent in the case of cotton and at least 30 percent in the case of olive oil.

## B. Political/Economic Environment

1. Legal barriers: Legal barriers represent a serious obstacle frustrating privatization efforts. For instance, in the case of agricultural sales cooperatives, which are owned by private members, Public Law 3186 of May 1985 grants the Ministry of Commerce, the Turkish Agricultural Bank and the Office of the Undersecretary for Foreign Trade excessive rights of control in day to day affairs. One of the justifications for such controls lies with the Government support price systems for several agricultural commodities/products. Additionally, the Government is authorized by law to appoint the General Manager, several directors and controllers who sit on the Board of Directors

and Controllers together with the elected directors and controllers. Government influence is felt even more strongly within SOE's. The first step required for their eventual privatization will be the revision of their constituent acts and/or decrees so that their status may be changed.

2. Economic stability: Economic stability has improved since 1980. The recent policy has emphasized the liberalization of foreign trade, the elimination of foreign exchange controls, the stimulation of exports, improved tax collection and the reduction of budget deficit to manageable proportions (2% of GNP). Although the balance of payment has registered progress and although the international credit rating of Turkey is reported to have improved, the performance of the economy continues to be adversely affected by high rates of inflation in the range of 35 to 45 percent and high interest rates (currently over 60 percent).

One of the pervasive and persistent characteristics of the economy has been the consistently high real interest rates indicative of the relative scarcity of capital resources versus relative abundance of labor whose income and productivity has remained low. In the absence of rapid increases in both productivity and incomes this ever increasing large pool of unskilled, semi-skilled and even skilled labor will become social problems in the medium and long run.

3. Political Stability: Turkey currently appears to be politically stable. Prior to 1980, the multi-party system degenerated into chaos and violence which were brought to an end by the military. The new constitution adopted in 1980 effectively limits the number of political parties. A military leader was appointed President and Mr. Ozal became Prime Minister following the General Election of 1983. At first, the leadership duo was characterized by an uneasy relationship. However, it is now firmly established. The Prime Minister, who supports the free enterprise system is bent upon a policy of economic reform including the streamlining and divestiture of most SOE's. The next General Election is scheduled in the Fall of 1988. It is felt that the Prime Minister would need another term to complete his reform program. However, major factors beclouding the political stability of the country, are: persistent high rate of inflation, low level of incomes, high unemployment and high levels of real interest rates. To date, the vast majority of the lowest income segments of the Turkish people have not shared the benefits of economic growth. Thus, in

spite of an efficient security apparatus, the Government remains vulnerable to potential major labor and social problems.

4. Unemployment Level: Turkey is affected by an above average rate of unemployment. Substantial communities of Turkish workers continue to reside in Western Europe. Many Turkish professionals have opted to stay overseas where they can pursue more lucrative careers. It is estimated that the overall rate of unemployment is conservatively around 17 percent, without considering disguised unemployment, especially in the rural and peri-urban sectors.

5. Physical Infrastructure: Turkey enjoys the benefit of a relatively well developed infrastructure. Since 1980, the overnment has invested heavily in the improvement of transportation, telecommunications and electric power infrastructure systems. A new credit by the World Bank (US\$300 million) will be used for the development of the irrigation network which will benefit the agricultural sector. At the same time, the pivotal position of Turkey between Europe and neighboring Islamic countries and the wide use of Turkey as a transit point, will require the upgrading of highways, railways and dock facilities. These needs have been estimated at US\$7 billion in 1975 prices and will probably require a joint investment by Turkey, its neighbors and allies.

6. Regulatory Climate: The major characteristic of the business climate is that it is traditionally highly regulated. This is especially true in the case of SOE's whose activities are legislated and where the Government influence ranges from the supply of short and long-term funds, the granting of subsidies to price controls, the ppointment of all key personnel and a myriad of details pertaining to day-to-day and agricultural sales cooperatives activities. It should be noted that the management of SOE's reports directly to government authorities, usually at the Minist.y level. As far as privately owned business is concerned, profit margins are often limited to maximum rates, especially at the wholesale level. Retailers are also required to display both their selling and buying prices. It should be noted that there is a growing trend to define and enforce stricter anti-pollution standards.

7. Reasons for Parastatals: Most Turkish parastatals date back to the Ataturk era which corresponded to the modernization of the country following World War I.

President Ataturk's emphasis on rapid industrialization combined with the lack of private investment resources willing to finance large heavy industrial projects caused the Government to start parastatals. Thus, the Government has played the historical role of pioneer and innovator. However, it has perpetuated its presence in SOE's which have become inefficient. At the same time, only a limited number of entrepreneurs and investors (e.g., the Yasar, Koc, Sabanci Groups) have been willing to start smaller scale but more efficient diversified manufacturing operations ranging from paints and chemicals and fertilizers to dairies, flour mills and breweries. Some of these firms have made it to the top Fortune 1000 firms outside the United States.

### C. Business Climate Evaluations

1. Management/Entrepreneur Pool: Turkey possesses a sizeable nucleus of well trained engineers, economists and other professionals. These individuals who were trained in Turkey and overseas monitor the latest state of the art technology in the United States and Western Europe. When they are given the opportunity, they acquit themselves very well, even in the public sector. The cotton yarn factory, which is equipped with the latest Japanese machinery, has developed a comprehensive management information system yielding all the relevant cost accounting data as needed and monthly financial statements. A small core of entrepreneurs has been able to successfully combine capital and management resources. For instance, the Yasar Group which was established 41 years ago has developed rapidly from a small paint manufacturing shop to a holding company of 40 subsidiaries employing over 10,000 people and enjoying an annual sales turnover of US\$440 million making it Turkey's third largest holding company. Its higher management staff includes highly trained economists and engineers. Other examples may be found. The Development Foundation of Turkey started twenty years ago by a U.S. trained engineer and economist to promote grass roots rural development has now emerged into a multi-division (integrated poultry, animal feed, rugs, etc.) operation with an annual sales turnover approaching US\$10 million.

2. Ethnic Minorities: The two largest minorities existing in Turkey are Armenian and Kurds. In addition, there exist small groups of Bulgarians, Jews and Greeks. However, Turkey is predominantly an islamic nation with a 98% moslem population. All minorities including Christians and Jews

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account for 2 percent. Their importance and participation in the economy has declined in the last fifty years with the expansion of several generations of indigenous entrepreneurs.

3. Permits to Start/Expand Business: All investment proposals require the approval of the State Planning Office ("SPO") which is issued after careful review of a feasibility study and other supporting documentation provided by the applicant (domestic or foreign). Foreign investments are governed by Public Law 6224 (manufacturing, agriculture, banking, tourism and mining), Public Law 6326 (petroleum) and Decree 30 (service and marketing operations). These laws guaranty equal treatment of foreign owned and Turkish owned business organizations. They further provide for repatriation of income and capital. SPO is authorized to issue permission and provide incentives to investment projects with foreign participation up to US\$50 million. For larger projects, SPO investigates the application which must be approved by the Council of Ministers. Permits are issued whenever it is felt that the proposed project will be beneficial to the country (increase in industrial production, export earnings and import substitution). SPO has the authority to revise key items in investment proposals such as a capital increase, permits for new product lines and technical assistance agreements. Additionally, SPO has the authority to grant special investment incentives to projects located in priority areas and or selected sectors (agriculture, seafood, tourism). These special incentives make it possible for the foreign investor to borrow funds and reduce his equity contribution to only 30 percent of the project cost. Further, most foreign investors in industry and tourism are entitled to borrow funds under especially attractive terms such as a 15 percent interest (a negative rate of interest at present), 20 years maturity and grace periods up to 6 years. Finally, various short-term export credits are available for the financing of export oriented operations.

