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The Political and Economic History of North Cyprus *A Discordant Polity*

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*This book is dedicated to my beloved wife, Deniz Yücel.
For always being there for me.*

Foreword

Studies of Cyprus are dominated by its Question; commentaries on Cyprus are defined by its Problem. That is to say, almost all enquiry seems to flow from the why and wherefore of the ethno-nationalist fracturing of the island culminating in the 1974 enforced division, and in similar proportion the resolution of the Problem—peaceful settlement on the one hand or permanent separation on the other hand—defines all discussion. The original sin of division has served an unending litany of blame, retribution, sanction, collective punishment, isolation, conspiracy theories, councils of reconciliation and even sporadic offers of atonement and rare expressions of contrition.

Yet no matter how decisive or, indeed, traumatic the actual geopolitical division of the island was, and however enduring its legacy of separation, it remains the case that a civil life has continued both north and south of the Green Line. Moreover, whether we like it or not, an embryonic state-like organization (*Kıbrıs Türk Federe Devleti*—KTFD/ Turkish Cyprus Federated State) in the north that formally became the self-declared Turkish Republic of Northern Cyprus (TRNC; *Kuzey Kıbrıs Türk Cumhuriyeti*—KKTC) in November 1983 has developed alongside the extant state of the Republic of Cyprus. The histories of social, economic, cultural and political development of both sides of the Green Line are neither exhausted nor even captured by the familiar terms of the Cyprus Question and the Cyprus Problem.

The sometimes obsessive insistence that since the TRNC is not politically recognized internationally (except by the Republic of Turkey) so it is discounted, literally, as a non-entity is illustrative of the silencing that has arisen from the over-determination of the Question. Similarly, the typical reduction of the Cyprus Question into a binary opposition between Greek Cypriot and Turkish Cypriot or even (quite bizarrely) between Greece and Turkey has served to ignore the much more complex often contradictory class, linguistic, religious, temporal and residential identities and subjectivities which have shaped the lives of Cypriots north and south and beyond. In short, the orthodox over-determination or reduction of all matters Cypriotic to the Cyprus Question and Problem only serves to ignore key processes and relationships which have shaped the lives of all Cypriots (at home or *ex patria*) and other residents of the island.

In rejecting the ‘over-determination’ of the Cyprus Question, Dr Ekici’s *Discordant Polity* nevertheless acknowledges the abiding impact on the economic development of northern Cyprus. But identifying and analysing the impacts on the economic history of the north—variously referred to as ‘northern Cyprus’, the ‘TRNC’ or sometimes simply as ‘the north’—has been no easy task. Indeed the difficulties go a long way in explaining why this is the first book-length economic history of northern Cyprus. Insofar as the paucity of data access and availability is symptomatic and integral to the character of the northern Cyprus economy, it has been necessary to interpret the limited data through a political-economic analysis which has described the distribution of wealth as *rent-seeking*, the institutional organization as *rentierism* and the particular mechanisms of coordinating economic activity as *clientelistic*. Put simply, the standard analyses offered by micro-economic models of competitive markets, efficiency-seeking practices of firms and the combinational effects of business, investment, employment and innovation cycles have little or no explanatory power in an economic history of northern Cyprus.

Thus, whilst in principle the developmental paths of the Republic of Cyprus and the successive northern entities cannot be explained by the crude terms of the Cyprus Question, the paucity of histories of the political, economic, social and cultural development of the north in particular has made alternative narratives and accounts all the more difficult to

detect and tell. Insofar as the Republic of Cyprus has remained as the internationally recognized legitimate authority over the whole island (albeit with the suspension of the EU's *acquis communautaire* with regard to the 'areas not under government control' north of the Green Line), so too has there been a reciprocal collection, publication and dissemination of key data—economic, social, cultural, environmental and so on—which has become essential to the operation of the modern rational state and corresponding international organizations. For example, not only does the EU and the OECD collect and exchange data, but so does every public international organization collect and use data about Cyprus from the IMF to the Food and Agriculture Organization, from the International Olive Council to BirdLife International, and from FIFA to the EU's Lifelong Learning Programme. Democratic accountability in the modern state is largely functional of transparency and accessibility of basic information with which a citizenry can scrutinize and hold politicians to account for policies pursued in their name. But little of this obtains in northern Cyprus.

It is out of these circumstances that the provision of an economic history of northern Cyprus has been Dr Ekici's principal purpose in *Discordant Polity*. Where in other modern states, including the Republic of Cyprus and the Republic of Turkey, the economic historian would have ready access to more or less well-archived time series of elementary economic data, that is not the case for northern Cyprus. Notwithstanding the claim of the availability of data gathered and provided by public bodies—from government departments to state enterprises—it is rare to be able to access a consistent and continuous set of economic data or social indicators. Indeed the paradox of constitutional guarantee of freedom of information coincident with effective secrecy or refusal to release basic information is symptomatic of the discordance of the northern Cyprus polity. Constrained in this fundamental way, Dr Ekici has still succeeded in providing the first broad profile of the *de facto* entity's economic history.

I hope that *Discordant Polity* serves to free up the study of northern Cyprus from an 'over-determined' legacy in Cyprus whilst simultaneously pioneering the vital study of its economic history. That such an economic history may, in turn, positively inform and help appreciate the

Turkish Cypriot fate in the perennial peace negotiations would be an invaluable bonus.

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Julian Saurin

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It goes without saying that any remaining errors in the book are my sole responsibility.

Chronology of Key Events

1974	Intervention by Turkey
1975	Establishment of the Turkish Federated State of Cyprus (<i>Kıbrıs Türk Federe Devleti</i>)
1983	Establishment of the Turkish Republic of Northern Cyprus (<i>Kuzey Kıbrıs Türk Cumhuriyeti</i>)
1986	Prime Minister of the Republic of Turkey, Turgut Özal, visits TRNC
1990	Application of the Republic of Cyprus to become a member of European Community
1992	A group of MPs leave National Unity Party to form Democratic Party
1994	The European Court of Justice decision to ban purchase of products sold by TRNC to EEC area
1999–2000	Banking crisis in TRNC
2002	Justice and Development Party (<i>Adalet ve Kalkınma Partisi</i>) in Turkey came to power
2003	TRNC began to allow controlled crossing of individuals between north and south of Cyprus
2004	Referendum on Annan Plan

Table 1 Parliamentary election results, 1976–2018

Parliamentary elections	Registered voters	Turnout (%)	UBP (%)	CTP (%)	TKP (%)	DP (%)	HP (%)	DHP (%)	DMP (%)	BDH (%)	TDP (%)	ORP (%)	HP (%)
1976	75,824	74.3	53.7	12.8	20.2		11.7						
1981	84,721	88.6	42.5	15.1	28.5			8.1					
1985	95,124	87.4	36.7	21.4	15.8			7.4					
1990	103,218	91.5	54.7						44.5				
1991	106,303	67.0											
1993	108,867	92.9	29.9	24.2	13.3	29.2							
1998	122,574	86.6	40.4	13.4	15.3	22.6							
2003	141,596	86.0	32.9	35.2		12.9				13.2			
2005	147,249	80.8	31.7	44.5	2.4	13.5				5.8			
2009	162,373	81.7	44.0	29.3		10.6						6.2	
2013	172,803	69.4	27.3	38.4		23.2					7.4		
2018	190,553	66.1	35.7	21.0	8.7	7.8							17.1

Presidency elections

1976	Rauf Denktaş
1981	Rauf Denktaş
1985	Rauf Denktaş
1990	Rauf Denktaş
1995	Rauf Denktaş
2000	Rauf Denktaş
2005	Mehmet Ali Talat
2010	Derviş Eroğlu
2015	Mustafa Akinci

Source: 1976–2003 data is obtained from Hatay (2005), the rest from TRNC YSK webpage at <http://lysk.mahkemeler.net/cms.aspx>

Table 2 The list of state offices and the year of their establishment laws

State office (Turkish)	State office (English)	Related establishment law
Devlet Planlama Örgütü Müsteşarlığı	State Planning Organization	1976
Devlet Basımevi Müdürlüğü	State Printing Office	1978
Maliye teftiş ve inceleme Kurulu	Finance Auditing Office	1982
Gumruk ve Rüşumat	Customs Duty Office	1982
Posta	Post Office	1984
Bakanlar Kurulu Genel Sekreterliği	General Secretariat of the Council of Ministers	1986
Kültür Dairesi	Culture Office	1986
Spor Dairesi Müdürlüğü	Sports Office	1987
Limanlar	Ports	1987
Butce Dairesi	Budget Office	1987
Devlet Emlak ve Malzeme	State Real estate and Materials	1987
Hazine ve Muhasebe	Treasury and Accounting	1987
Para, Kambiyo ve Inkisaf Sandığı	Money, Exchange and Inkisaf	1987
Resmî Kabz memurluğu ve mukayitlik Dairesi	Registrar's Office	1987
İlac ve eczacılık dairesi	Drugs and Pharmacy Office	1987
Gençlik Dairesi Müdürlüğü	Youth Office	1988
Tanıtma Dairesi	Promotion Office	1988
Enformasyon Dairesi	Information Office	1988
Telekomünikasyon Dairesi	Telecommunication Office	1988
Gelir ve Vergi	Income and Tax	1988
Merkezi Cezaevi	Central Prison	1988
Nüfus Kayıt Dairesi	Population Registry Office	1988
Muhaceret Dairesi	Immigration Office	1988
Tapu ve Kadastro	Deed and Land Survey	1988

(continued)

Table 2 (continued)

