THE IMPORTANCE OF FINANCIAL REPORTING DURING PRIVATIZATION: TURKISH CASE

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ABSTRACT: Privatization has been on a lot of countries' agenda, especially for the emerging countries for a long time. In Turkey, as an emerging country, privatization plan has been a very high priority among the State Budget income items for three decades. To identify and to explore the accounting role in privatization is the critical issue for the countries under privatization process. In this study, the importance of financial reporting during privatization process is examined. The overall responsibility of accounting in privatization is to develop investor confidence to channel the flows of funds and to ensure the effective and efficient use of capital funds. Therefore, without a sound accountancy framework, the privatization process would not generate the desired long term economic, social, and financial development results. Therefore, we analyzed the period of Turkish privatization experience by underlying the importance of financial reporting in this process. For this purpose, in the first part of the study, we defined the privatization and argued the positive and negative opinions about it. In the second part, we clarified the role of accounting in privatization process under disclosure, transitional problems, training, valuation problems, and inflation accounting subsections. In the third part, we discussed the recent accounting developments which may effects privatization in Turkey. In the fourth part, we summarized the implementation of privatization in Turkey. Then, we mentioned the key issues in privatization process for emerging economies. Based on the Turkey's privatization practices, financial reporting has a very important role in the SOE's privatization process. In our point of view, since accounting has an important role in privatization, this role takes place before, during and also after the privatization. It should be taken into consideration that the main objective of privatization is not only to privatize SOE's, but also keep the sustainability of privatized SOE's. While privatization creates sources for new investments of the governments, it should support the effectiveness and economics of goods and services in the area of privatization. So the sustainability of privatized companies is very important as well as their sales. All of the above purposes can be controlled by solely accounting.

Key words: privatization, accounting, financial reporting, emerging economies, state owned enterprises

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Privatization

Privatization is the strategy or the process which transfers totally or partially, an asset or enterprise which is owned or controlled, either directly or indirectly, by the state to private organizations. Also, privatization is a process of "empowerment" that makes people economic and political participants by creating opportunities for ownership and a sense of involvement in the society at large (Ogden S.G. and Anderson F., 1999, p.119-120). Privatization and economic liberalization is the trend towards economic integration of markets at the national and international level. By forcing to decrease the public policy autonomy of the states, the globalization of the

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economy propelled governments all over the world to resort to structural adjustments at the political level to shift the focus from a bureaucratic model of public management to a market model. Four types of government policies can bring about a shift from the public to the private sector (Gupta A. 2000, p.2.):

a) the cessation of public programs and the disengagement of government from certain responsibilities,

b) a transfer of public ownership and assets to private organizations,

c) the financing of private services through contracts or vouchers, and

d) allowing the private sector to enter into those areas hitherto reserved exclusively for the public sector.

Since an important objective of privatization is to remove the nationalized industries from political control in the belief that control by the market would ensure greater efficiency (Conrad L. and Sherer M., 2001, p.517); the objectives of applying privatization may classify in administrative, economic, and political categories(Gupta A. 2000, p.8). Because of structural differences to political motives behind privatization; grouping countries as developed, developing and former communist, although conceptually and methodologically useful, may obscure significant differences within each category (De Castro J.O. and Uhlenbruck K., 1997, p.137). Although there were many factors responsible for the economic stagnation in developed economies, the blame was generally put on the poor performance of the public sector. The declining growth rates, rising unemployment, a decline in investments and rises in inflation led to the privatization drive in most of the developed countries. Four factors contributed to the notion of efficiency and the effectiveness of privatization (Gupta A. 2000, p.4): deindustrialization, public sector productivity, perception of public work, and emergence of pro-market ideology.

While an acute debt crisis propelled the privatization debate in most of the developing countries and put it on the national agenda, since the International Monetary Fund (IMF) and the World Bank refused to provide loans and to invest as foreign capital to them during the 1960s unless and until they resorted to nationalization of the key industries (Gupta A. 2000, p.4-5). This pressure on developing countries is still continued to privatize their public sector enterprises (Craıg J., 2000, p.358) before applying for loans. On the other hand, such as the former USSR, Eastern Europe and People's Rep. of China, the former communist societies, also became the testing ground for privatization on the massive scale(Gupta A. 2000, p.6). The beneficial results of privatization in the developing and former communist countries are reflected in many areas such as (Young P., 1998, p.7): improved enterprise performance, increased state revenue, greater choices and prosperity for consumers and employees, and wider access to private investment and capital.

In developing and former communist countries, the host government can have a considerable effect on foreign direct investment through its privatization policy, but also that public-policy findings can be generalized only to a limited extent. While, for instance, governments in developed countries may seek a dispersed ownership for privatized firms, Eastern European countries might be advised to divest State Owned Enterprises (SOEs) completely to one owner in order to attract investors and make for a more efficient transition (De Castro J.O. and Uhlenbruck K., 1997, p.138).

Privatization programs are complex and all the key aspects (social, economic, political, etc) should be taken into account in the design of the program and components. The critical success factors for privatization programs may be as follows (Young P., 1998, p.7):

a) establish a proper balance among objectives.

b) thorough planning and education are vital.

c) decision makers must be better educated so they can fully understand the need for privatization and the necessity of creating a solid institutional framework that will allow privatization to flourish.

The Conservative Governments' privatization program focused on the transfer of capital intensive infrastructural industries to the private sector. These industries, such as water (Rahman A. S. et al., 2007), electricity, gas(Conrad L. and Sherer M., 2001), telecommunications, ports(Arnold P.J. and Cooper C., 1999), railway(Craig R. and Amernic J., 2006), and road(Cyna M., 1994), had often constituted natural monopolies and retained significant elements of monopoly power after privatization. Privatized industries were expected to pursue commercial objectives and to improve efficiency, but had the capacity to exploit consumers by charging high prices or providing poor services. Therefore, especially, the utility privatization was accompanied by the establishment of regulatory bodies in order to protect consumers from monopoly power and, in the long run, to promote competition. Most regulators were given three main objectives by the relevant privatization legislation (Crompton G. and Jupe R., 2003, p.402); ensuring that the industry was able to finance the provision of services, protecting the interests of consumers with respect to prices and quality of service, and enabling or promoting competition in the industry.

In practice, while some countries may adopt privatization for its long term implication, others may resort to it for short term political gains; privatization has been adopted in different countries in different context, and each country may have its own rationale behind adopting the privatization policy (Gupta A. 2000, p.10). In this study, since there might be a close relationship between the growth in implementation of privatization and developments of accounting and financial reporting, in the following sections, first of all we clarified the role of accounting in privatization process under disclosure, transitional problems, training, valuation problems, and inflation accounting subsections. After that, we discussed the recent accounting developments which may effects privatization in Turkey. Then, we summarized the historical background of Turkish implementation of privatization by comparing developments of accounting in Turkey for the Turkish privatization period from 1983 to 2010.