4. Tax Climate: Corporation tax is levied at the rate of 40 percent on taxable income of all corporations registered under Turkish law. Foreign corporations must also pay a 20 percent withholding tax on paid dividends. However, several major deductions may be applied against taxable income:

- investment incentive allowance corresponding to that portion of the investment for which the investor does not claim government sponsored finance or interest subsidies up to 100 percent, depending on the locations or size of the investment project;

- export drawback on net foreign currency earnings. Export drawback is granted at eight different rates ranging from 20 to 50 percent, depending on the product line and the annual total of qualifying net foreign currency earnings;
- export incentive allowance up to 20 percent of the export sales turnover.

5. Freedom to Hire/Fire Personnel: Employment conditions are defined by civil service rules for all government, SOE and cooperative employees. The general managers and first line managers within the agricultural sales cooperatives are appointed by the Government and may be dismissed at its discretion. Second line managers are generally appointed by the Board of Directors of their organization and confirmed by the relevant Ministry. The dismissal and/or transfer of cooperative employees is identical to the termination/transfer procedures applicable to civil servants. As to non-public sector employees, employment relationships are largely governed by collective agreements negotiated between trade unions and employers within the framework specified by Law 2822. Employment contracts may be for a fixed period or terminated at will, provided that adequate notice of termination is given by either side and that the employer obtains the prior approval of local authorities. Employees whose contract of employment is terminated by the employer for reasons other than those that give the employer the right of instant dismissal (repeated drunkenness and extreme indiscipline) are entitled to receive termination indemnities. The total indemnity is one month's salary for each year of service. There is an overriding maximum monthly salary for this purpose, currently of TL 140,300 or US\$213, at the prevailing rate of exchange. The establishment of a central fund from which leaving indemnities would be paid is under consideration. The fund would be financed by tax deductible contributions from employers.

6. Accounting/Audit Skills: The professional association of public auditors in Turkey sets entrance examination for admission. However, the association has no legal status and exercises little influence over auditing practices. Contrary to the situation in several European countries, accounting and valuation principles are not codified in Turkish commercial law so that in practice they generally derive from tax law. Thus, the statutory books (cash book, general ledger, journal, stock ledger, fixed assets ledger, cost ledger and stamp tax book) and the financial statements usually agree with tax returns. However, the tax orientation

of financial statements overshadows the use of accounting and financial data for management purposes. Traditionally, Turkish business circles have regarded audits as a burdensome formality or a nuisance. Recently, there has been considerable growth in the demand for audits. Investment proposals have been presented to foreign institutions to finance such projects. This has led to the increasing awareness of the advantages of independent audits to the business community and to an appreciation of the need to review current auditing standards with a view to possibly establishing them on a more formal and consistent basis.

7. Other Donor Presence/Support: After several years of slower activity in Turkey, the World Bank and the International Finance Corporation are taking a fresh look at the country. The World Bank has already committed US\$300 million for the improvement of infrastructure installations. The International Finance Corporation is reported to be looking for loan and equity opportunities. The Dutch have secured a sound bridge-head in the agricultural sector, especially in poultry and livestock and FMO is also looking for new loan opportunities at this time. Several other donors, including the USSR, are present in Turkey. However, the Turkish Government is now promoting a new form of technical assistance known as the "Ozal Model".\* Foreign organizations (public or private) participate in major investments with the Turkish Government with respect to the financing and the operation of the plant for 15 years before it is handed over to the Government. AECL, the Canadian nuclear corporation is negotiating such an arrangement for the construction and operation of the first nuclear plant in Turkey.

#### D. Financial Markets

1. Money and Financial Markets: No money, or short-term fund market exists in Turkey at this time. The main obstacle to promote a money market is the legal prohibition for private companies to issue negotiable instruments with a maturity of less than 2 years. In turn, the absence of an effective money market impacts upon the limited scope of the Turkish financial market which reflects the short supply of

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\* Yap, Islet, Deveret", Build, Manage, Divest. This means that a foreign investor amortizes his investment and earns a satisfactory return prior to transferring ownership to local public or private investors.

money and the distorting impact of inflation which impacts unfavorably on the orderly transfer of funds from savers to borrowers.

The capital market activities are defined by Capital Market Law 2499 which has established the Capital Market Board serving as the supervisory and regulatory body of participants (brokers/banks/companies) who are bound by strict financial and ethical rules. In 1985, approximately US\$1.5 billion of local government and Turkish Treasury bonds were sold. Additionally US\$150 million of revenue sharing bonds (Bosphorus Bridge) were issued and sold. In comparison, the issuance and sale of bonds and shares of privately owned companies were minor and did not exceed US\$30 million. Currently forty companies have registered with the primary or first market. Banks are by far the largest participant in the capital market (80% of all purchases) and government bond trading has become one of their major activities and source of earnings. It is expected that the Government will not continue to borrow at the same level as in 1985 and that privately owned companies will increase their sale of stocks and bonds. This increase is expected to come not only from the largest companies in the primary market, but also from secondary members authorized by the Capital Market Board.

There is no doubt that the channelling of savings to the Capital Market is not efficient at this time. Liquid resources are invested in foreign currencies, real estate speculation, import and export trading and other fields of endeavor yielding a more immediate and higher return. This has led some large privately owned manufacturing companies (e.g., Yasar Holding S.A.) to diversify into banking and insurance in order to secure the financial resources required for their rapid expansion.

2. Recent Trends in Leasing: Last year, the Turkish Parliament passed the Financial Leasing Act. The establishment of leasing companies owned by Turkish nationals and the establishment of branches in Turkey by foreign companies must be approved by the Office of the Undersecretary of Treasury and Foreign Trade. Foreign leasing companies are required to have a minimum paid in capital in Turkish Lira equivalent to US\$2 million. Banks have been excluded specifically from leasing. Leasing is still a new field in Turkey and is taking off very slowly. However, it is expected that this new form of capital equipment financing will open significant opportunities for new investment and joint ventures in Turkey.

3. Long Term Financing: Commercial bank lending is strictly short term. Current interest rates range from 54 to 64 percent. As explained earlier (B.4.), some long term financing under attractive terms is made available under the auspices of SPO. For most sectors of industry, there are Government sponsored schemes to provide medium and long term financing at subsidized interest rates. Loans to finance tourist projects are available from the tourism bank at 15 percent per annum up to 20 years with six years grace in amounts up to 60 percent of the total project cost.

4. Foreign Investment Interest/Restrictions: The investment climate has improved markedly over the past seven years as evidenced by the following figures pertaining to foreign companies established in Turkey and the amount of capital resources contributed by these entities:

<u>Year</u>	<u>Number of Companies (cumulative)</u>	<u>Capital Contribution in TL millions</u>
1979	91	2,518
1980	100	9,642
1981	127	19,012
1982	170	43,646
1983	185	61,352
1984	265	117,902
1985	421	208,408

Source: Near East Briefing, January 1986, p. 79

In 1985, the total amount of authorized foreign investment was US\$1.4 billion, a relatively low figure. The major groups of investors are Swiss, U.S., West Germans and British companies. The Turkish Government is actively promoting foreign investment in general and would like to see an increased participation by U.S. investors, especially in agriculture and high technology. However, the response of U.S. investors has been slower than anticipated.