State office (Turkish)	State office (English)	Related establishment law
Sehir Planlama	City Planning	1988
Sosyal Hizmetler	Social Services	1988
Tarim Dairesi	Agricultural Office	1988
Tarimsal Arastirma Enstitutusu	Agricultural Research Institute	1988
SU isleri dairesi	Water Works Office	1988
Personel Dairesi Müdürlüğü	Personnel Office	1989
Karayollari Dairesi	Office of Public Roads	1989
Sivil Havacilik	Civil Aviation	1989
Iskan ve Rehabilitasyon	Housing and Rehabilitation Office	1989
Sanayi Dairesi	Industry Office	1989
Cevre Koruma Dairesi	Environment Protection Office	1989
Orman Dairesi	Forest Office	1989
Ilkogretim dairesi	Primary Education Office	1989
Mesleki teknik ogretim dairesi	Vocational Education Office	1989
Jeoloji ve maden dairesi	Geology and Quarry	1989
Temel saglik hizmetleri dairesi	Basic Health Services Office	1989
Eski eserler ve muzeler dairesi	Ancient Monuments and Museums	1989
Ticaret Dairesi	Commerce Office	1990
Kibris Türk Devlet Tiyatrolari	State Theater	1990
Yukse ogrenim ve dis iliskiler	Higher Education and Foreign Relations	1990
Hayvancilik dairesi	Animal Husbandry	1990
Devlet Uretim ciftlikleri dairesi	State's Livestock Raising Farm	1990
Turizm tanitma ve pazarlama dairesi	Tourism Promotion and Marketing	1990
Turizm planlama dairesi	Tourism Planning	1990
Planlama ve Insaat Dairesi	Planning and Construction	1991

(continued)

Table 2 (continued)

State office (Turkish)	State office (English)	Related establishment law
Devlet laboratuvarı	State Laboratories	1991
Meteoroloji Dairesi	Meteorology Office	1992
Veteriner dairesi	Veterinary Office	1992
Eğitim ortak hizmetler dairesi	Education Common Services	1993
Merkezi Mevzuat Dairesi Müdürlüğü	Central Legislation Office	1995
Çalışma Dairesi	Labour Office	2000
Talim ve Terbiye	Instruction and Education	2000
Harita Dairesi	Map	2002
Milli eğitim, denetleme, değerlendirme ve yönlendirme kurulu	Supervision, Assessment and Guidance Board of National Education	2006
Kooperatif Şirketler Mukayyetliği	Firm's Registrar	2007
Yataklı tedavi kurumları dairesi	Bed Treatment Institutions	2007
Başbakanlık Denetleme Kurulu Başkanlığı	Prime Ministry Supervision Board	2010
Disisleri Dairesi	Foreign Relations	2013
Toplumsal Cinsiyet Eşitliği Dairesi	Social Gender Equality	2014
Cocuk Yuvaları	State Kindergartens	
Devlet Senfoni Orkestra ve Korosu	State Symphony Orchestra	
Güvenlik Kuvvetleri Komutanlığı	Security Forces Commandership	
Sivil Savunma Teşkilat Başkanlığı	Directorate of Civil Defence Organization	
Ortaöğretim dairesi	Middle-School Education Office	

Table 3 Number of staff and total debt at municipalities in 1994 and total staff in 2012

Municipality	Permanent admin	Temporary admin	Permanent worker	Temporary worker	Total debt	Total staff (2012)
Nicosia	59	1	175	0	1.5 billion TL (all to KIBTEK)	971
Famagusta	45	6	208	28	16.73 billion	243
Kyrenia	39		91	8	23.311 billion	203
Morphou	22	9	40	45	3.179 billion	114
Gonyeli	7	4	2	39	429.538 million	163
Alsancak	6		10	3	289 million	88
Lefke	25		16	24	6.156 billion	107
Lapta	3	3	9	4	872 million	175
iskele	5		4	17	220 million (all to KIBTEK)	136
Akdogan	2			13	40 million	32
Alaykoy	2	1	3	9	1.076 billion	34
Degirmenlik	4	1	9	4	1.329 billion	171
Vadili	1			7	None	25
Dikmen	1	2	0	7	60 million	103
Dipkarpaz	1	0	4	0	None	40
Yeni Bogazici	3	2	5	4	130 million	94
Catalkoy	3	2	6	8	None	87
Yeni Erenkoy	5	0	4	2	175 million	107
Gecitkale	2	0	3	2	158 million	43
Pasakoy	2	0	4	3	434 million	31
Mehmetcik	4	0	6	3	501 million	61
Beyarmudu	4	0	3	0	1.084 billion	41
Tatlisu	1	0	3	0	80 million	34
Serdari	2		3	7	39.5 million	28
Inonu	2		3		285 million	28
Esentepe	1	1	2	1	None	62
Buyukkonuk	0	1	1	3	109 million	48
Akincilar	1	0	1	2	None	3

Source: Total staff (2012) is taken from TEPAV (2012)

Table 4 Total Turkish aid, Turkish imports and TRNC GDP

Year	Total aid (\$)	GDP (\$)	% of GDP	Imports from TR (million \$)
1974	34,442,357			
1975	26,550,286			
1976	28,658,431			
1977	10,764,261	207,445,055	5.2	30.9
1978	13,289,114	212,642,276	6.2	33
1979	12,078,581	228,519,022	5.3	39.1
1980	7,849,735	230,512,650	3.4	41.5
1981	15,950,782	215,138,053	7.4	44.2
1982	16,276,919	205,972,519	7.9	49.5
1983	22,605,194	200,268,300	11.3	65.3
1984	33,950,156	197,495,917	17.2	61.5
1985	21,848,613	236,275,601	9.2	65.1
1986	31,883,301	280,958,129	11.3	70.1
1987	28,174,558	325,521,686	8.7	94.3
1988	32,755,028	336,895,429	9.7	101.9
1989	38,688,006	419,746,438	9.2	112.5
1990	49,357,252	587,470,771	8.4	153.5
1991	56,846,395	536,989,216	10.6	143
1992	72,032,296	581,982,440	12.4	178.7
1993	73,424,021	614,762,172	11.9	150.9
1994	50,845,978	544,796,964	9.3	129.3
1995	45,051,816	745,741,207	6.0	194.8
1996	92,785,000	770,308,136	12.0	176.1
1997	153,349,889	757,600,783	20.2	202
1998	185,075,908	881,658,778	21.0	251.5
1999	163,206,752	955,756,277	17.1	256.4
2000	227,832,433	1,037,622,627	22.0	275.1
2001	201,459,459	907,700,125	22.2	173.5
2002	282,234,456	934,076,470	30.2	195
2003	289,373,844	1,263,741,237	22.9	299.3
2004	242,809,213	1,720,339,331	14.1	512.4
2005	384,929,595	2,273,514,229	16.9	817.4
2006	438,529,844	2,76,66,31,776	15.9	947
2007	433,773,380	3,547,220,390	12.2	1045
2008	580,323,708	3,957,855,613	14.7	1172.5
2009	600,278,115	3,477,342,266	17.3	923.4
2010	577,894,207	3,727,104,087	15.5	1137.4
2011	501,874,244	3,878,558,187	12.9	1165.7123
2012	448,534,386	3,862,648,400	11.6	1235.4
2013	488,287,933	3,983,920,937	12.3	1155.3
2014	408,175,562	4,040,220,098	10.1	1185.7
2015	301,611,932	3,749,035,178	8.0	967.6

Source: The aid data comes from TR Aid Office (2014); GDP and import data comes from SPO (2016), Table 'Main Economic Indicators' and Table 23, respectively

Table 5 Number of total civil servants under different types, 1979–1999

Year	Civil servants									
	Admin	Clerical	Messenger	Messenger- driver	Technical	Police	Teachers	Permanent workers	Military	Temporary (<i>kadrosuz</i>)
1979	57	454	115	11	2634	891	1418	1476	32	771
1980	36	448	113	11	2623	909	1538	1458	30	775
1981	28	476	193	19	2597	909	1552	1513	21	752
1982	27	475	188	19	2594	945	1551	1493	21	3588
1983	36	525	184	17	2539	986	1641	1505	15	3112
1984	41	1204	274	16	4443	1168	1735	1192	9	1886
1985	54	1189	256	14	4450	1415	1765	1205	7	1564
1986	61	1165	242	14	4074	1505	1866	1195	2	1645
1987	57	1130	215	14	4091	1438	1972	1175	1	1770
1988	57	1100	225	19	4053	1380	1998	1331	NA	1882
1989	53	1003	205	19	4404	1424	2093	1874		1987
1990	53	992	200	18	4370	1468	2196	1968		1897
1991	48	950	181	20	4365	1484	2251	2016		1774
1992	44	861	207	20	4500	1560	2321	2016		1674
1993	51	817	197	19	4514	1633	2433	2033		1779
1994	47	789	186	19	4532	1732	2504	2333		2007
1995	29	477	182	14	3574	1731	2617	2242		2000
1996	49	654	177	14	3801	1718	2705	2199		2099
1997	49	401	161	17	3618	1794	2729	2151		2337
1998	46	549	150	14	4037	1774	2821	2152		2330
1999	44	506	142	14	4130	1866	2917	2131		2304

Source: These numbers are compiled from annual SPO documents available at TRNC Parliament library

Table 6 Number of civil servants (more detailed), 1996–2010

Type	1996	1997	1998	1999	2000	2001	2003	2004	2005	2006	2007	2008	2009	2010
Civil servant	4148	4195	4426	4415	4513	4510	4695	4614	4731	4855	5079	5287	5551	5285
Additional staff (ek kadro)	545	508	187	424	382	236	209	194	183	177	168	130	86	
19/2000														
Police	1718	1794	1782	1866	1833	1837	1895	1919	1999	2179	2249	2198	2245	2181
Civilian police									100	109	135	160	159	89
Teacher	2702	2729	2819	2914	2959	3039	3167	3288	3341	3446	3529	3752	3778	3774
Permanent workers	2199	2151	2159	2131	2092	2084	2259	1737	1845	1865	1757	1693	1605	1473
Civil Defence	85	86	85	92	89	92	87	86	79	77	97	95	93	89
Organization														
Security force	160	155	149	146	141	134	127	125	120	126	127	121	114	105
Contractual (sozlesmeli)	85	103	72	70	48	48	72	77	117	138	146	146	173	140
Counsellor (musavir)	61	49	48	64	47	50	43	86	94	104	93	83	125	110
Temporary staff	2014	2234	2000	1932	1704	1630	1609	1747	2005	1940	2202	2231	2156	606

