

By Daniel Dombey in Istanbul

The government in Ankara has scrapped a \$5.7bn privatisation, thwarting the country's biggest conglomerate, and its partner, the Malaysian sovereign wealth fund, even though Turkey is trying to attract billions of dollars in long-term investment for infrastructure projects.

The veto imposed by a government committee chaired by the prime minister, Recep Tayyip Erdogan, has caused some analysts to question how much certainty investors can expect from entering privatisation tender processes.

Ditching the tender for a 25-year concession to operate some of Turkey's most travelled highways and bridges comes as a blow to [a consortium led by Koc Holding](#), the country's biggest corporate group, and UEM, which is owned by Khazanah, the Malaysian sovereign wealth fund.

It would have been the second most valuable privatisation in Turkish history and came after several earlier infrastructure auctions failed because of investors' inability to secure the funds they pledged.

UEM's role is also significant because Turkey is looking for more Asian investment.

However, after the consortium won the highways tender in December, Mr Erdogan criticised the auction for failing to generate as much cash as expected. "We are expecting a lot more," Mr Erdogan said on Saturday, adding that the government may yet split up the package, which includes 1,975km of toll roads and the existing two bridges over the Bosphorus. "We could carry out a public offering."

The finance ministry formally announced the cancellation of the tender late on Friday. It cited a decision made by the Privatisation High Council, a body headed by the prime minister.

Koc Holding and UEM, which each held 40 per cent of the consortium that won the tender, declined to comment, as did Gozde, a Turkish private equity group that accounts for the remaining 20 per cent.

The cancellation comes at a particularly sensitive time, with Turkey planning a tender in May for the construction and operation in Istanbul of what is planned as [one of the world's biggest airports](#), as well as many other ambitious infrastructure projects.

"It certainly sends a negative signal in terms of the predictability and legal certainty associated with Turkey's privatisation programme," said Sinan Ulgen at Carnegie Europe, who argued that an upgrade to

TURKEY SCRAPS \$5.7BN PRIVATISA TION

investment grade last year by Fitch Ratings could have encouraged the government to think that it could get a higher price.

However, the country has to date attracted far less direct investment than relatively fickle portfolio funds. In 2012 net foreign direct investment of \$8bn was outstripped by net portfolio inflows of \$40bn.

With bankers forecasting hundreds of billions of dollars in infrastructure requirements for roads, ports and airports, energy and other sectors over the next decade, the country's capacity for raising capital remains far below its demand for investment finance.