It is anticipated that Turkey's massive investment in Free Trade Zones (FTZ) at Mersin, Antalya, Izmir and Adana will attract foreign investors interested in developing their exports to Europe, the Middle East and Africa. FTZ generated profits will be exempt from taxes and duties and shall be treated independently for tax purposes from other operations by the same company in Turkey.

All major areas of industry are open to foreign investors under Law 9224 and Decree 30 except those reserved to the alcohol and tobacco growing state monopolies. Further, approval may not be granted for investment if this would cause the foreign owners to enjoy an effective monopoly or other social privilege. It should be noted that banking which was traditionally closed to foreign banks has been enjoying the benefit of additional competition by offshore financial institutions.

5. Capital Flow In/Out Trends: The balance of payments deficit continues to be one of Turkey's major problems as shown below:

<u>US\$ million</u>	<u>1984</u>	<u>1985 (estimated)</u>
A. Trade balance	(2,942)	(2,655)
B. Current Account		
Travel/Tourism Income	548	1,000
Workers Remittance	1,881	1,900
Interest Payments	(1,586)	(1,700)
Other	(2,250)	(2,013)
Balance	(1,407)	( 813)
C. Capital Account		
Debt Repayment	(1,107)	(1,860)
Inflow	1,300	2,113
of which		
Exceptional Financing	1,002	760
Balance	193	253
D. Change in Reserves	(141)	(200)

Source: The Central Bank of the Republic of Turkey

In addition to the heavy burden of principal repayment and interest payment on its foreign debt and its trade imbalance, Turkey's current account is negative in spite of workers' remittances. This reflects a probable flight of private capital in the form of foreign currency and other assets acquisition.

E. U.S. Influence

1. Conditionality Opportunities for Leverage: The United States accounted for 10 percent of Turkey's imports and 6 percent of Turkey's exports in 1985. The U.S. balance of trade with Turkey is positive and the ratio of U.S. exports to U.S. imports exceeds 2.25 to 1. This means that the U.S. is in a strong bargaining position vis-a-vis Turkey. The current issue of textile exports to the United States divides both governments and it is unlikely that the U.S. will substantially increase its quota of Turkish textile exports. At the same time, the U.S. Government recognizes the pivotal role of Turkey within NATO and grants substantial assistance to the Turkish armed forces which number 1,000,000 men of all ranks on active duty.

2. AID Mission Support: AID no longer maintains a mission in Turkey. This position is consistent with the relatively high per capita income level in that country. AID related matters such as the Taris study are coordinated through the office of the Commercial Attache of the U.S. Embassy in Ankara whose assistant is most knowledgeable about AID modus operandi.

3. Embassy/Commercial Officer Support: The U.S. Ambassador was a keynote speaker at the recent American Turkish Businessmen Conference in Izmir where he delivered an address on the importance of direct foreign investment in the Turkish economy. The Commercial Attache appeared to be well informed on current privatization trends in the country. With respect to Taris, he indicated the need for additional information from the Office of the Prime Minister as to the desirability of pushing for a formal commitment by the Government to liberalize the agricultural sales cooperatives and pursuing the independent reorganization of Taris. He also indicated that further efforts concerning Taris should be coordinated with the forthcoming World Bank study on agricultural sales cooperatives. The consultants noted the general scope of the World Bank study and that the "definitive" investigation and subsequent privatization of Taris would have to be performed separately in the event the Turkish Government is interested in the restructuring of the Taris cooperative unions.

APPENDIX II

LISTING OF

TURKISH AGRICULTURAL SALES COOPERATIVE UNIONS

A.II-1

List of Agricultural Sales Cooperatives in Turkey

<u>Name of Union</u>	<u>Location</u>	<u>Field of Activity (crop)</u>	<u>No. of Connected Cooperatives</u>	<u>Permanent Staff</u>	<u>Amount of Member Producers</u>
INCIR BIRLIGI	Izmir	Dried Figs	19		7.000
UZUM BIRLIGI	Izmir	Dried Grapes	15	5.750	16.000
PAMUK BIRLIGI	Izmir	Cotton	54		55.000
ZEYTINYAGI BIRLIGI	Izmir	Olive Oil	18		12.000
CUKOBIRLIK	Adana	Cotton	35	5.105	40.000
ANTBIRLIK	Antalya	Cotton	7	2.780	28.000
FISKOBIRLIK	Giresun	Hazle Nuts	55	4.300	155.000
BAKLIYAT BIRLIGI	Gaziantep	Legumes	38		22.000
FISTIK BIRLIGI	Gaziantep	Pistachio	12		13.000
UZUM BIRLIGI	Gaziantep	Dried Grapes	15	258	11.000
ZEYTINYAGI BIRLIGI	Gaziantep	Olive Oil	10		5.000
KIRMIZIBIBER BIRLIGI	Gaziantep	Red Pepper	4		2.500
TRAKYABIRLIK	Edirne	Sunflower	47	1.310	110.000
GULBIRLIK	Isparta	Rose Flower	20	124	9.300
MARMARABIRLIK	Bursa	Olive	6	289	28.500
KOZABIRLIK	Bursa	Silkworm Cocoon	5	210	25.000
TASKOBIRLIK	Nevsehir	Seed Grapes	9	167	6.400
KARADENIZBIRLIK	Samsun	Sunflower	13	115	18.000
YERFISKOBIRLIK	Mersin	Ground Nut	10	97	11.000
NARENCIYEBIRLIK	Antalya	Citrus	2	14	1.000
TIFTIKBIRLIK	Ankara	Mohair	37	170	17.000
		Total	431	21.389	592.700

Source: Ministry of Commerce and Industry.

APPENDIX III

TRIP CHRONOLOGY

LIST OF CONTACTS AND NOTES OF MEETINGS

TRIP CHRONOLOGY, LIST OF CONTACTS  
AND NOTES OF MEETINGS

A. Trip Chronology

- April 4 - 6, 1986: Travel to Izmir via Europe and Istanbul and Opening Reception of Turkish American Businessmen Association
- April 6 - 9, 1986 Izmir: Turkish American Businessmen Association Conference and meeting with Mr. Vahit Erdem and other public sector officials
- April 10 - 14, 1986 Taris - Meetings with Senior Management, Crop Manager, Import/Export Managers and Cotton Coop Union Director plus preparation of field trip
- April 15 - 17, 1986 Field trips to 24 cooperatives in 14 out of 64 Taris locations in the Aegean Region
- April 18, 1986 Izmir: Taris - Visits to cotton yarn factory and olive oil refining and packing plant plus meetings with Taris chief accountant, legal counsel and tax advisor and closing session with crop managers
- April 19, 1986 Izmir: Preparation of telex trip report draft and meetings with Taris Import Manager
- April 20, 1986 Izmir: Analysis of Cooperative Law of 1985 and closing meeting with General Manager of Taris Cooperative Unions and discussion of trip report draft telex
- April 21 - 22, 1986 Ankara - Meetings with Turkish Government Officials and U.S. Embassy personnel
- April 23, 1986 Istanbul and return to United States via Europe

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B. List of Professional Contacts