Notes: The numbers for 1996–2001 are compiled from annual SPO documents available at the TRNC Parliament library; The numbers for 2003–2010 are obtained from <http://www.personel.gov.ct.tr/%C3%9CstMenu/%C4%B0statistik.aspx> where the numbers refer to the end of the year employment; 19/2000 refer to the 'additional positions' created as a result of modification of Establishment Principles of Ministries Law in 2000 (Law 19/2000)

Table 7 Foreign work permits, 1978–2012 (selected years)

Year	First permit	Extension	Total
1978			566
1979			953
1980			1806
1981			1697
1982			1974
1983			1864
1984			2303
1985			2390
1986			
1987			
1988			
1990			
1991			
1992			
1993			
1994			
1995	2338	614	2952
1996	3027	745	3772
1997	3850	1317	5167
1998	4037	1213	5250
1999	4156	1672	5828
2000	4611	1502	6113
2001	3924	1387	5311
2002	3521	2307	5828
2003	4124	2374	6498
2004	9656	2773	12,429
2005	46,010	7546	53,556
2006	35,340	17,690	53,030
2007	24,323	13,032	37,355
2008	24,160	17,053	41,213
2009	17,926	16,745	34,671
2010	15,756	18,851	34,607
2011	11,596	19,101	30,697
2012	13,089	14,249	27,338

Source: Data is compiled from various activity reports of different TRNC Ministries

Table 8 Labour union membership, 1978–2008

Year	Revolutionary Trade Union Federation (DEV-IS)	Cyprus Turkish Trade Union Federation (Türk-Sen)	Others	HUR-IS Federation Unions	Federated Progressive Union (FPU)
1978	3116	10,069	4082		
1979	4110	10,641	1885		2670
1980	4327	9973	2146		2674
1981	3962	11,601	2201		2645
1982	4170	11,004	2338		2627
1983	4352	11,143	2530		2690
1984	4494	11,809	5912		
1985	4582	9929	6368		
1986	4586	9307	6734		
1987	4586	10,276	6579		
1988	570	8851	6586		
1989	570	7005	11,235		
1990	448	6551	12,316		
1991	638	7134	12,382		
1992	570	7093	12,989		
1993					
1994					
1995					
1996	1016	4196	13,362	3816	
1997	537	5390	12,603	3743	
1998	2274	5250	13,228	4112	
1999	1685	2736	13,225	4884	
2000	1740	2683	12,148	5185	
2001	1729	2690	11,732	5334	
2002					
2003	683	1929	12,361	5654	
2004	1268	1937	13,624	5362	
2005	1348	2013	14,115	5216	
2006	1346	2162	14,767	5226	
2007	1483	2177	15,542	5741	
2008	1225	2110	16,351	6157	

Source: Various SPO documents available at the TRNC Parliament library

Notes: *Federated Progressive Union was dissolved in 1984; Establishment years: DEV-IS (1976), TURK-SEN (1954), FPU (1979), HUR-IS (1993)*

Table 9 Number of contributors and beneficiaries from different social security funds, 1974–2010

Year	Civil servants		Social insurance fund			Provident fund		Recipients
	Currently working	Government pensioners	Active contributors	Pensioners (MYO)	Active contributors	Active contributors		
1974		410						
1975		477		1299				
1976		562		1618				
1977		784						3933
1978		1704			19,435			6329
1979	7859	2577		3411	20,232			3086
1980	7941	2702		3668	16,176			2193
1981	8060	4398		3832	17,211			1880
1982	10,901	4623		4082	19,348			2129
1983	10,560	4793		5748	17,529			2285
1984	11,968	4925		6553	17,439			2448
1985	11,919	5216		6187	18,562			3647
1986	11,769	5617		5964	18,511			4393
1987	11,863	6072		8454	21,156		32,948	4316
1988	12,045	6382		8971	22,601		34,822	3778
1989	13,062	6726		9412	26,049		39,032	3363
1990	13,162	7189		9602	28,173		44,776	2764
1991	13,089	7478		9767	24,822		45,518	4545
1992	13,203	7807			28,274			3173
1993	13,476	8123			28,863			4033
1994	14,149	8426		13,131	26,701			3478
1995	12,866	9368		13,782	28,159			3122
1996	13,416	9775		14,417	30,359			4085
1997	13,257	9983		15,332	33,030		25,634	3802
1998	13,873	10,393		16,284	34,902		27,776	4003

(continued)

Table 9 (continued)

Year	Civil servants		Social insurance fund			Provident fund	
	Currently working	Government pensioners	Active contributors	Pensioners (MYO)	Active contributors	Recipients	
1999	14,054	10,343	35,356	17,122	27,995	4220	
2000	13,808	10,629	37,659	17,921	28,130	5131	
2001	13,660	11,029	34,424	18,696	27,670	5848	
2002			35,020				
2003	14,954	11,050	35,891	20,240			
2004	14,661	11,134	39,104	21,517			
2005	15,379	11,215	47,080	22,507	64,243		
2006	15,766	11,272	65,689		74,916		
2007	16,325	11,436	72,385		71,270		
2008	16,462	11,867	72,942		72,433		
2009	16,262	12,162	66,623		70,884		
2010			70,331		67,819		

Source: Statistical abstracts of SPO.

Table 10 Different levels of payment scales from Social Insurance Fund, 1977–2011

Year	Level 1	Level 10	Level 20	Ratio of 1/20	Min wage (TL)
1977	1500	2500	7500	5.00	1820
1978					2780
1979					4333
1980	2400	4000	12,000	5.00	8660
1981	4800	7800	18,000	3.75	13,000
1982	10,500	15,300	27,000	2.57	22,000
1983	14,400	23,400	37,500	2.60	24,270
1984	28,500	46,500	74,700	2.62	30,300
1985	37,500	63,900	112,500	3.00	46,000
1986	37,500	63,900	112,500	3.00	75,000
1987	57,000	98,100	177,000	3.11	90,000
1988	81,000	141,000	255,000	3.15	121,000
1989	150,000	264,300	462,300	3.08	205,001
1990	300,000	531,000	990,000	3.30	340,500
1991	519,000	1,062,000	1,980,000	3.82	520,000
1992	804,000	1,593,000	2,970,000	3.69	806,000
1993	1,551,000	2,709,000	5,052,000	3.26	1,373,000
1994	4,950,000	10,110,000	18,000,000	3.64	4,000,000
1995	9,420,000	25,275,000	43,875,000	4.66	10,000,000
1996	13,500,000	36,396,000	70,500,000	5.22	14,800,000
1997	33,750,000	90,951,000	176,100,000	5.22	42,025,000
1998	50,250,000	135,000,000	264,000,000	5.25	58,625,000
1999	114,900,000	289,400,000	567,000,000	4.93	94,000,000
2000	159,300,000	402,900,000	789,600,000	4.96	148,500,000
2001	240,000,000	604,440,000	1,184,400,000	4.94	220,000,000
2002	379,500,000	957,000,000	1,875,600,000	4.94	350,000,000
2003	499,500,000	1,219,020,000	2,389,200,000	4.78	470,000,000
2004	627,000,000	1,530,000,000	2,997,000,000	4.78	588,500,000
2005	720	1758	3441	4.78	720
2006	858	2136	4191	4.88	820
2007	948	2388	4740	5.00	950
2008	1190	4572	8330	7.00	1125
2009	1237	4753	8659	7.00	1237
2010					1300
2011	1300	4995	9100	7.00	

After 2008, it is SGY (Social Security), before SS (Social Insurance)

Min wage is average for the years that were adjusted twice

The values are in TL. After 2004, TL eliminated six zeros, hence the lower numbers in the table

Table 11 State's unpaid debt to Social Insurance Fund, 1977–2010

Year	State's required contribution	Actual state transfer
1977	16.47	
1978	45.81	
1979	69.78	
1980	116.42	
1981	187.52	
1982	244.65	
1983	381.11	
1984	538.16	
1985	999.44	
1986	1402.98	
1987	1856.66	
1988	2827.67	
1989	5290.67	
1990	11,191.40	
1991	19,803.23	
1992	35,226.80	
1993	69,326.89	
1994	152,226.37	
1995	415,588.96	
1996	745,732.86	
1997	1,398,566.04	125,000
1998	2,943,761.69	2,544,841
1999	5,300,229.19	2,791,666
2000	8,438,456.70	7,453,327
2001	11,525,188.22	13,533,348
2002	16,192,999.64	18,801,976
2003	25,691,297.99	38,800,000
2004	34,649,676.63	59,842,510
2005	50,489,773.00	47,228,805
2006	71,616,731.00	45,884,810
2007	85,482,038.00	47,533,000
2008	98,643,215.00	72,292,119
2009	96,556,574.00	103,970,752
2010	95,690,150.00	104,918,827
2011	95,616,089.00	79,004,537
2012	100,388,504.26	61,979,000
2013	99,691,295.84	65,000,000
2014	105,986,443.95	64,911,113
2015	112,046,185.40	72,000,000

(continued)

Table 11 (continued)

Source: These values are obtained directly from TRNC Social Security Office. The numbers before 2004 are represented in Million TL, and after 2004 they are in TL

Note: As we discuss in the text, there were some changes in Social Security System after 2008 and the required contributions by the state for those eligible in the new system are not provided in the table. In other words, the liability of the state is actually higher than what's shown on this table after 2008

The officer I spoke told me that the state did not contribute anything till 1997 and the contributions after that were not to satisfy their contribution requirement but instead to be used in financially assisting the transfer of the Social Security System into a single system

Table 12 Payments made and received by the Provident Fund, 1975–2001 (selected years)