Financial reporting in privatization

Accounting provides the framework for the profit and loss game and accounting techniques were employed for the crucial task of restructuring the nationalized industries as commercially viable enterprises in the private sector (Shaoul J., 1997, p.382). Because most privatization decisions depend on high-quality accounting data, the lack of understanding of valuation methods and accounting concepts as well as a lack of transparency in the exercise can jeopardize entire privatization programs (United Nations, 1993, p.1-2). Since an accounting model working with publicly available corporate data can be used to make an objective social analysis and critique of economic life (Shaoul J., 1997, p.382), accounting and auditing supported by an extensive legal framework of financial measurement, reporting and disclosure plays an important role in executing a sound privatization process (The International Consortium on Governmental Financial Management, 1997, p.3). In the literature, there is a study (Conrad L. and Sherer M., 2001, p. 530) that comes up the power of accounting that effects radical organizational change: "*accounting information was shown to have taken on a crucial role in relation to organizational change after privatization, enabling a new language of accountability by giving new visibility to organization to provide more and more financial information*".

Accounting information is clearly an important tool which gives visibility to the activities of SOE as an organization, and which can help enforce accountability (Conrad L. and Sherer M., 2001, p. 522). Being a social and political process, "accountability" is about perception and power, and it has three aspects; political, managerial and moral. Political accountability relates to the expectations of citizens in society, while managerial accountability is about making managers answerable for the economy, efficiency and effectiveness of their performance, and moral accountability is about being answerable for proper conduct (Conrad L. and Sherer M., 2001, p.515). Governments attempt to render more visible the economy, efficiency and effectiveness of public service operations, and consequently to increase accountability for performance by service providers.

Government accounting is a key component of accountability and transparency by keeping the records of and reports the financial policy related government transactions. An advanced accounting and reporting system is the most reliable source of reference with respect to the current and future effects of the financial policies employed by the governments (Ministry of Finance Turkey, 2002, p.4). Featuring this characteristic, government accounting provides timely, accurate and consistent information to all decision-makers as well as to decision-makers who are involved in privatization process.

The overall responsibility of accounting in privatization is to develop investor confidence to channel the flows of funds and to ensure the effective and efficient use of capital funds. Therefore, without a sound accountancy framework (transparency and accountability), the privatization process would not generate the desired long term economic, social and financial development results, while furthermore enhancing the motivational attitudes in respective country (The International Consortium on Governmental Financial Management, 1997, p.3). Also, weak capital markets and poor enforcement of accounting regulations, a culture of tax avoidance, and accounting education inappropriate to the local environment caused a lack of transparency and accountability (Uddin S. and Hopper T., 2003, p.745).

On the other hand, accounting-related rhetoric may be deployed as an instrument in the service of power elites. And, the accounting language thus constitutes an exclusive means of expression regarding the issue of SOEs privatization (Craıg R. and Amernic J., 2004, p. 55). Also, it will be difficult to proceed with effective privatization efforts if the financial management issues are not properly addressed, including in many countries the concepts and methods of valuation of properties, issuance of privatization procedures vouchers, presentation of financial statements, disclosure requirements, measurement and classification of financial items, etc. The financial management aspects of privatization are highly linked to the countries' developments in accounting and auditing in nature (Enthoven A. J. H., 1997, p.8).

Rather than as simply a set of technical instruments, accounting may assist management decision making as a tool to mould organizational processes and actions and to shape organizational members' perceptions. According this prominent role in these processes of organizational change, as an instrumental in communicating the new corporate imperatives "accounting" was centrally implicated in the articulation of new visions of management practice, the definition of the criteria by which managerial success would be determined, and in the creation of new expectations of managerial responsibility and accountability. Accounting has been fundamental to specifying what managers will be held accountable for and accounting has been the principal instrument for the articulation of new expectations of managerial responsibility (Ogden S.G. and Anderson F., 1999, p.121).

It should be keep in mind that, as a language of business entity, accounting sometimes is not an innocent bystander in the political maneuverings associated with a privatization, since it does not axiomatically provide an untainted and objective measure of some underlying financial truth, but should be regarded as part of an arsenal of rhetoric to achieve political ends (Craıg R. and Amernic J., 2006, p. 93). Also, unequal income distribution, poverty, low purchasing capacity, unemployment, political instability, and the consequences of colonialism, all impact upon privatized companies leading to questionable valuations, placements to familial or political colleagues, harsh regimes of control, weak financial regulation and accountability, and financial malpractice (Uddin S. and Hopper T., 2003, p.770) in emerging economies where neither capital markets nor economic institutions are well-developed (Todorovic M.A.Z., 2000, p.10). There is also a study (Rahman A. S., 2007) that shows how accounting is enlisted at an almost sub-conscious level, how its use can engender significant resistance and how accounting can be used to position the debate in various terms, including "profitability", "affordability", and "accountability".

Also, regarding the consequences of privatization, the study (Arnold P.J. and Cooper C., 1999, p. 148-149) shows that accounting and accountancy firms facilitate a masking of

"exploitative relationships that lie beneath the surface of their craft and inform the values they assign" by redistribution of wealth between social classes that privatization process reproduced in society despite the rhetoric or popular capitalism and shareholder democracy. Another study (Shaoul J., 1997) analyzed the economic consequences of privatization by using financial accounting reports that belongs the privatized water SOE. That study also concludes that "while the government's case (for privatization) rested upon efficiency and benefits for all, the real effect of privatization was the redistribution of wealth to the new owners." As a conclusion, privatization aims at establishing a new pattern of ownership. It is not only the outcome of the groups in power but it also helps in forming and shaping these groups (Gupta A. 2000, p.16). It is bound to divide society into "winners" and "losers" before, during, and post privatization campaign (Craig R. and Amernic J., 2004, p.45). "*Strictly speaking, privatization connotes changes to the entire social relationship network, not only in economic terms but also in terms of political, moral and informal social relations. While privatization alters the very environment of business by creating new opportunities for production, investment and trade, it also leads to uncertainties and vulnerabilities in the wake of swift changes in economic and political policies at the local, national or global level."(*Gupta A. 2000, p.8*)*

On the other hand, the accounting industry has become more commercialized and entrepreneurial as its profits have become increasingly dependent on selling consultancy services. Therefore, the thesis exists that "being the new service class, accounting industry is subservient to capital, an emphasis on accounting institutions as objects of economic change can neglect the significant role the accounting industry has played in executing the neo-liberal agenda that has transformed global capitalism"(Arnold P.J. and Cooper C., 1999, p.131). The direct role accountancy firms have played in executing the neo-liberal transformation of international capitalism is nowhere more evident than in the field of privatization. Since the "marketability" of a SOE depends upon creating a political and economic environment conductive to investment, and providing state subsidies to make privatization targets commercially viable, privatization advice becomes intertwined with economic and public decisions. Privatization consultants play a strategic policy role advising on matters such as the need for neo-liberal economic reforms to create an "enabling environment" for privatization, the necessity of pre-privatization restructuring, and the wisdom of building political support for privatization by offering potential opponents a stake in newly privatized industries. Accountancy firms have been the one of the dominant providers of privatization advisory services. There are some factors such as economic, political, and the significance to professionalism's cultural capital which explain why professional technicians and particularly private sector accounting firms came to play such a prominent role in the privatization industry (Arnold P.J. and Cooper C., 1999, p. 134-136).