1. American Turkish Business Conference, Izmir

- Mr. Recep Dervisoglu, Managing Director, Gonen Gida Sanayi, AS, Istanbul
- Mr. Ilter Gurel, Board Member, Turkish American Businessmen Association, Izmir
- Mr. Daniel Newberry, Executive Vice President, American Friends of Turkey, Bethesda, Maryland
- Mr. James E. Burke, Project Study Manager, Bechtel Civil & Minerals, Inc., San Francisco, California
- Mr. Michael Baldwin, President, Intertrade Consultants, Inc., Scarsdale, New York
- Mr. Muzaffer Demirci, Associate Professor and General Coordinator, IZDAS, Izmir, Turkey
- Mr. Omer Gebelek, Import Manager, IZDAS, Izmir, Turkey
- Mr. Aldo Campaner, Director, Yakin Dogu Deniz Aceenteligi AS, Istanbul, Turkey
- Mr. Erdem Ozsoy, Etem Ozsoy, Izmir, Turkey
- Mr. Turgut Koyuncuoglu, Exports & Tourism, Izmir, Turkey
- Mr. Ugur Baki Ozlen, State Planning Organization, Ankara, Turkey

2. Taris Unions, Izmir, Turkey

- Mr. Ahmet Cetinbudakalar, General Manager
- Mr. Sebahattin Gazanfer, Assistant General Manager
- Mr. Sahin Atasoy, Assistant General Manager
- Mr. Akin Ozden, Import Manager
- Mr. Kemal Gunez Batu, Cotton Crop Manager
- Mr. Ekrem Hayri Cakaloglu, Figs Crop Manager

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A.III-3

- Mr. Ibrahim Akman, Raisins Crop Manager
- Mr. Ferit Taskin, Olives Crop Manager
- Mrs. Sema Yilmaz, Export Manager
- Mr. Aytac Okan, Assistant Export Manager
- Mr. Sami Cengel, Assistant Cotton Crop Manager
- Mr. Orhan Boylu, Director of Accounting
- Mr. Oktay Odabasi, Legal Counsel
- Mr. Cetin Emrelioglu, Tax Advisor

3. Taris Unions - Directors, Izmir, Turkey

- Mr. Erdogan Simsek, Cotton
- Mr. Necip Necipoglu, Raisins
- Mr. Cahit Cetin, Olives

4. Taris Officials - Cooperative Level

4.1 Tire (4/15/86 - 9:00 am)

- Mr. Hilmi Kocabiyik, Cotton Coop Board Member
- Mr. Hasan Tuskan, Cotton Coop Board Member
- Mr. Mustafa Topan, Cotton Coop Board Member
- Mr. Murat Cihan, Olive Coop Board Member
- Mr. Yasar Kocabey, Figs Coop Board Member
- Mr. Suleyman Albas, Figs Coop Board Member
- Mr. Ahmet Karaoglan, Cotton Board Member

4.2 Tepekoy (4/15/86 - 11:30 am)

- Mr. Galip Kocaresitoglu, Manager Taris Coops
- Mr. Kamil Altin, Chief Accountant, Taris Coops

A.III-4

- Mr. Recep Erdogan, Raisins Coop Board Member
- Mr. Cetin Corapcioglu, Figs Coop Board Member
- Mr. Feyzi Manarga, Cotton Coop Board Member

4.3 Salihli (4/15/86 - 2:00 pm)

- Mr. Huseyin Tokatli, Manager Taris Coops
- Mr. Fahri Zengin, Raisin Crop Assistant Manager
- Mr. Abidin Cihan, Raisins Coop Board Member
- Mr. Alim Ozer, Raisins Coop Board Member
- Mr. Erdogan Tekin, Raisins Coop Board Member
- Mr. Ali Demir, Raisins Coop Board Member

4.4 Alasehir (4/15/86 - 5:00 pm)

- Mr. Abdullah Yavas, Manager, Taris Coops
- Mr. Mehmet Metin, Manager, Raisins Processing Plant
- Mr. Ismail Balci, Chairman of the Board, Raisins Coop
- Mr. Osman Suvas, Raisins Coop Board Member
- Mr. Osman Bircan, Raisins Coop Board Member
- Mr. Suleyman Kahraman, Raisins Coop Board Member

4.5 Milas (4/16/86 - 9:00 am)

- Mr. Selahattin Vardar, Manager, Taris Coops
- Mr. Mehmet Atici, Taris Comptroller, Taris Coops
- Mr. Tayip Doguc, Cotton Coop Board Member
- Mr. Nahit Acar, Cotton Coop Board Member
- Mr. Abdulkadir Cetin, Cotton Coop Board Member

A.III-5

- Mr. Durmus Durmaz, Olives Coop Board Member
- Mr. Mehmet Berber, Olives Coop Board Member
- Mr. Serafettin Alkaya, Olives Coop Board Member

4.6 Soke (4/16/86 - 11:30 am)

- Mr. Hikmet Karacoban, Manager Taris Coop
- Mr. Kadri Akkoyun, Comptroller, Taris Coops
- Mr. Mustafa Ali Erol, Cotton Coop Board Member
- Mr. Suleyman Davas, Cotton Coop Board Member
- Mr. Mahmut Kivrak, Cotton Coop Board Member
- Mr. Seref Palabiyik, Cotton Coop Board Member
- Mr. Kemal Kocabas, Cotton Coop Board Member

4.7 Ortaklar (4/16/86 - 1:30 pm)

- Mr. Hulusi Coskun, Manager Taris Coops
- Mr. Husamettin Balcilar, Comptroller, Taris Coops
- Mr. Huseyin Dalcali, Board chairman, Figs Coop
- Mr. Bekir Kahya, Figs Coop Board Member
- Mr. Huseyin Kocabey, Figs Coop Board Member
- Mr. Tahir Inceerler, Olives Coop Board Member
- Mr. Ferit Girgin, Olives Coop Board Member
- Mr. Hasan Zeki Yorulmaz, Olives Coop Board Member

4.8 Gelmencik (4/16/86 - 3:00 pm)

- Mr. Mehmet Gumus, Manager Taris Coops
- Mr. Keramettin Kucukbiyik, Manager, Figs Coop
- Mr. Mehmet Yamas, Comptroller, Figs Coop

A.III-6

- Mr. Mustafa Gulen, Figs Coop Board Member
- Mr. Ihsan Ozlan, Manager, Cotton Coop
- Mr. Riza Ozden, Cotton Coop Board Member
- Mr. Yusuf Avci, Manager, Olives Coop
- Mr. Hasan Avci, Comptroller, Olives Corp
- Mr. Hasan Kastan, Olives Coop Board Member
- Mr. Mehmet Kirbiyik, Olives Coop Board Member

4.9 Aydin (4/16/86 - 4:30 pm)

- Mr. Ahmet Akgurler, Vice Chairman, Cotton Coop
- Mr. Huseyin Dincil, Cotton Coop Board Member
- Mr. Sami Akguller, Cotton Coop Board Member
- Mr. Fetta Yilmaz, Cotton Coop Board Member
- Ms. Hulya Oksan, Cotton Coop Board Member
- Mr. Omer Biyec, Cotton Grower