	Payments made (000 TL)	Payments received (000 TL)	
	By the fund	Premium	Deposit
1975		15,539	7055
1976		26,206	22,539
1977	18,488	30,906	30,631
1978	49,419	31,916	38,456
1979	24,777	57,946	74,265
1980	29,679	102,439	126,975
1981	49,117	183,339	225,092
1982	105,186	286,230	345,061
1983	175,352	394,945	472,473
1984	283,843	631,347	750,339
1985	784,498	1,063,718	1,271,560
1986	1,445,016	1,605,980	1,982,860
1987	2,199,706	2,284,076	2,791,509
1988	3,048,366	3,716,008	4,532,965
1989	5,366,268	6,252,079	7,396,808
1990	9,529,149	13,058,754	15,226,101
1991	20,347,899	23,788,900	28,099,180
1992	25,411,405	35,562,624	38,206,588
1993	128,240,628	58,709,926	67,914,638
1994	317,059,308	135,534,997	148,330,814
1995	166,430,554	135,534,997	148,330,814
1996	589,454,861	604,585,861	697,071,916
1997	1,086,364,804	1,133,153,480	1,300,290,693
1998	3,033,694,694		
1999	4,619,996,452	4,461,926,466	5,001,124,574
2000	11,226,797,343		
2001	22,533,707,598	10,047,818,567	11,115,759,150

(continued)

Table 12 (continued)

Wealth distribution of the provident fund and amount of loans extended to various organizations for some selected years							
	1981 (%)	1989 (%)	1994 (%)	1995 (%)	2000 (%)	2004 (%)	2010 (%)
Demand deposits	53.0	67.6	78.4	69.4	44.9	25.25	28.6
Loans extended	40.7	28.6	21.4	23.6	52.6	64.62	70.5
Bonds					2.6	8.67	
Real estates				6.8	1.0	1.46	0.9
Endowment (7.2 billion TL)		2.9					Same
Loans (million TL)	1995	2000	2004	2005			
Minister of Finance	568,023	15,853,758	78,416,550	102,152,937			
Consolidated Fund	168,436	32,609,469	163,035,258	213,052,148			
Social Housing Fund	162,278	2,459,285	13,044,598	14,470,001			
Social Insurance Office		4,980,188	26,523,861	35,522,127			
KIBTEK		4,361,494	7,486,400	5,816,515			
Pharmacy Coop (ECZA-KOP)	250	250	250	250			
BRTK		12,450					

Table 13 Seats supplied, no. of passengers and total staff of KTHY, 1975–1993

Year	Seats supplied	# of passengers	Total employees
1975	68,695	45,899	47
1976	132,677	85,304	99
1977	182,107	111,195	128
1978	205,450	155,557	177
1979	212,288	160,160	175
1980	124,327	80,374	162
1981	128,307	106,675	141
1982	127,562	100,641	136
1983	148,619	116,023	137
1984	154,303	123,251	141
1985	173,278	133,934	143
1986	108,316	154,510	139
1987	255,141	185,020	153
1988	275,775	233,287	187
1989	311,059	256,973	191
1990	328,900	263,424	215

(continued)

Table 13 (continued)

Year	Seats supplied	# of passengers	Total employees
1991	239,348	183,421	273
1992	391,814	268,510	
1993	551,845	408,537	

Source: KTHY activity report 1994

The total staff number in 1991 includes 39 contractual workers for ground services and 24 flying stewardesses

Table 14 Properties owned and the corresponding rents received by KTTI, 1980

Cyprus Turkish Tourism Businesses Ltd	
Properties owned and the annual rent (1980)	
<i>Hotels</i>	<i>Annual rent (TL)</i>
Bristol	150,000
Ergenekon	328,000
Anadol	309,000
Les Voyager	65,000
Atlantis	216,000
Kordon	55,000
Socrates	252,000
Hesperides	725,000
<i>Bar/rest/disco/beach</i>	
Belengaria	30,000
Calipso Restaurant	78,000
Piazza Restaurant	24,000
Anemomilos	18,000
Marti Restaurant	30,000
Philoxenia	78,000
Kalyon	48,000
Marabu	108,000
Corner Bar	78,000
Acapulco	43,000
Amrosia	66,000
Kimo Disco	63,800
<i>Office space and flats</i>	Total
Kordon Apt (x21)	244,800
Philecia Court Offices (x20)	750,400
Philecia Court Flats (x30)	719,833
Kordon Court Flats (x3)	48,400
Corner Bar Flats (x4)	57,360
Philoxenia Flat	19,200

(continued)

Table 14 (continued)

Cyprus Turkish Tourism Businesses Ltd	
Properties owned and the annual rent (1980)	
Canli Balik Flat	12,000
Marabou Court Flats (x5)	104,880
Socrates Court Flats (x8)	180,720

Table 15 Animal wealth, milk production and hellim export, 1975–2015 (selected years)

Year	Animal numbers			Milk production (tons)		Hellim exports (tons)
	Cattle	Sheep	Goat	Cow	Sheep + goat	
1975	10,000	147,609	62,391	8000	12,000	39
1976	7000	140,580	59,420	6500	12,000	51
1977	8600	154,658	65,362	7500	13,000	77
1978	9272	167,640	70,860	12,500	15,000	86
1979	10,958	207,523	80,522	16,103	13,191	107
1980	12,833	243,324	92,195	17,890	15,355	223
1981	13,613	257,835	90,056	19,183	15,833	308
1982	16,399	274,849	80,707	21,301	15,288	418
1983	16,493	238,865	67,407	20,350	13,764	741
1984	13,703	228,929	66,759	19,400	13,398	699
1985	13,519	202,269	71,172	18,896	13,166	395
1986	14,086	201,592	63,142	20,090	12,264	427
1987	12,038	185,738	60,343	17,581	12,356	450
1988	11,775	178,984	55,668	15,824	11,183	329
1989	12,076	192,642	56,640	17,901	10,565	442
1990	13,323	203,557	59,322	19,952	10,106	437
1991	13,580	143,400	60,953	19,827	10,800	286
1992	14,317	179,302	52,120	19,119	11,020	404
1993	15,676	203,428	55,329	23,010	9865	369
1994	17,158	187,137	53,007	22,852	10,970	639
1995	19,976	207,596	57,305	28,511	10,446	1843
1996	24,225	222,248	61,476	37,904	11,474	3270
1997	25,506	226,833	63,670	44,138	12,225	1729
1998	22,117	220,493	59,394	47,057	12,198	1419
1999	28,346	210,090	55,640	50,270	12,815	1501
2000	30,369	193,626	52,216	57,204	11,911	1997
2001	34,215	202,622	54,776	66,492	11,402	2641
2002	38,136	215,086	57,567	74,330	11,881	2940
2003	42,690	215,237	53,323	85,048	11,846	3200
2004	47,970	194,500	51,266	95,556	11,558	
2005	56,647	239,026	60,780	106,203	11,261	

(continued)

Table 15 (continued)

Year	Animal numbers			Milk production (tons)		Hellim exports (tons)
	Cattle	Sheep	Goat	Cow	Sheep + goat	
2006	60,493	234,362	62,145	106,783	13,674	
2007	57,528	236,026	61,425	104,519	13,533	
2008	49,361	230,992	58,918	96,493	13,133	
2009	46,534	204,546	53,256	93,983	12,679	
2010	47,415	196,995	51,550	95,787	11,481	
2011	51,734	210,792	60,405	104,576	11,313	
2012	54,581	224,589	72,004	112,515	12,539	
2013	58,931	235,500	82,002	136,198	13,752	
2014	62,227	238,023	90,917			
2015	67,882	221,755	102,498			

Table 16 Number of electricity users and total usage statistics, 1975–2001 (selected years)

Year	Number of users										Out of peak	
	Dwelling	Commerce	Industry	Tourism	Irrigation	Street lighting	Temporary					
1975	29,220	11,528										
1976	30,220	11,778										
1977	32,020	12,131										
1978	33,120	12,460										
1979	34,318	12,689										
1980	35,456	12,862										
1981	36,552	13,044										
1982	37,681	13,183										
1983	38,800	13,353										
1984	39,904	13,502										
1985	41,143	13,670										
1986	42,406	13,910										
1987	44,236	14,099										
1988	46,147	10,307	1846		1686	479						
1989	48,607	11,201	1981		1754	517						
1990	50,457	12,180	2044		1813	536						30
1991	52,308	13,228	2147		1869	558						30
1992	53,829	14,292	2219		1895	593						30
1993	55,914	15,127	2271		1927	606						30
1994	57,469	15,778	2294		1961	627						31
1995	59,653	15,976	2591		2044	651	717					32
1996	61,754	16,488	2266	118	2040	784	1019					32
1997	64,372	17,165	2254	238	2084	835	1265					32
1998	67,162	17,884	2237	237	2130	871	1551					32
1999	70,155	18,720	2230	276	2189	897	1865					34
2000	72,313	19,399	2246	287	2242	931	2138					34
2001	74,978	20,277	2264	298	2282	951	2286					34

Table 16 (continued)

1995								
Type of usage	Price			Revenue (if all collected)				
Dwelling	3563			557,965.8				
Commerce	4283			324,951.2				
Industry	4196			155,000.2				
Irrigation	3340			140,447				
Street lighting	3340			22,211				
Out of peak	2970			356.4				
	Total (mil\$)			25.80				
Usage statistics (million kWh)								
Year	Dwelling	Commerce	Industry	Irriga- tion	Street lighting	Out of peak	Total billed	Total unbilled
1987	113.89	38.85	24.77	46.91	6.66	0.18	231.26	99.54
1988	110.82	42.52	30.11	42.54	7.24	0.21	233.44	92.16
1989	117.51	46.1	26.75	49.1	7.12	0.21	246.79	92.75
1990	118.22	54.61	33.75	59.1	7.45	0.21	273.34	105.1
1991	129.4	75.77	34.2	54.3	8.8	0.17	302.64	109.98
1992	151.47	67.14	34.79	48.08	8.92	0.23	310.63	144.14
1993	165.73	77.19	38.52	48.53	8.89	0.22	339.08	142.33
1994	162.79	79.02	35.68	44.74	8.93	0.2	331.36	141.94
1995	156.6	75.87	36.94	42.05	6.65	0.12	318.23	205.69