Playing a critical role in privatization process (Enthoven A. J. H., 1997, p.3), the role of accounting and financial reporting in privatization can be analyzed under five subsections that are disclosure, transitional problems, training, valuation problems, and inflation accounting (United Nations, 1993).

a. Disclosure

The convention of full disclosure requires that financial statements and their notes present all information that is relevant to the users' understanding of the statements. That is, statements should offer any explanation that is needed to keep them from being misleading. Explanatory notes are considered an integral part of the financial statements. Therefore, accounting's overall goal is to provide useful information to decision makers through financial statements by being reliable and congruent with international accounting and reporting standards, and useful for making investment and credit decisions and for estimating the nature and timing of cash flows (United Nations, 1993, p. 23).

b. Transitional Problems

The underlying data from past accounting transactions may not be accurate and/or relevant in former centrally planned economies. Even when past accounting information can be reliably identified with a particular accounting entity, it may have been prepared on some basis which is not acceptable for commercial purposes or international investors' approach. The most common examples are "cash basis government accounting" and "fund basis government accounting" systems (United Nations, 1993, p. 25). Particularly in the transition from a planned to a market economy, the quality of the accounting data assembled for past transactions is generally considered to be inadequate for providing reliable information to all kinds of investors. This is due to fiscal regulations in the same standard-setting body; the emphasis on production, rather than profitability; and the lack of external accountability (e.g. reporting standards) (The International Consortium on Governmental Financial Management, 1997, p.14). Therefore some of the main types of problems connected with gathering and preparing satisfactory financial reporting and meaningful, full and fair disclosure with general quality of the accounting data stems from changes in the accounting entity, changes in accounting systems, changes in accounting standards, changes in reporting to uniform basis, and changes in accounting profession. The implementation of private sector accounting practices into the public sector is indicative of an attempt to render visible new aspects of public sector service provision and to emphasize new values. Attempts to quantify performance mean that accounting is a central role as a control mechanism in the public sector reforms which took place and several authors have considered the effect of this in a variety of organizational contexts (Conrad L. and Sherer M., 2001, p.522).

The accounting profession, in cooperation with the government, should be involved in developing accounting and auditing standards, set criteria for issuing certificates to qualified accountants and auditors. These accountants and auditors should have passed an examination, and registers and controls its members, offers training programs, and continuing education courses, etc. Also, an effective accounting and auditing profession, as an organized body, will be necessary for: developing a sound capital market; stimulating financial institutions; furthering capital formation; educational and training purposes; and regulatory requirements (The International Consortium on Governmental Financial Management, 1997, p.3).

c. Training

In countries involved the transitional period form a planned to a market economy, directing management's attention to areas which suggest the need for solutions in which the accountant generally participates is the accountants' new role in business. According to the new role, accountants should consider and analyze the organization's structure, the flow of information through the various organizational units, and the implications for internal control. Therefore, accounting must be recognized as an information system requiring considerable use of judgment by both the preparer and the user of its output (United Nations, 1993, p.47).

The transition of an enterprise from government-control to private-control brings with it, the necessity to adequately re-train the management and employees including accountants at all levels (all practicing accountants, auditors, and educators) (United Nations, 1993, p.46). Training of the accountants (management accountants and auditors) has an important role in public disclosure of financial information related to privatizations. Accountants will have to learn internationally accepted accounting principles (standards) based on the assumptions of the going concern, economic entity, the monetary unit, and periodicity; the principles of historical cost, revenue recognition, matching, and full disclosure; and the constraints of cost-benefit considerations, materiality, conservatism, and industry practice. Some of these concepts may not be new, but there may be significant differences in the ways in which they would be applied under new accounting

standards (Enthoven A. J. H., 1997, p. 7-8). Accounting must be recognized as an information system that provides financial reports for internal and external decision-makers (i.e. all stakeholders of the company).

Auditing activities may being carried out in the budgetary control, legitimacy of income and expenditure, and security of assets areas as they relate to privatization (Enthoven A. J. H., 1997, p. 4). Therefore, another important aspect of training is related to independent auditors. They will have to learn generally accepted auditing standards and techniques such as risk assessment and evaluating management, statistical sampling, develop analytical abilities when reviewing management representations (The International Consortium on Governmental Financial Management, 1997, p.35).

d. Valuation Problems Related to Privatization

Business valuation is an attempt to calculate a price that may be paid for an entity by a willing buyer to a willing seller when neither party is under duress for the transaction. The valuing a SOE is much more than just determines the firm's fair market value. The SOE valuation process and report can facilitate a company's transformation, prepare it for survival in competitive markets, and build public support for the new market system. Properly done, the business valuation helps during the privatization process for both demand side and seller side (Jerkmakowicz E.K. and Jerkmakowicz W.W., 1994, p.28).

Therefore, valuation of the SOEs (and their assets and or shares) is one of the most difficult problems of privatization. Valuation problems related to the privatization of SOEs can be analyzed in three groups (United Nations, 1993, p. 32):

a) the valuation of assets and liabilities;
b) the valuation of business as a going concern; and
c) the determination of the final sales price for assets and/or shares of the company.

The issues related to these groups of valuation problems are interrelated, but are seldom, if ever, identical. The valuation of the enterprises to be privatized is important for the Government to maintain its credibility in the privatization process. Also, it is important to achieve the appropriate sales price.

Increased audit scrutiny should help promote transparency of valuation exercises. Auditors can play a role in improving valuation procedures by carrying out audits of privatization, and by upholding the rights of the public to receive a fair value for state assets.

e. Inflation Accounting

Under the hyperinflationary economy, financial statements based on historical costs (values of original transactions) which do not give explicit recognition to the effects of changing prices could provide misleading information on the performance, financial position, and distributable wealth of the enterprises that will be privatized (United Nations, 1993, p.29). Especially, old inventories, tangible assets, intangible assets, long term investments, paid-in capital accounts are far away from reliability.

If the financial statements of an enterprise are being reported in the currency of a hyperinflationary economy, whether they are based on a historical cost approach or a current cost approach, they should be restated in terms of the measuring unit current at the balance sheet date (IAS-29, par.8). Valuations for privatization would have been easier, if financial statements of to be privatized SOEs were restated in accordance with the IAS-29 inflation accounting standard.