4.10 Kusadasi (4/16/86 - 6:30 pm)

- Mr. Atalay Ulusoy, Manager, Taris Coop

4.11 Edremit (4/17/86 - 8:30 am)

- Mr. Saffet Etingun, Manager, Taris Coops
- Mr. Cahit Cetin, Board Chairman, Olive Oil Union
- Mr. Cevdet Ercan, Chairman, Olive Oil Coop
- Mr. Sukru Gure, Olive Oil Coop Member
- Mr. Erdal Kahyaoglu, Olive Oil Coop Member
- Mr. Ali Ercan, Chairman, Cotton Coop
- Mr. Ismail Guldogan, Cotton Coop Member

A.III-7

- Mr. Selehatin Tandogan, Cotton Coop Member

4.12 Burhaniye (4/17/86 - 12:00 pm)

- Mr. Engin Karaaslanoglu, Manager, Taris Coops
- Mr. Huseyin Guven, Comptroller, Taris Coops
- Mr. Saban Kilinc, Olive Oil Coop Board Member
- Mr. Necati Emir, Olive Oil Coop Board Member
- Mr. Huseyin Can, Olive Oil Coop Board Member
- Mr. Necati Sarakaya, Delegate to Olive Oil Union
- Mr. Mehmet Karaoglan, Delegate to Olive Oil Union

4.13 Ayvalik (4/17/86 - 3:45 pm)

- Mr. Fevzi Kekikci, Manager Taris Coops
- Mr. Huseyin Komili, Manager, Olive Coop
- Mr. Ilhami Sesigur, Board chairman, Olive Coop
- Mr. Cetin Trampaci, Board Member, Olive Oil Union
- Mr. Mustafa Kantarci, Member, Olive Oil Coop
- Mr. Sezen Ozoglu, Member, Olive Oil Coops

4.14 Bergama (4/17/86 - 5:30 pm)

- Mr. Bunyamin Kahramanturk, Manager, Taris Coops

5. Subsidiary Companies, Izmir, Turkey

- Col. Hayri Bilgic, General Manager, Cotton Yarn Factory
- Mr. Zekai Uzer, Technical Manager, Vegetable Oil Refinery
- Col. Guner Cebat, General Manager, Vegetable Oil Refinery

6. Government Officials, Ankara, Turkey

- Mr. Tuncay Kupaci, Director, Division of Cooperatives, Ministry of Commerce and Industry
- Mr. Feyzi Cetinkaya, General Manager, Division of Agricultural Sales Cooperatives, Turkish Agricultural Bank (also an appointed member of Taris Board of Directors)
- Mr. Ertugrul Onen, Director, Division of Cooperatives, Office of the Undersecretary for foreign Trade
- Mr. A. Hamit Cemiloglu, Imports Director, Office of the Undersecretary for Foreign Trade
- Mr. Tandogan Gucbilmez, Deputy Director, Public Participation and Housing Fund Administration (PPFA)
- Mr. Mehmet Bilgic, Managing Director, Public Participation and Housing Fund Administration (PPFA)
- Mr. Suleyman Yasar, Advisor, Prime Minister's Office, Public Participation and Housing Fund Administration (PPFA)
- Mr. Ali Guner Tekin, Advisor, Public Participation and Housing Fund Administration
- Mr. Namik Kemal Alp, Public Participation and Housing Fund Administration (PPFA)
- Mr. Ali Dogan, Managing Director, Defense Fund and former advisor of PPFA (in Istanbul)

7. U.S. Government Officials

- Mr. John Stepanchuk, Vice Consul, U.S. Consulate General, Izmir, Turkey
- Mr. H. Orhan Akin, commercial Assistant, U.S. Consulate General, Izmir, Turkey
- Mr. George W. Knowles, Commercial Attache, U.S. Embassy, Ankara, Turkey

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- Mr. Ertugrul Gur, Assistant to Commercial Attache, U.S. Embassy, Ankara, Turkey
- Mr. Van Dyne McCutcheon, Regional Director, U.S. Trade and Development Program, Washington, D.C.

8 Miscellaneous

- Mr. Altan Zeki Unver, Secretary General, Development Foundation of Turkey, Ankara, Turkey
- Mr. H. Alp Bayulken, General Manager, Arthur Young, Istanbul, Turkey
- Mr. Dirk C. Van Der Bijl, Senior Project Officer, Asia Department (FMO), Netherlands Development Finance Company, The Hague, The Netherlands.

C. Notes of Meetings

1. April 10, 1986: Messrs. S. Gazanfer, Assistant General Manager and A. Ozden, Import Manager of Taris.

General presentation of Taris, support prices, elected and appointed directors and controllers, subsidiary companies and Government controls over day to day activities of Coop unions and members.

2. April 11, 1986: Mr. Kemal Guner Batu, Cotton Crop Manager.

Discussion of Cotton Union financial statements and viability of operations without price support.

3. April 13, 1986: Mr. Ekrem Hayri Cakaloglu, Figs Crop Manager.

Discussion of Figs Union financial statements and domestic/international demand problems for dried figs. Needs for quality standards, product diversification and continuation of support price.

4. April 14, 1986: Mr. Ibrahim Akman, Raisins Crop Manager.

Discussion of low demand and cost squeeze affecting profitability of operations. Necessity to increase capital and reduce personnel costs. Outlook is for continuation of support prices.

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5. April 14, 1986: Mrs. Yilmaz, Manager, Export Department.

Review of exports for each product line. Figs: Demand for dried figs is stagnant, fig paste sales are limited and strong competition of Spanish, Portugese and Greek figs. Raisins: EEC has established minimum prices which favor raisins of Greek origin and Taris to pursue new markets such as China and the USSR. Olive Oil: Strong domestic demand and exports to USSR and Libya. No EEC sales. Cotton: Export of cotton yarn to EEC, cotton waste and linter sold to Switzerland, Germany and UK, sawgin sales to Switzerland and modest soap sales to Cyprus. Export Department is responsible for preparation of export documents and monitoring of orders. Promotion is handled by the Assistant General Manager.

6. April 14, 1986: Cotton Union Board members.

Concern expressed over future ownership of yarn factory and the continuation of cooperativism in Turkey.

7. April 15, 1986 at Tire (see B.4.1. for names).

Evidence of idle and underutilized assets in the cotton ginnery, complaints about the lack of loyalty by cotton coop members who sold their crop outside the coop, complaints by cotton coop members that they do not share in the profits of the cotton yarn owned by the Union, and opinion voiced by member grower that cotton growers need support prices.

8. April 15, 1986 at Tepekoy (see B.4.1. for names).

Taris cotton support prices in 1986 higher than market prices, dissatisfaction of fig growers with Taris payment terms, multiple crops by member growers and limited number of growers dedicated strictly to raisins and/or figs.

9. April 15, 1986 at Salihei (see B.4.2. for names).

Cotton coop members were vocal about the deterioration of the value their initial contribution, the absence of ristournes and the lack of information about the earnings of the Taris Cotton Union.

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10. April 15, 1986 at Alasehir (see B.4.3. for names).

Visit of brand new 40,000 tons raisin processing plant, likelihood of overcapacity. Coop manager convinced that plant can operate profitably without government support prices with the help of personnel costs reduction and the freedom to sell all output at US \$1,000 per ton or less.

11. April 15, 1986: Mr. Ferit Taskin, Olives Coop Crop Manager.

Relative independence of Olive Coop Union, high market prices, strong internal demand coupled with some export sales, control of personnel costs, distribution of profits derived from sale of olive oil.