Table 17 Employee numbers of KIBTEK, 1975–1995 and 2006–2009

KIBTEK staff	Monthly personnel	Weekly personnel	Other seasonal/ temp	Total
1975	120	168		288
1976	111	160	35	306
1977	173	141	13	327
1978	206	143	2	351
1979	199	164	3	366
1980	198	179	6	383
1981	223	158	32	413
1982	224	152	59	435
1983	230	150	59	439
1984	261	174	22	457
1985	250	167	41	458
1986	267	173	74	514
1987	250	159	76	485
1988	262	160	77	499

(continued)

Table 17 (continued)

KIBTEK staff	Monthly personnel	Weekly personnel	Other seasonal/temp	Total
1989	275	192	6	473
1990	262	186	77	525
1991	276	231	4	511
1992	303	209	4	516
1993	323	192		515
1994	363	190	6	559
1995	369	171	6	546
2006				615
2007				647
2008				681
2009				654

Source: 1975–1995 numbers are obtained from KIBTEK, 2006–2009, comes from Guven (2013)

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Abbreviations

ATCA	Autonomous Turkish Cypriot Administration (Otonom <i>Kıbrıs</i> Türk Yönetimi, OKTY)
CTP	Cumhuriyetçi Türk Partisi (Republican Turkish Party)
DEV-IS	Devrimci İşçi Sendikaları Federasyonu (Federation of Revolutionary Workers' Unions)
DP	Demokrat Parti (Democratic Party)
ECHR	European Court of Human Rights
ECJ	European Court of Justice
EEC	European Economic Community
FYDP	Five-Year Development Plan
GKK	Güvenlik Kuvvetleri Komutanlığı (Security Forces Command)
HP	Halkın Partisi (People's Party)
KIBTEK	<i>Kıbrıs</i> Türk Elektrik Kurumu (Cyprus Turkish Electricity Board)
KTAMS	<i>Kıbrıs</i> Türk Amme Memurları Sendikası (Turkish Cypriot Public Servants Union)
KTFD	<i>Kıbrıs</i> Türk Federe Devleti (Turkish Federated State of Cyprus)
KTHY	<i>Kıbrıs</i> Türk Hava Yolları (Cyprus Turkish Airlines)
KTOES	<i>Kıbrıs</i> Türk Orta Eğitim Sendikası (Turkish Cypriot Middle-School Education Union)
KTOS	<i>Kıbrıs</i> Türk Öğretmenler Sendikası (Turkish Cypriot Teachers' Union)
RoC	Republic of Cyprus

xl Abbreviations

SEE	State Economic Enterprises (Kamu İktisadi Tesebbusleri)
SIF	Social Insurance Fund
SPO	State Planning Organization
SUTEK	Süt Endüstrisi Kurumu (Milk Industry Board)
TFSC	Turkish Federated State of Cyprus
TKP	Toplumcu Kurtulus Partisi (Communal Liberation Party)
TL	Turkish Lira
TRNC	Turkish Republic of Northern Cyprus
Türk-Sen	<i>Kıbrıs</i> Türk İşçi Sendikaları Federasyonu (Federal Union of Turkish Cypriot Workers)
UBP	Ulusal Birlik Partisi (National Unity Party)

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1

Introduction

A Turkish Cypriot's Tale

I grew up in an ambiguous and discordant country. Most of the households had multiple vehicle ownership and even multiple house ownership, yet most households did not have clean drinkable water until recently. Similarly, most individuals received regular income from at least two sources, but they didn't necessarily pay their taxes regularly. Citizens rarely worried about the poisonous exhaust coming out of their cars, parking their car literally anywhere they liked (including the middle of the road), or adding extensions to their house without any approval from the state, because there was no monitoring by the state. The state provided free healthcare, but state hospitals lacked the necessary personnel and equipment. There was free primary and secondary education provided by the state, but most families also sent their children to private tutoring after school hours to be taught by the very same school teachers who had taught them a couple of hours earlier even though those same teachers were prohibited from holding a second job. We claimed to be living in a democratic country where the same person had served as the 'leader' of the people for more than 25 years and some of the MPs who

were in parliament when I was in elementary school are still in office. Democracy in the eyes of my compatriot involved the right to vote but does not really require civic engagement or transparency and accountability of governments. Although as a country we complained about the performance of governments, we rarely acted collectively to change things.

In our daily lives, we didn't have major economic difficulties. Or at least our parents never expressed that to us. I grew up in a traditional family where my mother was a housewife who took care of the house and my father provided income. My father worked in the civil services until his retirement in his early 40s. After retirement, he continued working for a private company where he worked long hours but with generous work benefits. When that company went bankrupt, he formed his own business and entered the private sector. We had a house and a car and a comfortable living. Well, that is apart from the power outages and the lack of clean and adequate water at our home in the city. It was later, in secondary school years, that we perfected our night vision and specialized in working in the dark because power outages had become a very common occurrence. But since the teachers went on strike regularly, there was not much homework to do anyway. In accordance with teenage spirit, we used to make fun of the accents of small number of students in school who were immigrants from Turkey. We supported Turkish football teams fanatically but rarely went to a local football match. Although being an islander, we ate fish only on special occasions, but red meat was abundant. Since we had extended family in a village, we visited them every weekend and brought all the fruits and vegetables from there. In terms of our education, we started 'preparing' for some kind of an exam from as early as ten years old, continuing all the way until university. As a teenager, I never thought about economics or politics of my country, and our parents always reminded us that what we had was an economic heaven compared to their childhoods.

My high school years were a little bit different. My generation of Cypriots grew up on a divided island with a demilitarized buffer zone patrolled by UN forces, with communities on both sides of the border having been stripped off some of their basic rights. In an era of no internet and no social media, complemented with an authoritarian government regime, I grew up only hearing one-sided stories of pre-division

events. The brain washing started from the early years. While in elementary school, aged seven, we were taken on a field trip to a museum that showed the grotesque pictures of a murdered family in a bathtub. As we grew older, we heard exploding bombs and of the execution of journalists, but didn't really understand their political implications. During the last two years of high school, I had the opportunity to have a closer look at 'the other' side of Cyprus. The first occasion was when we had special permission to attend a fair organized by universities from the UK on the other side of the buffer zone, and the second was when several people from the other side tried to cross the border which resulted in the deaths of two people. When we first crossed the 'border' under UN escort to get to the conference venue, we all realized how much 'nicer' the roads and the environment were. My first thought was that it looked like London, which I'd visited a year earlier. But a year later, some people on motorbikes tried to cross the border to our side and two of them were killed. Although the local media portrayed those events in the most nationalistic way possible, I began to have some questions in my mind. Having seen the better economic development of the other side and inhumane execution of individuals, I began to ask more questions about the history of northern Cyprus.

Things changed after high school. Although I wasn't able to obtain a scholarship to go to the USA for my higher education, and despite my objections, my family decided to send me anyway. In travelling to the USA, we intended to transfer in Germany, and unfortunately I found out for the first time that the passport of my 'country' was not valid in Germany; thus I applied for a temporary Turkish passport so that I could obtain a transit visa from Germany. I had trouble explaining myself at the US customs with two different passports. After one hour of interrogation and 'checking with the managers', I was able to go through. During the four years of undergraduate studies in the USA, I obtained student visas eight times because the visas were given for 'single entry', and I used to come back to Cyprus for both Christmas and summer holidays. Many years later in another visa interview (this time with Republic of Cyprus passport), a counsellor told me that, looking at my history of visas, she had never seen so many visas for one applicant. But the interesting point of going to the USA was the opportunity it gave me to meet people from

the ‘other’ side of Cyprus whom I have never met before in my life. Once I started hearing conflicting stories, I became puzzled and began to read other sources and learn about the story of the other side.

I began to accumulate research skills after I began graduate studies in economics. Many people think that economics is solely about the study of money. Any first-year economics textbook defines the discipline more or less as the study of efficient allocation of scarce resources among unlimited wants. However, when we were growing up, the policymakers in northern Cyprus thought that the resources were not scarce, and they did not allocate those resources in an efficient way. During my graduate studies, I began to apply my training to my country and began asking the following questions to myself: ‘Why is my country economically wealthy but not developed?’ ‘Why is there a large pool of young retirees?’ ‘Can social security be sustained with these large number of retirees?’ ‘Why are the public services so poor?’ ‘Why don’t we produce more value added products?’ ‘Why can’t we export more goods and services?’ ‘Why do people complain all the time and yet still vote for the same politicians over and over again?’ ‘Why did the state-owned airlines company go bankrupt after more than 30 years?’ ‘Why was there so much Turkish influence on our budget?’ ‘Why does the “other side” perform so much better than us in economic matters?’ The answer given to most of these questions by the government officials in northern Cyprus has been ‘because of the Cyprus Problem’. I was persuaded by that response for a while, but no more.

After completing doctoral research in the USA, as a native Cypriot, I returned to Cyprus and started working as a lecturer in economics at a university in northern Cyprus, and wanted to conduct research on northern Cyprus, but I encountered two main problems. The first was the lack of data for an empirical social scientist. The existing data (whose quality was questionable) was simply not shared with or by the public. After a while, as is typical in social science research, I started meeting, networking and collaborating with more senior researchers who also had contacts in the public sector which made my access to data easier, but still inadequate and arbitrary. The second problem arose when I submitted my work, for international academic journal publication, and as one reason for receiving rejections was the use of TRNC data.¹ Thanks to my co-authors’ persistence, we managed to publish some of our work in interna-

tional journals. However, this also made me realize that international scholars were unaware of the history of northern Cyprus, by no fault of their own since there are very few works in English (or any other language) about northern Cyprus. It is out of this personal experience that this book is an attempt to correct those errors and omissions albeit with a focus on the economic history of northern Cyprus, and to draw together the extent of economic data and major analysis of northern Cyprus into one place.