Accounting developments which may effect privatization in Turkey

Being a key element in the transition to a market economy, privatization programs have been started in number of countries all over the world as well as in Turkey. We discuss the recent

accounting developments in Turkey during the Turkish privatization experience period, because accounting and financial reporting has a critical role in privatization process. Recent accounting developments in Turkey can be analyzed under following aspects:

a) Developments of Accounting Profession
b) Developments related to Chart of Accounts and Financial Reports.
c) Developments in Turkish Capital Markets Board's Regulations on Accounting.
d) The Banking Regulating and Supervising Agency's Accounting Regulations
e) Developments of Turkish Accounting and Auditing Standards
f) Developments Related to Public Sector Accounting in Turkey

a. Developments of Accounting Profession

The accounting profession has grown from insignificance to national and international recognition. The Expert Accountants' Association of Turkey (EAAT) established in 1942, tried to issue professional and ethical standards to the members who were selected through professional exams and personal interviews. Following the establishment of IFAC in 1977 (of which the EAAT was a founding member) the EAAT recommended the implementation of International Professional Standards of IASC in 1980. All IAS's were translated and presented to the EAAT members for observation in their professional activities. As the EAAT had not been a powerful organization because of being a voluntary association (membership of around 1426 independent accountants at the end of 2008[3]) the implementation of IASC standards was not very effective.

As the Capital Market Board was established in 1982 prior to the legal recognition of the auditing profession in Turkey, in 1989, the Board had to develop its own standards for the external auditing for the companies to be registered at the Istanbul Stock Exchange. At the beginning of privatizations in 1985, there were no domestic audit firms. Branches and associated international auditing firms and very few authorized domestic auditing firms had performed auditing. The development of accountancy and the auditing profession was not very satisfactory. The development of profession improved following the enacting of the Law No. 3568 in June 1989 (Official Gazette No. 20194, June 16, 1989). Therefore, the forceful implementation of professional and ethical standards came with the legal recognition of the independent accountancy profession through the codification of the Law No.3568. The Law defined three types of professional accountants namely: "Independent Accountants (the SM's)", "Certified Public Accountants (the SMMM's)", and "Certified Public Accountants under Pledge (the YMM's)"[4].

According to international reciprocity, foreign accountants were subject to the same professional law and could operate in Turkey. Major developments in the profession occurred following June1989 with the codification of the "Law of Independent Accountancy, Certified Public Accountancy and Certified Public Accountancy under Pledge". Local Chambers of Certified Public Accountants and the Union of Chambers of Certified Public Accountants of Turkey (the TURMOB) were organized for implementing professional standards (Aysan M.A., 1996.). TURMOB has been a full member of IFAC since 1994. On May 14, 2004, TURMOB and The Association of Chartered Certified Accountants (ACCA) have signed an agreement. Based on this agreement, there might be some exemptions in the application to professional qualification exams and might be organized some joint certificate programs.

b. Developments related to Chart of Accounts and Financial Reports

In Turkey, SOEs had a uniform chart of accounts since 1972. It was the first uniform accounting application in Turkey. For this reason, the accounting model of SOEs in Turkey were copied and implemented by many private companies. In the early 1980's, privatization program had

[3] http://www.tmud.org.tr/uyelistesi.htm
[4] The terminology is borrowed from TURMOB "The Union of Chambers of Certified Public Accountants of Turkey".

first priority in Government's program. Prior to 1982, there were few requirements for financial disclosures and stock exchange was underdeveloped. The Turkish Capital Market Board (CMB) was established in 1982. In 1986, The Istanbul Stock Exchange (ISE) was reorganized as a fully organized stock exchange. The CMB set up some accounting standards for corporations registered at the ISE. During this period, the CMB also published a uniform chart of accounts for corporations registered at the ISE. It was different uniform chart of accounts than the SOEs' the chart of accounts. The SOEs depicted for the privatization program kept their own accounting systems in order to adjust them to the CMB's standards.

The uniform chart of accounts of CMB was effective for listed companies until the Ministry of Finance (MoF) published the Uniform Accounting System (UAS) by keeping own standard reporting form. At the end of 1992, the MoF published a communiqué regulating the Uniform Accounting System (UAS) effective from January 1, 1994. The communiqué regulates the preparation and presentation of the financial statements of the all commercial, service, and industrial companies in Turkey, excluding banks, insurance and brokerage firms. The UAS of the MoF included a chart of accounts and uniform financial reports (income statement, balance sheet, cash flows statement, statement of cost of sales, funds-flow statement, statement of changes in equity capital, and statement of profit distribution). Apart from the regulation of the preparation and presentation of financial statements, the communiqué envisages a "*Uniform Chart of Accounts"* that should be used by the above-mentioned companies.

c. Developments in Turkish Capital Markets Board's Regulations on Accounting

Through privatization ownership and rights are transferred, but not the ways of using these rights, behaviors that follows transferred rights, and the responsibility. That is the reason why transfer of ownership rights must be followed by development of the new market institutions that can ensure existence of transparency, security and transferability (Ivanovic P., 2001, p.2). Related to governments' privatization program, the need for a good functional capital market and sound securities trading mechanism is evident, since a good functional capital markets helps to determine the fair sales price of securities and other intangible assets. The lack of these markets makes it impossible to establish any reliable benchmarks against which the value of an enterprise can be measured or to reason the value by analogy with other enterprises of the same type (Jerkmakowicz E.K. and Jerkmakowicz W.W., 1994, p. 28). It is also observed widely that underdevelopment of capital markets, bankruptcy procedures and court systems are institutional obstacles to effective privatization that reduce the effectiveness of private corporate governance (United Nations Economic and Social Commission for Asia and the Pacific, 2001, p. 27). Corporate governance is necessary in order to stimulate market mechanism based on competition for economies in transition, since to transit from planned to market economy cannot be accomplished by universal recipe (Ivanovic P., 2001, p.2).

Therefore, governments involved privatization program have set up a Securities Exchange Board that would be necessary to take a number of steps to increase transparency and investor protection in primary and secondary equity markets, as also improve their efficiency (Enthoven A. J. H., 1997, p.7). Creation of new market institutions that are capable to deal with financing, monitoring, and controlling of enterprises is precondition of successful development of economy in transition (Ivanovic P., 2001, p.6).