12. April 16, 1986 at Milas (see B.4.5. for names).

Cotton coop members want to share in the undistributed profits of the cotton yarn and margarine/soap plant, olive growers are concerned about mandatory reinvestment of 5% of sales to Taris. Members critical of new 1985 coop law resulting in increasing control over agricultural sales cooperative and lack of communications with Taris unions in Izmir.

13. April 16, 1986 at Soke (see B.4.6. for names).

Overcapacity of saw ginning (50,000T/year versus 13,000T production in 1985); 60 percent of cotton grown in area sold to Taris, 100 percent of figs grown in area sold to Taris.

14. April 16, 1986 at Ortaklar (see B.4.7. for names).

Thirty kilometers from Soke, concern over high cost of financing, reduced number of fig trees replaced by cotton and truck farming crops, 100 percent of crop sold to Taris at support price, small packing plant (30,000 square feet ±) with low investment.

15. April 16, 1986 at Germenchik (see B.4.8. for names).

Fig growers would like to have their soil tested by Taris Agricultural Division, fig growers reported to sell to private traders in spite of lower price for top quality figs, 50 percent of cotton crop sold to private traders on account of better terms, willingness of cotton grower member to subscribe additional capital to the tune of 100,000TL per year over next three years.

16. April 16, 1986 at Aydin (see B.4.9. for names).

Warehouse for distribution of fertilizers, modern and underutilized sawginning facilities, complaints about high cost and lack of credit, members report they do not have enough income to pay their taxes on time, one director did not know about new Cooperative Law 3186 of 1985, members favor support prices.

17. April 16, 1986 at Kusadasi (see B.4.10. for names).

Antique oil press, multiple ownership of building (cotton, olive and figs coops).

18. April 17, 1986 at Edremit (see B.4.11. for names).

Some cotton and major activity in olive oil, complaints about high cost of credit, large storage capacity, desire for capital increase (5 percent of oil sales per year up to 500,000TL), large crops are disruptive.

19. April 17, 1986 at Burhaniye (see B.4.12. for names).

Large facility, availability of storage tanks, complaints about high cost of credit, olive growers receive ristourne on processing of their crop, questions about U.S. consumption and production of olive oil.

20. April 17, 1986 at Ayvalik (see B.4.13. for names).

New continuous process plant for production of olive oil with 80 tons capacity and over 2,000T storage capacity, process yields higher quantity of first grade edible oil and by-products.

A.III-13

21. April 17, 1986 at Bergama (see B.4.14. for names).

Bergama cotton allegedly the best in Turkey, small farmers with 6 HA average, long and inconclusive discussion about income of cotton grower members.
22. April 18, 1986 at cotton yarn factory (see B.5. for names).

1975 start-up, losses during first five years, currently highly profitable: (FY 1987 7 month sales of 12,094 million TL, net profit of 1.350 million TL, total assets of 6,640 million TL and fixed assets of 2,749 million TL), plans for forward integration (textile mill), space available for expansion. Problems: high cost of energy (13% of production costs) and low compensation of personnel at all levels.
23. April 18, 1986 at vegetable oil refinery (see B.5. for names).

No financial statements, consolidated with Olive Oil Union financials, completed reduction of personnel from 600 to 282 workers, trends to contract trucking and cafeteria catering service, profits accrue to Olive Oil Union, modern production facilities with well equipped quality control laboratory. However, no sterilization process.
24. April 18, 1986: Taris legal counsel, tax advisor and chief accountant (see B.2. for names).

Unduly restrictive cooperative law, limited interpretation of Article 53 with respect to the treatment of credit for commercial type transaction, politicized election of board members at coop levels, problem of standardized closing date for financials of Taris unions. Likely need for detail audit of receivables of Cotton Union and insufficient provision for uncollectibles.
25. Final meeting of April 18, 1986: crop managers of Taris Coop Unions (see B.2. for names).

De facto liberalization for olive oil coop on account of purchase of olives at market price. Cotton manager feels present system is incongruous with laissez faire but fears Government would not

abide with laissez faire reforms of agricultural sales cooperatives. Figs and raisins managers voiced their concerns over low capital resources and the necessity to increase them. All parties agreed on the necessity to change the current law and to be involved with the new legislation. Consensus on lack of prior participation and discussion on cooperative law. Need to initiate dialogue with members of Parliament. Apparently, no common position with other agricultural sales cooperatives.

26. Final meeting of April 20, 1986: General Manager of Taris unions (see B.2. for names).

Discussion of draft telex report on consultants activities, findings and conclusions. Agreement with recommendation for strong commitment by Government for change of cooperative law and decontrol of agricultural sales cooperatives. General Manager expressed desirability of joint ventures between Taris and qualified U.S. companies/cooperatives. General Manager and consultants agreed not to open ownership or cotton yarn and margarine/soap subsidiaries to private outside investors and to keep them in the hands of Cotton Coop Union and coop members.

27. April 21, 1986: Ministry of Commerce and Industry (MOCI) (see B.6. for names).

New Cooperative Law 3186 of 1985 is temporary and extreme. MOCI role should be one of advisor. Desirability of partial divestiture within next 2 years as provided by law of cotton yarn/margarine subsidiaries on account of alleged unpaid loans/payable by cotton unions and coops to Agriculture Bank. Report of challenge of the constitutionality of Law 3186.

28. April 21, 1986: Turkish Agricultural Bank (see B.6. for names).

High cost of credit to agricultural sales coops (46 percent). Bank unwillingness to share collateral with other institutions and insistence on being paid first make it impossible for coops to deal with other banks. Some medium-term financing.

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29. April 22, 1986: Office of the Undersecretary for Treasury and Foreign Trade (see B.6. for names).

Necessity to lessen controls by Agricultural Bank on price support transactions only, cotton union should spinn off subsidiaries.

30. April 22, 1986: U.S. Embassy officials (see B.7. for names).

Report of findings and recommendations and notification of forthcoming telex by Taxis General Manager. Embassy staff expressed concern for future "definitive" effort by U.S. Government to restructure Taxis Union and for coordination with new general World Bank study of 22 agricultural sales coops in Turkey. They will contact the Office of Prime Minister to ascertain GOT commitment for liberalization of Taxis position with Government. Consensus on strong signal of GOT commitment for any further effort.

31. April 22, 1986: Prime Minister's office (See B.6. for names).

Concern over slow progress of Morgan's study of 32 SOE's and Lazard Freres proposal for privatization of Turkish Airlines. Interest in ESOP.

APPENDIX IV

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11. Taris briefing (in English).
12. "Summary of Taris" (in English), overview, outline of Taris restructuring and financials of 4 union cooperatives for the Fiscal Year 1983-1984.
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15. Agricultural sales cooperatives: Turkey - Consultant report prepared by C. Durkop in October, 1985, for the Food and Agricultural Organization of the United Nations.
16. Taris exports in last five and ten export seasons (memorandum provided by Export Development)

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A.IV-2

17. Financial statements (in Turkish), Union of Agricultural Cooperatives for the Sale of Raisins of Izmir for the Fiscal Years 1976-77 through 1984-85.
18. Financial statements (in Turkish), Union of Agricultural Cooperations for the Sale of Cotton of Izmir for the Fiscal Years 1975-76 through 1984-85.
19. Financial statements (in Turkish), Union of Agricultural Cooperatives for the Sale of Olive Oil of Izmir for the Fiscal Years 1978-79 through 1984-85.
20. Financial statements (in Turkish), Union of Agricultural Cooperatives for the Sale of Figs of Izmir for the Fiscal Years 1976-77 through 1984-85.