Although per capita gross national income in northern Cyprus had been increasing over recent years in local currency (the Turkish lira (TL)), its dollar value has decreased due to depreciation of Turkish lira against foreign currencies. Regardless, per capita income in 2016 was \$13,902 according to official statistics which placed the northern Cyprus among 'high-income countries' classification by World Bank. However, in terms of business competitiveness, northern Cyprus is still classified as 'efficiency driven' stage of economic development instead of a transition to an 'innovation driven' stage of development, if judged only by income levels.² Furthermore, according to a corruption perception index in 2017—which was calculated for the first time for northern Cyprus—it ranked 81st among 180 countries in this list.³ Looking at health indicators, in 2015, there were 536 persons per doctor, 434 persons per nurse and 4.5 beds for 1000 people which is worse than the statistics of other developed nations. But the statistics show 92.8% enrolment ratio in tertiary education and favourable teacher-student ratios in public schools. According to the 2008 Household Budget Survey (HBS), 64.8% of the households own their dwelling and 79.3% of households have at least one car. The reliability of these official statistics notwithstanding, they show that there is economic wealth but not a developed economy in northern Cyprus.

Since the de facto division of the island in 1974, the demilitarizing of the UN-administered buffer zone and demarcation of the Green Line under annually renewed UN Security Council resolutions and the growing international isolation of northern Cyprus, there has been a corresponding bifurcation in the development of the two zones of Cyprus. Whilst the original 1960 broken constitution of the Republic of Cyprus continued uncorrected and the Republic of Cyprus continued to enjoy

full international recognition, full international relations and eventually full membership in 2004 of the European Union, the northern polity endured a discordant, oblique, neglected and outcast development. The provisional post-1974 polity became permanent in the November 1983 unilateral declaration of independence as the Kuzey Kıbrıs Türk Cumhuriyeti (KKTC), hereafter anglicized to the Turkish Republic of Northern Cyprus (TRNC). No matter the permanent UN-mediated missions dedicated to the peaceful settlement of the ‘Cyprus problem’, including the singular opportunity offered by the Annan Plan and 2004 Referendum (voted against by 76% of the Greek Cypriot electorate on an 89% turnout; voted for by 65% of the Turkish Cypriot electorate on an 89% turnout) but squandered, and notwithstanding the significant economic, environmental, social and cultural benefits which many have argued would arise from any settlement, today the island remains as firmly divided as ever.

The readjustment to life in Cyprus was not easy. Although I was able to obtain a good job and have decent earnings, I was still puzzled with so much of the everyday life. Northern Cyprus had changed since the last time I had spent significant time here. Notwithstanding that people were living in luxury (large houses, big cars, expensive clothing), there were now more congestion, more environmental problems, more social problems (murder, rape, stealing, divorce) and more structural problems compared to the time at which I left for the USA. What is more puzzling for me was why people didn’t seem to be bothered by these discordant developments. So I joined a civil society association who were interested in a ‘clean society, clean politics’ and attempted to act as a watchdog monitoring domestic government in northern Cyprus. This is when I started to learn more about legal and institutional framework of northern Cyprus development and find out how poorly politicians have governed the north. At the same time, I became frustrated and was angered when I learned what the highest level of government discussed during their weekly meetings. That’s when I decided to dig further and go back to the roots of the political and economic status quo in northern Cyprus.

A Tale of a Discordant Polity

Thus, the primary ambition and novel purpose of this book became the attempt to identify, trace and explain the discordant economic development of northern Cyprus. Southern Cyprus—the internationally recognized Republic of Cyprus (RoC)—has experienced a relatively comfortable economic development with full benefits of a sovereign state. Where the Republic of Cyprus, in enjoyment of its international legal status, has contributed to and receives the support of advanced economic reporting systems such as the World Bank, International Monetary Fund (IMF), European Union (EU), World Trade Organization (WTO), UN agencies and organizations such as the Food and Agriculture Organization (FAO) or World Health Organization (WHO), northern Cyprus' pariah status has meant that none of these organizations is able to support TRNC, whether in simple economic data collection, let alone concrete economic advice, support and development. By contrast northern Cyprus has been outcast by the international community, only recognized by Turkey which has assisted the Turkish Cypriot community (since as early as 1955 when the bi-communal conflict first began) after the 1974 division and subsequent to the establishment of the Turkish Republic of Northern Cyprus (TRNC) in 1983 to the present day. The aftermath of this separation deserves some attention as it is a unique example of a self-proclaimed state and blighted by common experiences of poor governance. Yet it is imperative therefore, in this light, to have a better understanding of the political and economic development in the northern part of the island if there is ever going to be a reunification.

Thus, the historical evolution and development of the northern Cyprus economy since 1974 forms the first of two ambitions of this book. The second ambition, predicated on the adequacy of presenting an economic history of northern Cyprus, is to critically discuss the quality and forms of economic governance of the north to the present day. The contents of this book are not new for those who have lived in northern Cyprus. It is impossible to have a conversation in northern Cyprus without some reference, usually critical, to the political past of the island. Motorists while driving will be stressed about the road safety and quality and blame the

potholes, the poor road marking or lack of lighting, or low standards of driving on the deficiencies of parliament. Private entrepreneurs while trying to seek licences or permissions from government offices will invariably become angry at the civil servant (if he/she is not already using *torpil* or nepotism) and blame past governments for hiring so many incompetent individuals into the public sector. Farmers complain about the difficulties of farming without government subsidies and then curse at the government for bad policies. Walking around the city, shoppers realize that prices are rather high compared to Turkey or even in some cases compared to southern Cyprus and will speculate on the reasons. The owner of a shop will insist that import taxes and other government policies are to blame for high prices, while union member and business boss alike will both complain about the minimum wage, albeit in different directions, but both blaming the self-interest of governments. But one common denominator of all these discussions and many more will be the inability of governments to manage the state. In other words an analysis of the weaknesses or failures (as well as some successes) of economic governance comprises the second ambition of this book.

Nevertheless, several warnings are in order before we continue any further. The purpose of the book is not to discuss the causes of ethnic conflict or the course of Cyprus peace talks since 1974. Although in this chapter a very brief history is provided of Cyprus until de facto separation, there have already been plenty of scholarly analysis on politics and international relations of modern Cyprus one more such monograph need not be added. Similarly, the interminable Cyprus peace negotiations have been on the world agenda, for example, at the UN Security Council, since at least 1963. And whilst it has dominated—some would say suffocated or even poisoned—local politics, there has been much heat but almost no light. Indeed, it is important to contextualize the main content of this book by emphasizing that the ever-present ‘Cyprus problem’ has been blamed as the scapegoat for any number and variety of domestic socio-economic problems. The ‘Cyprus problem’, however important it may be, has nevertheless served as a permanently available excuse for stasis. I will show throughout the book that this over-determination or reductionism to the Cyprus problem is a great myth. Here I do not pretend to address the conflict, negotiations, settlement or reunification

(except by way of relevant context), and instead seek to address how successive Turkish Cypriot governments, and the governance regime more broadly, have shaped, regulated, developed and elaborated the northern economy since the division of the island. Whilst not wishing to pre-empt the conclusion, it is worth indicating at the outset that the story is not, generally, a happy one.

One last advisory is in order on the use of certain terminology. Throughout the book Turkey's military operations, particularly in 1974, will be referred to by the neutral, technical term 'intervention'. Greek Cypriots prefer the word 'invasion' and Turkish Cypriots prefer the term 'peace operation'. My chosen term of 'intervention' is the least normatively loaded term, conveying neither approval nor condemnation of the conduct. Second, as explained in more detail in Chap. 2, the general spatial area of the northern third of the post-division island will be referred to as 'northern Cyprus'. Where the particular political regime is referenced, either the term Turkish Federated State of Cyprus (TFSC; Kıbrıs Türk Federe Devleti, KTFD) operating between 1975 and 1983 will be used or Turkish Republic of Northern Cyprus (TRNC; Kuzey Kıbrıs Türk Cumhuriyeti, KKTC). Similarly, throughout, I will refer to the Republic of Cyprus (RoC) as the 1960 established state and constitution, but implying especially since 1974 the Greek Cypriot administration. Again when referring to the general spatial area of two-thirds of the island of Cyprus, I occasionally use the phrase southern Cyprus or the south. The use of this particular vocabulary—frankly, any naming practice—is always challenged by locals. Turkish Cypriots prefer the phrase 'Cyprus Greek administration' instead of the Republic of Cyprus, and they refer to the president of Cyprus as 'the leader of Cyprus Greek administration'. Greek Cypriots on the other hand refer to TRNC as 'the occupied territories of Cyprus' and the president as 'the leader of the Cyprus Turkish community'. However, regardless of how some choose to refer to each other, the two sides have met on innumerable occasions since 1974 and certain 'agreements' have been signed with each other⁴; thus I am not going to be stymied by approved legal terminology. Finally, insofar as the official language of northern Cyprus is Turkish (and was the second official language, with Greek, in the 1960 Republic of Cyprus constitution), wherever Turkish terms are used, on first use I shall give the

full Turkish phrase followed in parentheses by the Turkish acronym (where appropriate) and then the standard English translation. Thereafter I will use the Turkish term or acronym.

Throughout this book 'official' data from the departments and offices of the TRNC will be used. My training as an economist, love of working with numbers and most importantly the belief that without empirical evidence it is in vain to discuss most matters motivate the approach here. The TRNC's State Planning Organization (SPO) which is in charge of collecting economic data and publishing results has provided most of the main economic indicators; however, the quality and reliability of data in the past had been questionable. It is a truism in economics that analysis will be only as good as the quality of the data being used, and therefore I will discuss the quality of the various data and its sources as I engage with each topic. This criticism is important because it is one of my intentions that this book could also serve to provide data for other researchers and that the state offices continue to improve publishing data in the public domain on a continuous basis allowing proper time-series analysis. That being said, the data presented here is nowhere near complete but I also hope that people who have documented data from post-1974 period will come forward and help me make it available to the public.