Through its mission and objectives, the CMB has been performed following activities related to in the area of accountancy:

a) Set accounting and reporting standards for listed companies in the ISE.

b) Issued a communiqué on inflation accounting for listed companies in the ISE (Capital Markets Board, 2001a). This regulation is the first compulsory inflation accounting application in Turkey. This regulation is also fully compatible with International Accounting Standard – 29. The

first financial statements that were restated according to this communiqué were published as of December 31, 2003.

c) Issued a revised communiqué on consolidation of financial statements for listed companies in the ISE (Capital Markets Board, 2001b). By this revision, consolidation became compulsory for listed companies. This regulation is also fully compatible with International Accounting Standards – 27 & 28. The first financial statements that were restated according to this communiqué were published as of December 31, 2003.

d) Issued a broad set of financial reporting standards (Capital Markets Board, 2003) that are fully compatible with all International Financial Reporting Standards. These standards became operative for the financial statement of listed companies in the ISE covering periods beginning on or after January 1, 2005.

After the some global accounting standards in USA and EU, the CMB take some precautions. There are some similarities between the CMB regulations and Sarbanes-Oxley Act. The underlined changes are as follows:

a) Restrictions for other services from auditing activities. There for, an audit firm can't serve audit service and other services together at the same time.

b) Compulsory rotation period for audit firms is defined as 7 years.

c) Internal audit committee is required.

On June 12, 2006, CMB published a communiqué about the standards on auditing. After this communiqué (Capital Markets Board, 2006), the auditing standards of Turkish CMB became compatible with IFAC's International Standards on Auditing (ISAs). The Turkish CMB published the latest communiqué about accounting on April 9, 2008 (Capital Markets Board, 2008). According to the latest communiqué, companies registered at the Turkish CMB had to implement TRFS's as adopted by the EU and disclose this fact in their published financial statements. TFRS's are fully compatible with IFRS's. Although in actual practice listed companies in Turkey were using standards of the Turkish CMB which were not far from IFRS's, following the acceptance of the TASB as the sole authority on the observance, implementation and interpretation of the TFRS's, the "Uniform Codes" of the CMB and the Ministry of Finance had to be replaced by IFRS's, i.e. TFRS's of the TASB (Aysan M.A., 2008, p.12). Therefore the CMB have adopted the IFRS's by 2008. By this implementation Accounting practices become compatible with the decisions of the IOSCO and EU.

d. The Banking Regulating and Supervising Agency's Accounting Regulations

"The Banking Regulation and Supervising Agency (BRSA)" was established in June 20, 2000 after the banking crisis in Turkey. The mission of the BRSA is to safeguard the rights and benefits of depositors and to create the proper environment, in which, banks and financial institutions can operate with market discipline, in a healthy, efficient and globally competitive manner, thus, contributing to the achievement of long-run economic growth and stability of the country.

The BRSA rendered its sizable accounting standards document void by cancelling the previous regulation on November 1, 2006 (Essentials of Procedures Relating to the Documentation and Protection of the Documents and Accounting Practices of Banks, Official Gazette No.26333, November 1, 2006). By publishing the new document, the BRSA accepted the implementation of the TFRS's that are fully compatible with IFRS's in financial institutions, starting by January 1, 2007 and implemented to financial statements of 2007 to be published in 2008.

e. Developments of Turkish Accounting and Auditing Standards

To set up the accounting and auditing standards in Turkey, the first attempt was The Turkish Accounting and Auditing Standards Board (TMUDESK) that was established on February 9, 1994.

Although 19 Turkish Accounting Standards have been issued by TMUDESK since 1994, these standards could not be applied by corporations and institutions due to lack of sanction. For this reason, the Turkish Accounting Standards Board (TASB) was established in 2002 by a legal regulation of the Law 4487 (Official Gazette, December 18, 1999). The TASB has legal power for setting Turkish Financial Reporting Standards (TFRS) and sanction for all corporations in Turkey. TASB translated the complete set of the IFRS's and IAS's and published the translation by declaring them as the Turkish Financial Reporting Standards (TFRS's) in April 2006. These standards were continuously reviewed and adopted to the developments and modifications of the IFRS's.

As a result, both BRSA and Turkish CMB have adopted the IFRS's by 2008. However, the third and the most effective standard setter, the Ministry of Finance had not yet eliminated its regulation on accounting standards (Aysan M. A., 2008, p.13). The MoF's Uniform Accounting Standards and the Related Plan of Accounts are still operative until now. All tax-paying accounting units in Turkey had to prepare their income and corporation tax returns in accordance with the MoF standards and Chart of Accounts published on 26 December 1992.

f. Developments Related to Public Sector Accounting in Turkey

When government's involvement especially in the national economy is relatively small, the need for information to run the economy is also small. Therefore government accounting applications are mainly focused on the budget preparation and implementation processes. This leads to the establishment of "*cash basis government accounting*" and simply budget oriented accounting systems (Ministry of Finance of Turkey, 2002, p. 4). On the other hand, when economic activities and the influence of the governments increase, consequently, economic decisions made by the governments begin to steer the national economy. These developments turn the spotlight on to the recording and reporting of the financial decisions made and the financial transactions carried out by the governments, i.e. "*accrual basis government accounting*" and financial reporting. Next, government accounting and financial reporting enter a change and development phase.

The "*cash basis accounting system*" is essentially the starting point of government accounting in the modern sense. The cash basis accounting system; is easy to understand, manage due to the simplicity of the transactions in comprises. Also, the transactions in this system are limited to cash flows and so it does not provide much service to the transparency and accountability goals. On the other end of the government accounting spectrum lays the "*full accrual basis government accounting*"; flows are recorded at the time economic value is created, transformed, exchanged, transferred, or distinguished. In this system, periodic financial reports fully reflect the financial transactions in their relevant activity periods. Also, valuation the bid prices of the assets to be privatized can be calculated more appropriately (Moore A., 2001, p.6.). In between these systems, though with many different versions, two main forms of accounting exist, "*modified cash basis government accounting*" and "*modified accrual basis government accounting*" (Ministry of Finance of Turkey, 2002, p. 5-7).

In Turkey, for many years, the accounting systems utilized cash basis accounting at the SOEs. While the Turkish Ministry of Finance (MoF) should play the most important part in the government accounting, the Ministry's work in the government accounting field has been limited to the administrations with general and annexed budgets and the revolving funds.

When evaluated with the characteristics, government accounting system implemented for the administrations with general and annexed budgets can be expressed as a system between the modified cash basis and the modified accrual basis accounting (Ministry of Finance of Turkey, 2002, p. 14). The Law 5018 was published in 2003. In this new Law, there are provisions for the Ministry of Finance to monitor the international developments in the government accounting field, adapt the generally accepted accounting standards, combine the state financial statistics on a pre-determined regular basis to cover all the units in the general government and present the

information to the public with an understanding of transparency framework. This new Law also has a critical reform for government accounting by transforming cash basis to the accrual basis for the SOEs in Turkey. This implementation also has critical reform for the value of assets that belong to the SOEs in Turkey by showing their real market value at the balance sheet (Moore A., 2001, p.6.).