APPENDIX V

SUPPLEMENTARY MEMORANDA

A.V-1

The General Manager of Taris met with the consultants in the evening of April 20, 1986, to discuss the attached telex draft prepared by the team. This draft summarizes the team findings following their brief stay in Izmir studying the structure, organization and scope of activities of Taris. Furthermore, the draft telex outlines the consultants approach for a step by step privatization of Taris, i.e., liberalization from undue government interference and the restructuring of its operations. The General Manager of Taris concurred with the team findings and recommendations. The General Manager advised he would review the draft telex with the directors of the Taris unions prior to sending the telex to Mr. Paul Haire, USAID/PRE, in Washington through the U.S. Consulate in Izmir and the U.S. Embassy in Ankara. On May 27, 1986, the general manager mailed an official account of Messrs. Barokas' and Crouzet's mission to Mr. Paul Haire, USAID/PRE through the Office of the Commercial Attache, U.S. Embassy, Ankara.

The attached copies of the above mentioned draft telex and letter of May 17, 1986, are intended to be an integral part of Appendix V.

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**İZMİR İNCİR, ÖZÜM, PAMUK ve ZEYTİNYAĞI**  
**TARIM SATIŞ KOOPERATİFLERİ BİRLİKLERİ**  
(UNIONS OF AGRICULTURAL CO-OPERATIVE SOCIETIES FOR THE SALE  
OF FIGS, RAISINS, COTTONS AND OLIVE OILS OF İZMİR  
P. O. B. 220 - İZMİR - TURKEY

Salus Manager : 21 70 66  
21 70 66  
21 68 90  
21 01 00  
Telux : 62347 a-b

Tel. Address : TARIŞ/İZMİR  
INTASKO/İZMİR

Codes : { BENTLEY'S COMPLETE  
BENTLEY'S SECOND  
RUDOLF MOSSE  
COMMERCIAL  
EXPORT DEMARKETENK

127 MAY 1986

İ z m i r May 26, 1986  
P.O.B. 220

No. : G. Md. Bürosu/24664

TO: Mr. Paul Haire AID/PRE  
Mr. Richard Williams AID/ANE

FROM: Ahmet Çetinbudaklar, TARIŞ/İZMİR  
General Manager and Joint Chairman of the Boards  
Unions of İzmir Agricultural Sales Cooperatives of Figs, Raisins,  
Cotton and Olive Oil.

THROUGH: COMATT ANEMB ANKARA  
Mr. Knowles/Mr. Gür

SUBJECT: Tarih Privatization, TA from CFP by Messrs. Rifat Barokas and Jean  
Crouzet of IPC.

SUMMARY: After a brief stay in İzmir studying the structure, organisation and scope  
of activities of Tarih, Messrs. R. Barokas and J. Crouzet proceeded to Ankara  
for additional meetings and then on to the United States.

1. As a result of prior contacts between TARIŞ and USAID over the past year, TARIŞ  
was pleased to receive a two-person team mobilized by the Center for Privatization  
to undertake a reconnaissance and observation study of TARIŞ and meet with appropriate  
officials of both TARIŞ and the Turkish Government.  
The team consisting of Messrs. R. Barokas and J. Crouzet had a brief but very  
intensive work program during their stay in İzmir. In addition to their review of  
internal and external documents, they held extensive interviews with all levels of  
TARIŞ officials both in headquarters and field offices,
2. Messrs. Barokas and Crouzet accompanied by TARIŞ officials and crop experts in  
cotton, figs, raisins and olive oil covered close to 2000 kms. in three field  
trips in the North, South and East Aegean, visiting 24 cooperatives in 14 out of  
a total of 64 locations. Furthermore, they reviewed and discussed the financial  
statements, current production, marketing, storage and processing conditions with  
farmers, plant managers, local cooperative leaders and coop staff members.  
The team also visited over a dozen of agro-industrial establishments in the field  
and in İzmir including the cotton yarn and integrated olive oil refinery. After  
their review of the legislative framework under which TARIŞ and the other Agri-  
cultural Sales Cooperatives operate, they held discussions with the corporate  
legal counsel, financial and tax advisor and director of accounting as well as the  
4 crop managers.

7.17

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TO: Paul Haire AID/PRE  
Richard Williams AID/ANE

FROM: Ahmet Çetin Budaklar TARIŞ  
General Manager - Union of Aegean Agricultural Sales  
Cooperatives

THROUGH: US Consulate IZMIR  
COMATT ANEMB ANKARA  
Knowles/Gür

SUBJECT: Tariş Privatization TA from CFP by Rifat Barokas and Jean  
Crouzet of IPC.

SUMMARY: After a brief stay in Izmir studying the structure,  
organisation and scope of activities of Tariş, R. Barokas and J.  
Crouzet proceeded to Ankara for additional meetings and then on to  
the United States.

1. As a result of prior contacts between TARIŞ and USAID over the past year, TARIŞ was pleased to receive a two-person team mobilized by the Center for Privatization to undertake a reconnaissance and observation study of TARIŞ and meet with appropriate officials of both TARIŞ and the Turkish Government. The team consisting of R. Barokas and J. Crouzet had a brief but very intensive work program during their stay in Izmir. In addition to their review of internal and external documents, they held extensive interviews with all levels of TARIŞ officials both in headquarters and field offices.
2. Barokas and Crouzet accompanied by TARIŞ officials and crop experts in cotton, figs, raisins and olive oil covered close to 2000 kms. in three field trips in the North, South and East Aegean, visiting 24 cooperatives in 14 out of a total of 64 locations. Furthermore, they reviewed and discussed the financial statements, current production, marketing, storage and processing conditions with farmers, plant managers, local cooperative leaders and coop staff members. The team also visited over a dozen of agro-industrial establishments in the field and in Izmir including the cotton yarn and integrated olive oil refinery. After their review of the legislative framework under which TARIŞ and the other Agricultural Sales Cooperatives operate, they held discussions with the corporate legal counsel, financial and tax advisor and director of accounting as well as the 4 crop managers.
3. Barokas and Crouzet left Izmir for Ankara on April 21, 1986 to hold discussions with officials of the Ministry of Industry and Trade (MOIT), the Agricultural Bank (TCZB) and the Undersecretary of Treasury and Foreign Trade (UTFT). These three Turkish Government agencies are the primary institutions who supervise, inspect, control and audit the activities of 22 Agricultural Sales Cooperative union organisations in Turkey.

4. TARIŞ would like to express its appreciation to USAID for providing this team which was able to observe, gather and analyse a large amount of data in such a short time with perception and sensitivity to local norms.
5. Barokas and Crouzet have recommended a five step approach in response to three specific needs faced by TARIŞ. The TARIŞ needs were initially indentified as:
  - a. Privatization - less government control.
  - b. Restructuring in the financial sense.
  - c. Reorganisation of operations and reform of management and administration.

The five step approach suggested by the team is

- i. Political will/commitment.
- ii. Legislative/legal process
- iii. Administrative/management/organisational reform
- iv. Financial restructuring and installation of improved financial, accounting and management information systems.
- v. Technology transfer and joint ventures.