Another distinct contribution of this book is the use of parliamentary proceedings. The discussions held at the parliament have several interesting features. First of all, they show how the policymakers in the north have been behaving at the highest level meetings among themselves. Not surprisingly we will see that the meetings were most of the time nothing more than coffee-shop conversations. I've adopted the practice of assigning some of those parliamentary debates to text boxes, as a means of highlighting the quality and typical characteristics of the debates, but also as a means of signalling and encouraging to read the information in the boxes, although neglecting it will not cause any derailment from the overall purpose of the book. Secondly, the reports reveal the extent to which politicians considered some of the important bills that influenced the economic development of northern Cyprus. Although some of the names referred to in this manuscript may not mean a great deal to the readers—hence again the use of text boxes—my aim in including those is to have it on record to show how past members of the parliament (and

corresponding political parties) contributed to or refrained from the discussions of key issues. Finally, these reports include some important data (used by politicians in their addresses of the chamber) that are not publicly available in other sources. Unfortunately for international readers the reports are in Turkish; thus the quotations and citations presented throughout this book are translations made by the author (unless otherwise indicated).

Outlining the Discordant Polity

The substantive chapters begin by offering up, in Chap. 2, a number of theoretical approaches, including conceptual vocabulary which will help in the examination of different governance systems that have emerged in northern Cyprus, as well as to introduce the political and institutional frameworks in the north. After the division in 1974, the Turkish Cypriot community was managed under an unofficial federated state which then turned into a distinct republic in 1983. Equipped with a conceptual language will then enable us to discuss possible classificatory models of this new system of governance in the north in the first substantive chapter. The new administration, free from the Republic of Cyprus, quickly set up its own institutions and government bodies, held parliamentary and presidential elections and introduced a constitution and many laws. On the surface, northern administrators seemed to be in charge of an independent state, but as far as international law is concerned, it is more accurate to label it a *de facto* state or even an occupied state or even a puppet state under full influence of Turkey. Despite all the laws and regulations designed for any democratic country, the administrators followed somewhat a 'dictatorship' model whereby they used political clientelism and rentierism as their key tools of governance. Following that sketched history designed to orientate the reader, though perhaps unnecessary for those familiar with northern Cyprus' history, Chap. 3 begins to discuss in detail these institutional and political developments on the economic governance regime of northern Cyprus and ends with the abiding issue of the 'resettlement' of Turkish Cypriots which includes the allocation of immovable property to the refugees who left their homes in the south of the island in the 1974

period, as well as migrants who were subsequently brought from Turkey to settle in the north. As much as this may appear to be a humanitarian matter, the policymakers managed to take advantage of this to strengthen their political power and make this the most difficult item of Cyprus peace negotiations in the years to come.

This is followed immediately in Chap. 4 by a discussion of comparing the economic developments in the north with the south, and its relationship with the 'motherland'. Although I will not go into detail about economic development of the Republic of Cyprus in the post-1974 period, a comparative outline should prove useful in order to be able to judge the divergences between either economy over the past almost half century. One of the ultimate desires of the leaders of Turkish Cypriots had been to have an independent nation that manages itself. This wish was turned into a necessity after the intervention of Turkey in 1974. Being the only country that subsequently recognized TRNC, Turkey continued to assist financially as well as politically to the governance of the north over the years. In this chapter we shall see whether the assistance from Turkey was a 'free lunch' and how it contributed to the economic development, if any.

Having discussed the structural and political foundations of this break-away state, the next natural step is to talk about how state has contributed to the growth of the economy. Unfortunately, in the case of northern Cyprus, the growth, if any, was not state-led but actually state-hindered. One would expect that with plenty of spoils of war and financial assistance from Turkey, the state should have no problem in promoting a planned economic development. Instead, policymakers utilized the resources at their disposal to strengthen their own political power and distribute wealth unequally, unfairly and probably unlawfully. Thus, in the remainder of the book, we shall discuss how the state utilized public employment opportunities, funds accumulated in social security funds and other semi-state-owned enterprises in achieving the aforementioned goals. Only after analysing the impact of government policies on hindering economic growth, we turn to the only catalyst that could have neutralized the process, namely, the private sector. This order of analysis may sound unconventional in a classical economic history, but this should be expected from a discordant history.

The labour market in northern Cyprus in tandem with the social security system is discussed in Chaps. 5 and 6. After the division, there was much physical capital in the north, but entrepreneurial skills to manage those were not abundant. Most of the Turkish Cypriots were working in agricultural sector and had low levels of education at the time of separation. However, the new state demanded plenty of the workforce to be employed in state institutions; thus they stepped in by offering plenty of public sector employment to the citizens with very generous working conditions. Social security and retirement laws had also been very generous but economically inefficient and unsustainable. For example, civil service employees were allowed to retire after 15 years of contributions to social security system. Furthermore, successive governments have ignored parliamentary statutes and pushed the social security system to the brink of bankruptcy. Until 1997, the state did not pay any of its required contributions to the social security system, and even more disturbing, they allowed social security to borrow money from banks with government guarantee. Chapters 5 and 6 therefore show the development of these areas and begin to explain the implementation of weak or ineffective policy in the early years of the republic, which have had chronic effects on social welfare in northern Cyprus.

One of the most significant yet unanticipated outcomes of the 1974 division was the transfer of the 'spoils of war' (called '*ganimet*' in local language). With particular consequence for tourism, industrial and agricultural sectors, abandoned real estate and capital equipment was appropriated into the new regime in the north. Although as 'spoils of war' such assets did not belong to 60,000 Turkish Cypriots who had been forcibly transferred from the south, the newly established northern authorities did not hesitate to utilize these assets to help with economic development. That being said, the opportunities were not exploited in the most efficient manner, and sudden acquisition of a range of capital assets soon became burden rather than an advantage, as discussed in Chap. 7. The newly formed so-called state economic enterprises (SEE) were enterprises that were co-owned by Turkish Cypriot public authorities and enterprises from Turkey, and they were supposed to be managed independently from the political influence. However, these enterprises had been from the outset major victims of political interference. The high-level managers with-

out any prior experience in the related sector at these enterprises were appointed by either the Turkish partners or the incumbent governments in northern Cyprus. Not only that, the board of governors of these enterprises have employed many incompetent and unnecessary workers in exchange for votes. Although the budgets of these enterprises were supposed to be under their own control, central governments have meddled and used the revenues to transfer to central budget for other purposes. For example, there was no electricity supplied by northern administration until 1994 (electricity was 'purchased' from south), but the electricity board collected fees from the public regardless. What has happened to all that money is uncertain, and this board started borrowing money from banks (with state guaranteed bonds) immediately after they established their own power plants to pay for gasoline. The historical development of some of the SEEs and their poor management by governments in the north will be analysed in Chap. 7, and the failure rather than potential success of these key enterprises will be explained.

Most of the developed economies in the world owe their economic development to the success of private sector with government as a vital supporting, complementing and enforcing agency (see Mazzucato). The private sector in northern Cyprus did not develop professionally until the early 2000s. Most of the private sector businesses consisted of small- to medium-sized enterprises and were operated by the young retirees from the civil services or managed by civil servants as a second job. After the collapse of SEEs in the middle of 1990s, some entrepreneurs used the opportunity to fill this gap, but they needed favours from government. The agriculture and tourism sectors had survived through government subsidies with the justification that these industries had to be 'protected' until they develop substantially. But the subsidies were merely used for clientelistic purposes without any economic rationale, and there were only a handful of beneficiaries in those respective sectors. So these and the development and other major sectors of the economy will be examined in Chap. 8.

The final chapter of the book has two separate subsections. In this concluding chapter, in mirror image of the Introduction, I revert from the voice of an academic economist to the tone of a frustrated Turkish Cypriot. First I will discuss the responsible parties, in my mind, for dis-

cordant state practices in northern Cyprus. It has been suggested many times that the politicians are the major contributors of the discordance, but do they deserve all the blame? In my view, the people of northern Cyprus including labour unions, civil society associations and the media are all culpable. Nor should one forget Turkey which never allowed north to develop into a fully independent state and continued to exercise a deepening authority on the north through various means. Finally, in the last subsection, the future status quo of the island—since there is no new dynamic foreseeable—especially in light of the most recent general elections in 2018 will be examined. It is not the ‘Cyprus problem’ that contributed to the lack of economic development of the north. It is those actors that I have already mentioned. The most recent developments both in local government and in Turkey have only worsened matters, not only for Turkish Cypriots but also for anyone dreaming of a unified Cyprus.

But before detailing the discordant history of northern Cyprus in the post-1974 period, let’s offer a historical sketch of earlier periods.

A Brief History of Pre-1974 Cyprus

Insofar as the focus of this book is to set out and examine the recent economic history of northern Cyprus, nevertheless an outline of general history of the whole island of Cyprus is necessary to contextualize that focus. As already indicated, there are plenty of scholarly analysis of the major moments and periods of Cyprus’ history, and these are in almost all fields from archaeology to anthropology, from ecology to imperialism, from politics to peace-keeping. Therefore, for current purposes, no comprehensive historical survey is attempted, but instead an outline is presented of the events that led to the de facto division of Cyprus. It is this context which is crucial and pertinent to make sense of the subsequent economic history and economic policy analysis of northern Cyprus, and therefore the following historical outline addresses the formation and rise of the political-economic structures in northern Cyprus and gives an idea of the emergence and backstory to Turkish Cypriot administration. Those interested in detailed analysis are referred to the sources cited earlier, as well as in this sketch.