Implementation of privatization in Turkey

The new Republic of Turkey was established in 1923 following the demise of the Ottoman Empire. Following the long and destructive wars of independence (1919-1923), there were not enough capital accumulation and very few entrepreneurs to establish agricultural, industrial, and service organizations. In these economic circumstances, the central government took a leadership position for industrialization under the policy of Etatism (Karatas C., 1990, p. 19.). Since 1930's, the SOEs had an important role in the whole Turkish economy. For this reason, the "Public Sector" in Turkey is indeed huge. Agencies managing direct investments including public utilities of local and central governments, large enterprises owned by agricultural cooperatives and federation of cooperatives, service organizations established by local municipal authorities and the SOEs are all parts of this huge public sector (Aysan M.A., 1994, p. 2.).

The SOEs employed around 640 thousands individuals and realized about 53.2 % of government fixed capital investment at the beginning of the privatization exercises (1985) (Dogan N., 1996, pp.9-16). These SOEs produced around 25 % of the country's GNP[5]. The SOEs have experienced a sharp decline in overall financial performance since 1985. The net income dropped from 14.55% of sales in 1985 to 18.44% loss of sales in 1991. From 1990 to1994 and in 2000 there were net losses. After 2001 there are net incomes. But their performances are not as much as the performance in 1985[6]. In 2008, there is a net loss too at the amount of TL1.5 billion and it is approximately 2% of the sales.

The SOEs deficits exploded in 1990 to 6.5% of GNP and 58% of the total public sector deficit. Public Sector Borrowing Requirement (PSBR) grew from 6.2% of the GNP in 1988 to 8% of GNP in 2004 and the SOEs share dropped from 2.7% of GNP to 0.4% respectively[7]. In the last three years, the SOEs borrowing requirements are 0.47%, 0.07% and 0.02% of GDP respectively[8]. Since 1985, the value added by the SOEs into the economy has been declined. In 1985 it was 6.24% of GDP. In 2008, this ratio dropped to 1.39%[9].

The legal framework and issues under which privatization will take place are of critical importance. Since, privatization programs require a great deal of careful advance planning from both a political and economic standpoint, there usually must be a general law on privatization in the case of privatization by divestiture of specific enterprises. Not only the legal procedures are to be spelled out, but also the respective agencies involved in the various stages of the privatization process. Privatization laws are found to serve an important purpose in defining the legal authority for a country's privatization programme, the key principles on which it will be based, and the institutional arrangements for policy making and implementation.

[5] Undersecretary of Treasury, www.treasury.gov.tr/yayin/hazineistatistikleri/2-6A.xls, 08/24/2004.
[6] Undersecretary of Treasury, http://www.treasury.gov.tr/irj/go/km/docs/documents/Treasury%20Web/Statistics/State%20Owned%20Enterprises%20Statistics/Table%201.1%20Income%20Statement.xls, 15/08/2009.
[7] Undersecretary of Treasury, www.treasury.gov.tr/yayin/hazineistatistikleri/2-6A.xls, 08/24/2004.
[8] Undersecretary of Treasury http://www.treasury.gov.tr/irj/go/km/docs/documents/Treasury%20Web/Statistics/State%20Owned%20Enterprises%20Statistics/Table%203.1%20Borrowing%20Requirement%20and%20Financing.xls, 15/08/2009.
[9] Undersecretary of Treasury, http://www.treasury.gov.tr/irj/go/km/docs/documents/Treasury%20Web/Statistics/State%20Owned%20Enterprises%20Statistics/Table%203.1%20Borrowing%20Requirement%20and%20Financing.xls, 15/08/2009.

It is recommended that the legal requirements of privatization be considered in three respects (United Nations Economic and Social Commission for Asia and the Pacific, 2001, p.28): The legal requirements for the formulation of privatization procedures, the implementation of privatization, and monitoring and control after privatization. In many countries divestiture has to be passed by congress or parliament. In other countries a separate privatization agency is subordinated to the Ministry of Finance or Economic Affairs. The first regulation related to privatization was enacted in 1984 to achieve these targets. Upon formation of a political and social consensus on the needs for privatization, a lot of laws were enacted.

It would be quite risky to initiate privatization without creating an appropriate environment for monitoring and control (United Nations Economic and Social Commission for Asia and the Pacific, 2001, p.26). Therefore, in 2000, the Government of Turkey engaged the loan project named ***the Privatization Social Support Project (PSSP)*** with the World Bank in the amount of US$ 250 Million to support the achievement of the objectives of the Government's Privatization Program by increasing the productivity of SOEs while reducing labor costs (that covers labor restructuring, labor redeployment, social management and project management), mitigate the negative social and economic impact of the privatization of SOEs, and monitor the social impact of privatization and the Turkish Economic Recovery Program(The World Bank Report, *Turkey-Social Support Project*, 2000, p.2.).

In Turkey, shares of the State in 174 companies had been privatized either through sale of shares, assets and/or group of assets. Some of these companies were fully state-owned enterprises, while others had more or less than 50% state shares. The following tender methods had been used through the application of privatization;

a) Closed bidding to a limited number of bidders.
b) Bargaining with a short-list of bidders.
c) Public auction.
d) Open bidding.
e) Closed bidding among designated bidders.

After 2004 the privatization endeavor of Turkey went on by speeding up. After 2004 large SOEs have been privatized. As of mid 2010 the total privatization revenue reached to 41 Billion US Dollar. Since 1986, the distribution of the revenues among the forms of the privatization has been as follows[10]. The privatization revenues from block sale, asset sale, public offering, I.S.E. sale, incompleted asset sale are $20.2 Billion, $12.4 Billion, $7.1 Billion, $1.2 Billion, $4 Million respectively (See Table – 1).

Table no.1

The distribution of privatization amount by years

PRIVATIZATION GROSS REVENUES ($)				
	1986-2008	**2009**	**2010**	**TOTAL**
Block Sale	20.257.066.639	0	0	20.257.066.639
Asset Sale	7.783.077.619	2.274.985.159	2.377.729.878	12.435.792.656
Public Offering	7.091.202.610	0	0	7.091.202.610
I.S.E. Sale	1.261.053.768	0	0	1.261.053.768
Incompleted Asset Sale	4.368.792	0	0	4.368.792
TOTAL	**36.396.769.428**	**2.274.985.159**	**2.377.729.878**	**41.049.484.465**

[10] Privatization Administration, http://www.oib.gov.tr/program/uygulamalar/kaynak-kullanim-eng.htm, 1/11/2010.

Source: Privatization Administration, 2010.