#### 6. Political Will:

The present Turkish Government is a world leader in its demonstrated efforts to privatize state-owned enterprises. Others are rationalised and substantially improved upon for reasons of national interest and security. In most Government Departments, efforts are being made to minimize or eliminate bureaucratic red tape as much as possible. This political will has been strongly expressed by the GOT as demonstrated in the establishment of the Public Participation and Housing Funds under the Prime Minister's Office. However, this expression has not been extended to Agricultural Sales Cooperative union organisations. TARIŞ is one of the leaders within the 22 presently in operation which play a key role in the Turkish agricultural sector. The consultants have advised the need for a green light signal by the Government of Turkey which would reflect its determination to lessen the burdensome controls excersized by MOIT, TCZB, UTFT and other institutions on the Agricultural Sales Cooperatives. Such a signal would go a long way towards justifying the investment of additional resources so that the other steps recommended by the Consultants in section 5 above may be implemented.

A decree by the Prime Minister, or the Council of Ministers or MOIT to the effect that GOT is intent on strengthening the decision making authority of the Agricultural Sales Cooperatives and their unions would enable TARIŞ and other agricultural cooperative organizations to bring their operations closer to their full potential. The cooperatives in general and TARIŞ in particular should be able to have extensive communications with

the Government officials and members of Parliament both before and after the decree mentioned above in order to explain the real benefits to the producers of granting more independence to the coops and their unions. This communication would also emphasize the needs and benefit of elimination of political influence and excessive Government interaction and control.

Another reason for the expression of such a political commitment is the sense of urgency in preparing growers production technology and costs, internal markets, and distribution systems to the potential shocks of full participation in the Common Market and the very substantial production increase expected from new irrigation projects in Central and South Eastern Anatolia.

## 7. Legislative/Legal

The consultants have advised the potential need of substantially amending current legislation embodied in Law Number 3186 or preferably its replacement. This is a critical area which needs to be focused upon assuming the expression of a political will and commitment by the GOT in the very near future. The technical legislative effort which is suggested will have to be based on sound business and management principles. Consultants have indicated that although regulatory controls may be needed prior to and after full privatization, these controls should not be as restrictive as they currently are and should focus on a few key operational aspects.

The consultants have reviewed a number of legal entity options to increase the capital and improve the effectiveness of agricultural sales cooperatives. Among the two broad categories, the first was a private sector entity such as stockholder corporation (Holding for TARIŞ and Anonim Şirket for the 4 crop unions), a Limited Corporation, Collective Corporation or Partnership. None of these were found to be suitable.

However, whichever legal entity is chosen, there is no doubt that it has to approximate the profit motive of the private sector still holding sacrosanct the ideas of providing service and assistance to its members.

The option found most suitable was a federated system of cooperatives and unions closer to the definition currently understood in countries such as Holland, Germany and the United States. Government intervention through support price procedures would be gradually reduced and limited to the accounting aspects of price support programs.

## 8. Administrative-Management-Organisation Reform

The consultants have indicated that the interlocking of asset ownership, resource allocation and sharing of expenditures has become bureaucratic and redundant. Expansion of individual cooperatives and unions have been undertaken mostly on political grounds and not on non-socioeconomic and financial objectives in mind.

A management audit followed by a thorough reform of the organisation with an emphasis on the analysis of human, physical and financial resources would resolve problems of the following nature:

- Job descriptions
- Responsibility/Accountability/Authority
- Communications
- Motivation/Incentives (financial and others)
- Establishment of a true cooperative spirit
- Results oriented management

## 9. Financial restructuring and installation of improved Financial, Accounting and Management Information Systems.

Consultants have indicated that TARIŞ has an accounting system at the present time which is not as a whole supported by a management information system which includes appropriate financial systems. The essentials of the financial restructuring can be described as follows:

- A Capital: Resources are very scarce and there is a need to increase equity funds rapidly to reduce dependence on high cost credit.
- B Credit: Available at too high a cost to unions limiting profitability. Too many restrictions on diversifying credit sources. Government credits available at high cost with too many strings attached.
- C Prices: With the switch from a closed to an open economic model, agricultural prices are likely to be volatile as both private and public sector import agricultural products though for different reasons. Public sector importers are used to stabilize local prices and costs. Private importers are profit-oriented and take advantage of specific market conditions at a given time. Government price support programs in some instances distort supply and demand relationships forcing losses and excessive production, storage and disposal problems upon cooperatives and unions.
- D Return on Assets: Annual revenues need increasing. Costs need to be brought down. Profitability needs to be improved. Asset productivity is too low and needs to be increased. Idle assets need to be identified.

E Optimization of earnings Use: Use of profits need closer management attention and liberation from Government control and fiat. The options which need scrutiny are:  
- distribution to members  
- substitution for outside credit  
- acquisition of new assets.

3. Technology Transfer and Joint Ventures

TARIŞ presents a wide array of technologies ranging from the most sophisticated latest state of the art to antiquated modes.

A Production: Technologies need standardization with a view to increase productivity and improve product quality.

B Research and Development: New product development for agricultural products whose internal and external demands seems to flat out and possibly decrease in the near to medium term future (e.g., figs, raisins).

C Marketing/Advertising/Public Relations: Market penetration and increasing market share in domestic and international markets will need avoidance of the "marketing myopia" (Professor Levitt of Harvard) suffered by some American companies.

TARIŞ needs to identify appropriate marketing technologies to increase domestic and export sales; advertising and market research technologies to expand markets; and public relations technologies to spread and improve TARIŞ image and influence public and Government awareness.

D Training and Development: the needs can be summarized as follows:

-Management development in top, middle and lower management and staff in unions and coops utilizing management by objectives and other techniques found suitable by management.

-Training of coop members, and leaders both in cooperativism and participation in management through board of directors and controllers through courses and seminars using audio-visual aids.

E Joint Venture Arrangements: At present. TARIŞ is basically an inward looking organisation. TARIŞ' processing capability, ability to develop new products and the scope of TARIŞ international marketing activities would stand to gain from selective joint venture arrangements including but not limited to licensing technical assistance, marketing and other agreements with qualified offshore business partners.

10. Proposed Schedule of Future Activities

- |   |                   |
|---|-------------------|
| A. Expansion of political will/commitment   | BY July 30, 1986  |
| B. Legislation/legal initial phase<br>by local experts  | BY Aug. 30, 1986  |
| C. Independent Certified Audit<br>by a leading international CPA firm   | BY Oct. 1, 1986   |
| D. Expat TA in Legislation/Legal Administrative,<br>Management, and organisational reform,<br>financial restructuring and technological<br>transfer | BY Dec. 15, 1986  |
| E. Privatization and restructuring<br>planning completed  | BY Dec. 31, 1986  |
| F. Privatization Legislation<br>adopted by Parliament   | BY March 30, 1987 |
| G. Privatization completed  | BY Dec. 31, 1987  |

11. Proposed Second Phase Technical Assistance

Future Technical Assistance will be subject to the GOT expression to proceed on restructuring and privatization of agricultural sales cooperatives and the request of TARIŞ.

Proposed dates for second phase assuming political commitment is expressed within 90 days is o/a October 1-31, 1986. The following experts are suggested:

Coop Expert on Production  
Coop Expert on Marketing  
Attorney - US and 2 Turkish  
Financial Adviser  
Economist - Team Leader

12. Other

Ahmet Bey,

Please feel free to include any additional comments after meeting with your Board of Directors and your staff.