In the 22 years endeavor of privatization of Turkey, the total privatization revenue is $41 Billion. In the last six years of this endeavor, the amount of the privatization is $31.5 Billion. This amount is the 77% of the total revenues (1986 – 2010). The privatization implementations by years are as follows:

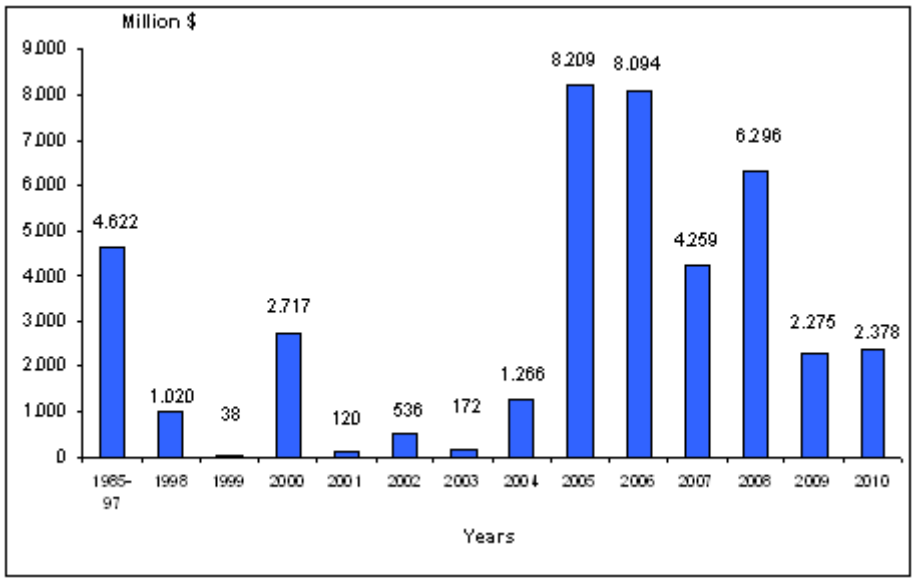

Fig. no.1 - Privatization implementations by years

Source: http://www.oib.gov.tr/program/uygulamalar/1985-2004_years_table.htm, November 1, 2010.

Privatization in Turkey had been slow. There were tremendous legal, economic, and financial obstacles on the way to major privatizations. The main obstacles were as follows:

a) The main obstacle is **political**. Many pressure groups are still against privatizations, the main group being workers who are afraid of losing many jobs and opportunities for employment, in case of large-scale privatizations. Civil servants of the central government and many politicians are against privatizations in fear of losing their authority on the managers of the privatized companies.

b) Lack of legal infrastructure is also another main obstacle. Since 1983, there had been too many changes related to the legal framework of privatizations. Some privatization processes were subject to disputes at courts and were canceled by legal action. This issue has not yet been settled.

c) There had been some problems related to social security status of people employed by the SOEs.

d) Consumers and the public at large who are bound to benefit most from increased efficiency and market orientation of the SOEs are not very well organized to create political pressure in favor of privatization.

e) In spite of many reports and much talking, objectives of the privatization program are not well defined and well understood by the people.

f) Bottlenecks created by the over-burdening the Administration of Privatization (AP) with the whole privatization effort and failure to decentralize the effort to get all SOE organizations involved in the process. There are some communication and coordination problems between AP and SOEs.

g) Shallowness of the Turkish capital market and underdeveloped financial services available for the SOEs.

h) Lack of disclosure rules and of availability of financial information on the SOEs and related companies.

i) Failure in developing ways of safeguarding the investments of the public in the shares of government companies.

Analysis

The importance of financial reporting during privatization is to develop investor confidence to channel the flows of funds and to ensure the effective and efficient use of capital funds. Those capital funds need timely, accurate, transparent and consistent information about SOE's to make their investment decisions as well as other decision-makers who are involved in privatization process. Those necessities emphasize the role of accounting. An advanced accounting and reporting system is the most reliable source of reference with respect to the current and future effects of the financial policies employed by the SOE's by providing above mentioned needs.

Therefore, accounting information is clearly an important tool which gives visibility to the activities of SOE as an organization, and which can help enforce accountability. Without a sound transparency and accountability, the privatization process would not generate the desired long term economic, social and financial development results. Also, weak capital markets and poor enforcement of accounting regulations, a culture of tax avoidance, and accounting education inappropriate to the local environment caused a lack of transparency and accountability.

Playing a critical role in privatization process, the role of accounting in privatization is analyzed under five points of view that are disclosure, transitional problems, training, valuation problems, and inflation accounting in this study. One of the main objectives of supplying full disclosures which covers financial statements and their notes to the general public and other potential investors for privatization purposes is to enable them to assess the risks and benefits of their investment opportunities and thus, to protect their interests. From the decision makers' point of view, these disclosures should be prepared according to the Generally Accepted Accounting Principles. Therefore first of all, if the SOE to be privatized is under hyper inflationary economy, its financial statements should be restated according to inflation accounting principles. Otherwise financial disclosures based on historical costs could provide misleading information on the performance, financial position, and distributable wealth of the SOE that will be privatized.

Secondly, if the SOE's accounting principles are based on "cash basis government accounting", the full disclosure should be restated based on "accrual accounting". It is necessary to analysis and to compare information that fully disclosed by SOE's. In market economy contemporary business management approach loads new roles to accountants to produce solutions related to management of the firms. According to the new role, accountants should consider and analyze the organization's structure, the flow of information through the various organizational units, and the implications for internal control. Accounting profession (management accountants and auditors) has an important role in public disclosure of financial information related to privatizations. In order to develop accounting profession, some legislative improvements should be performed in cooperation with the government. In this involvement following actions should be performed in order to establish a qualified accounting and auditing profession; certification, setting criteria for issuing certification, training programs and continuing education courses, and establishing an organizational body.

Finally, the business valuation is an important step during privatization process for both demand side and seller side. The valuing a SOE is much more than just determines the firm's fair market value. The SOE valuation process and report can facilitate a company's transformation, prepare it for survival in competitive markets, and build public support for the new market system. Since valuation of the SOEs (and their assets and or shares) is one of the most difficult problems of privatization, valuation problems can be analyzed in three groups; the valuation of assets and liabilities, the valuation of business as a going concern, and the determination of the final sales price for assets and/or shares of the company.

For valuation of assets and liabilities of SOE's, which will be privatized, the disclosed information should be prepared based on GAAP. Those local GAAP should be compatible with international standards. In valuation of business as a going concern, main generally accepted value assessment methods should be used such as "discounted cash flow" etc. the calculation of appropriate final sales price of the SOE's is important for both sides of privatization. May be the best price is the "fair value". The fair value is defined as "*Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction"* by IASB in IAS 32. If there is an effective stock exchange, the determination of fair value is reliable. For that reason, development of stock exchange is a vital step in privatization process.

Accounting developments and privatization revenues in Turkey are summarized in Table – 2. The privatization revenues and accounting developments have been analyzed in five periods (Selvi Y. and Yilmaz F., Istanbul, 2009, p.91).

Table no 2

Accounting Developments and Privatization Revenues by Years in Turkey

Period:	Accounting Developments in Turkey	Privatization Revenues (million $)
1985 – 1990	• Establishment of ISE – 1986 • Law of Accounting Profession – 1989 • Accounting Regulations of CMB – 1989	647
1991 – 1995	• MoF published Uniform Accounting System – 1992 • Establishment of TMUDESK – 1994	2,218
1996 – 2000	• TMUDESK published 19 TAS's – 1997 • Establishment of BRSA – 2000	4,495
2001 – 2005	• Inflation Accounting & Consolidation Communiqués of CMB (published in 2001, implemented in 2003) • Establishment of TASB – 2002 • Accounting Regulations of BRSA – 2002 • Inflation Accounting Regulations of BRSA – 2002 • Public Sector Accounting Regulations (The Law 5018) – 2003 • Inflation Accounting Regulations of MoF – 2004 • Adaptation of IFRS by CMB (Communiqués XI – 25) – 2005	10,303
2006 – 2010	• TASB published TFRS – 2006 • BRSA accepted TFRS – 2006 • CMB accepted TFRS – 2008	23,302

Conclusıons and remarks

Since it is a rapidly growing phenomenon, privatization is a broad concept encompassing the transfer of property rights from the State to enterprises and individuals, contracting out the delivery of public services to the private sector, or cut-backs in state activities to allow greater room for private initiative (United Nations, 1993, p.1). A massive wave of privatization of both SOEs and government activities has occurred since late 1970s based on the belief that government operations were not as effectively and efficiently run as would be warranted. The globalization of international production and service operations put great pressure on government run entities to be able to compete effectively in the global market place. Also, governments want to enhance domestic economic growth and development, and it became clear that unproductive SOEs or government activities would not lead to this goal. These kinds of forces have led to casting off many SOEs. To do so, SOEs either should be sold to the private sector and/or be run more efficiently. Governments

recognized that privatization had major economic, social and financial benefits, while furthermore enhancing the motivational attitudes in their respective countries (Enthoven A.J.H, 1997, pp.2-3).

The impact, policies, and objectives of privatization have differed from one country to another depending on their socioeconomic conditions and prevailing political culture. In most of the developing countries, managements of SOEs are under the uneconomic interference of central governments and politicians in general. These interferences mostly resulting large losses and ineffective uses of sources, lack of profits and much inefficiency which divert the SOEs from market forces. For this reason, the management of SOEs must be protected from political inferences. We have to simulate private management styles for the SOEs.

During in privatization process, accounting plays a critical role through disclosure, transitional problems, training, valuation problems, and inflation accounting subsections. Based on the Turkey's privatization practices, financial reporting has a very important role in the SOE's privatization process as well. Our study shows that in the parallel of accounting developments of Turkey, the privatization revenues have been increased for the three decades. After the accumulation of accounting developments, the privatization has been speeded up, also. In the periods of 1985-1990, 1991-1995, 1996-2000, 2001-2005, and 2006-2008, the privatization revenues are $647 million, $2,218 million, $4,495 million, $10,303 million and $23,302 million respectively. As it seems above, in the last 5 years (2006-2010), the privatization revenues are higher than earlier 20 years of privatization (1985-2005). Of course, there may so many factors that may affect the privatization revenues, but also accounting treatments have an important effect on it. In Turkey, it can be observed as there is a positive relation between accounting developments and privatization.

Before a SOE is privatized, it has to be turned into a joint stock company and registered under the Capital Market Law, similar to private corporations. Boards of Directors should be appointed in accordance with the requirements of competence, rather than political affiliations (United Nations, 1993, p.20). After that conversion, financial statements must be independently audited and publicly disclosed. By this way, the transparency of SOEs will be obtained. Transparent management of SOEs increases public's support to privatization. This support should increase the attraction of the privatization candidate.

The complexity of the legal framework also creates some difficulties in privatization. It extends the period of procedures and increases bureaucracy. For this reason, legal framework must be simplified and covered under a single law. The implementation of this law and the authority of making required changes in this process must belong to a single authority.

The valuation should be determined by an independent commission to maximize the public interest before the sale of SOEs. The stakes of SOEs should be sold to the public by an "offer for sale". This transaction must be organized in accordance with the requirements of the Stock Exchange. By so doing, the best price for the company can be determined by the public. Public offering of shares seems to be the best method for privatizations, simply because this method represents the best method for valuation by the public. To privatize SOEs that has large- scale capital extends long periods. This period can be shorter for smaller-scale SOEs.

Independently audited and publicly disclosed financial statements increase the public trust before privatizations. All financial data must be fully disclosed. The disclosed financial statements must be prepared based on accounting standards that applied for private companies. The current SOEs financial disclosure system serves directly to the government. On the other hand, during the privatization process, supplying financial information should present financial position and results of operations of the enterprise to be privatized, truly and fairly, accurately, openly, and transparently to the public. Financial statements must be independently audited and publicly disclosed. Therefore, the general public and other potential investors can easily assess the risks and benefits of their investment options and protect their interests. Public disclosures can be done

through the publication of a prospectus for the issuance of securities or of an information memorandum in the case of trade sale.

Although many obstacles allowed down the privatization process in Turkey and one of them was the deficient disclosure of financial information of the SOEs to be privatized. We developed the following suggestions in order to overcome the obstacles in the way of privatizations of the SOEs:

a) First of all, to develop an improved model for and of financial disclosures for the SOEs, prior to privatization.

b) Second, methods of privatizing have to be improved.

c) Improving standards of accounting and auditing in a country.

On the other hand, the success of the privatization is not only to increase privatization revenues, but also it is related with reaching to the privatization targets. At the beginning of the privatization process, there should be a privatization master plan. In this plan, the strategic SOE's should be determined. National security, national economy, and competition should be involved into this process. If it is planned to privatize these strategic SOE's, the sales method of them also become very important. Most of the large SOE's are monopole at their sectors. If those SOE's are privatized before the infrastructure is established, the monopole position is transferred to the new owners of the privatized SOE. In that case it may create more problems than non- privatization of SOE's.

Also, to be successful in privatization process, infrastructure should be established related to accounting applications, stock exchange, profession of accounting, accounting standards and regulations, and legal regulations about privatization. These infrastructures are essential for the success and acceleration of privatization. In order to achieve the privatization targets of governments, the above infrastructure developments should be performed.

Especially for emerging economies, the results of Turkish privatization experience prove that accounting and financial reporting has an important role in privatization. This role takes place before, during and also after the privatization. Since the main objective of privatization is not only to privatize SOE's, but also keep the sustainability of privatized SOE's. While privatization creates sources for new investments of the governments, it should support the effectiveness and economics of goods and services in the area of privatization. So the sustainability of privatized companies is very important as well as their sales. All of the above purposes can be controlled by solely accounting and independently audited and publicly disclosed financial reports.

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