The island of Cyprus has been colonized by many civilizations throughout history. The widespread availability of copper on the island had sparked interest of merchants as early as 2000 BCE.⁵ The geographic close location of the island to North Africa, Middle East and Europe contributed to its early commercial crossroads status. Human habitation in any case had dated back to the Palaeolithic era, and the island of Cyprus had been host to or target of numerous orders from the Mycenaean (c. 1500 BCE), Assyrian, Hellenic, Egyptian and Persian civilizations; to the Roman (58 BCE–395 CE), Byzantine-Caliph condominium (395–867), Byzantium (867–1192 CE) and Venetian (1489–1570) empires; the imperial houses of the Lusignans (1192 and 1489) and Ottomans (1571–1871); and the British Colonial Empire (1878/1914–1960), have all had a presence on the island. Having been occupied by so many different civilizations, the island has syncretized many different cultures and traditions. The current occupants of Cyprus mainly identify and consist of Turkish Cypriots and Greek Cypriots.⁶ ‘Identification’ and hence proper labelling or naming has been central to the island’s politics, particularly over the last half century and more. Thus, the conventional view—but by no means universally accepted and often criticized—is that Greek Cypriots on the island are believed to have been descendants of Achaean and Mycenaean Greek settlers c. 1500 BC.⁷ Turkish Cypriots on the other hand have their roots in the Ottoman Empire when many people from Anatolia were transferred to the island upon the Ottoman conquest in 1571. In this fashion, those labellings and dates are used by many during the often bitter arguments on ‘who was on the island first’ discussions resulting in bogus but extremely powerful *utis possidetis* (or ‘permanent belonging’) claims.

The ethnic identity of the current inhabitants is actually ambiguous. Although they are referred to as Turkish Cypriots and Greek Cypriots, more appropriate criteria of classification might be as Muslim Cypriots and Orthodox Christian Cypriots. The roots of Greek Cypriots on the island go back to Mycenaean Greek settlers who lived alongside the Eteocypriots (indigenous inhabitants).⁸ Since then many different civilizations have been on the island, and the descendants of these early Greek settlers have also lived alongside numerous ethnic groups. Similarly, in the conventional view, Turkish Cypriots are descendants of people who

were sent to the island from Anatolia (who were mainly poor villagers⁹ and likely to be from different ethnic backgrounds) after the Ottoman invasion of 1571 whose descendants also lived alongside Orthodox Christian inhabitants of the island for 300 years under the Ottoman rule and another 80 years under British rule. Under these circumstances it should be difficult to claim a Greek or a Turkish identity (especially noting that the modern Greek state, itself a creation of British imperialism, came into being in 1830 and the multinational, multilingual, multireligious Ottoman Empire was reduced into the monoethnic, monolingual, secular Republic of Turkey in 1923). In fact, both Greek Cypriots and Turkish Cypriots today are divided in terms of how they see their ethnic orientation. On the one hand, there are individuals who associate themselves with their so-called motherlands of Greece and Turkey and see themselves purely as ethnic descendants of their respective countries' ethnic heritage. On the other hand, there are some people (probably a minority) on both sides who see themselves as 'Cypriots' first and foremost who happen to belong loosely or strongly to Islam or Orthodox denominations.

Did the tension between Greek Cypriots and Turkish Cypriots begin during Ottoman rule of the island? Ottoman rule on the island allowed Orthodox Christianity to flourish, whereas previous Lusignan and Venetian rulers had suppressed Islam. The new inhabitants of Cyprus (Muslims brought from Ottoman territories) were populated on the properties of those left behind by feudal-aristocracy of the Lusignans (a France-originating dynasty) and republican Venetians.¹⁰ According to a survey in 1832, about 37% of the villages were 'mixed', where Muslim Cypriots and Orthodox Cypriots were living together.¹¹ The Ottoman regime effectively cared only about taxation and timely payment of taxes and were indifferent to ethnic or religious origin although Muslims were taxed at a lower rate than the *millet* Orthodox and Roman Catholics (who were, in turn, exempt from other obligations to the state, e.g., military service). The poor segment of the general public, whether Muslim or Orthodox, suffered taxation and pressure from the aristocracies which included Ottoman rulers and Orthodox church. In fact, there were uprisings jointly organized by Muslim and Orthodox leaders during the

Ottoman rule on the island, as was the case across all Ottoman and other imperial territories.¹²

The first tensions between emergent ethnic identities in the modern period can be traced to the period in which Cyprus passed from Ottoman to British control (1878), itself the result of the British demand for compensation for the latter's support for the Ottoman Empire against imperial Russia. The deal in which the Ottomans placed Cyprus under the administration of the British for the express purpose of allowing Britain to receive the full tax revenue extractable from Cyprus that had previously been farmed for the Ottoman treasury had initially been welcomed by Greek-speaking Orthodox church-led political order on the island. Archbishop Sophoronios, for example, declared to the British at the time that he 'hope[d] that Great Britain will help for unification of the island with the motherland Greece'¹³ as Britain had done and was continuing to do with respect to other Greek Orthodox territories. However, the new British administration had other plans. They taxed the general public heavily to raise money otherwise owed by the Ottomans and, given the terms of the original Ottoman-British agreement, had little incentive to invest in the economic development of the island. According to a survey in 1881, the total population of the island was 185,630 where 25% and 74% of them were categorized as, respectively, Muslims and Greek Orthodox (Kızılyürek 2001, p. 34).¹⁴ The same survey also revealed that 5.4% of Muslims spoke Greek which may reflect the degree of religious conversions in order to benefit from lower taxes during Ottoman rule.

The particular roots of Greek nationalism in Cyprus can be traced to several key moments. When there was an uprising by the Greeks under Ottoman territories, Küçük Mehmet Pasha (the Ottoman administrator of Cyprus at the time) ordered the public execution of the Archbishop and three priests despite the fact that the Archbishop at the time announced that he would not support the uprising in Cyprus but only contribute financially.¹⁵ After Greece's independence in 1827, there was a new ideology of the *Megali Idea* which basically aimed at uniting all the Greek-speaking Orthodox people of the region under one state. This quickly spread among the higher social echelon of Greek Cypriots, but the Ottoman authorities frustrated all such attempts on the island. When the island became part of the British Empire officially in March 1925

(after the Republic of Turkey formally gave up all claims on Cyprus under the terms of the Treaty of Lausanne), Britain continued her practices on the island without giving any hope of *enosis* (unification of Cyprus with Greece) to the Greek Cypriots. When the British authorities on the island overruled in 1931 the only representative legislative institution in the island regarding a tax bill, riots broke out that led to the British governor enforcing emergency regulations.¹⁶ It was after this period that Greek Cypriots started to organize more systematically against British rule.

There was also unrest among some Turkish Cypriots such as Dr Fazıl Küçük who was very unhappy with the measures of British after 1931 riots.¹⁷ Dr Küçük was complaining that the British had started treating Turkish Cypriots very badly, and the people who were supposed to protect the rights of the Turkish Cypriot community (the leader of Evkaf, Sir Münir) sided with the British and hence made him useless. Küçük claimed that he was labelled as ‘anti-British’ but that did not stop him from applying to run a newspaper (*Halkın Sesi*) after receiving encouragement from Turkish Counsel Recep Yazgan in 1942. The first issue of the newspaper on March 1942 listed its principles as ‘to protect the rights of Turkish community’, ‘to be independent’, ‘to fight against colonial rule and Greek aims’, ‘to uphold the love for and attachment to the Motherland’, and ‘to support the cultural activities in the nation’. They also listed the main topics as ‘unconditional return of schools and Evkaf back to Turkish community’, the ‘creation of Muftuluk’, and ‘the laws regarding Islam, custody and inheritance should be similar to the ones practiced by the courts in Motherland’. So, it was obvious that Küçük had declared his loyalty to the Motherland, that is, Turkey, and he began to start bring the idea of self-determination of Turkish Cypriots to life.

Armed uprisings on the island date back to 1955. Some nationalist Greek Cypriots organized themselves into a militia organization called EOKA (the National Organization of Cypriot Fighters) to fight against British authorities on the island in order to achieve *enosis*. On 1 April 1955 several administrative buildings were bombed. EOKA leaders made an attempt to inform Turkish Cypriots that the violent action was not targeted towards them but to Britain only. Obviously Turkish Cypriots did not welcome this uprising since the ultimate goal of EOKA remained union with Greece. British authorities, in turn, used this opportunity to

draw Turkish Cypriots closer to the colonial government, employing more and more Turkish Cypriots in the police force and set up a special unit composed entirely of Turkish Cypriots to fight against EOKA. It was in this year that Dr Fazıl Küçük was allowed by the British to form a political party (although he had been labelled as 'anti-British' two decades earlier) and Turkish Cypriots formed an underground militia group called *Volkan* whose activities were left unpunished by the British authorities.¹⁸ It was also during this time that Britain 'consciously and without any such scruples drew mainland Turkey into Cypriot affairs'.¹⁹ These actions and re-actions laid the basis of the growing bi-communal conflict of the island, but historians agree that there was no major conflict between Turkish Cypriots and Greek Cypriots before 1955. Many cite the beginning of EOKA struggle against the British and the corresponding inclusion of Turkish Cypriots to the other side of the uprising as the start of the conflict. Certainly, there were several incidents where Turkish Cypriot police officers were killed by EOKA members, not because of their ethnicity, but because they represented the colonial police force. For every Turkish Cypriot killed, *Volkan* responded by vandalism or other means. It was in this context that Rauf Denктаş, a British trained lawyer working as a crown prosecutor and a member of the Turkish Affairs Committee, emerged alongside Dr Fazıl Küçük as leaders of the Turkish Cypriot community. Even before the events in 1955, he started writing in *Halkın Sesi* newspaper and promoting the idea of self-determination. As time passed, Denктаş thought that *Volkan*, led by Küçük, was 'reactionary' instead of 'proactive'. He also wanted more involvement of Turkey in the domestic matters and continually promoted the idea of *taksim* (separation, or the ethno-nationalist division of the island). Finally, on 27 July 1957, the idea of the Turkish Resistance Movement (*Türk Mukavemet Teşkilatı*, TMT) surfaced, and military personnel from Turkey was sent to lead the movement on 1 August 1958.

Between July 1957 and August 1958, the TMT was led by Rauf Denктаş, Burhan Nalbantoğlu (a Turkish Cypriot doctor) and Kemal Tanrisevdi (administrative attaché to the Turkish consulate in Nicosia). It is said that these three did find *Volkan* too soft and did not approve of Küçük's leadership.²⁰ The same source also claims that there were some violent incidents (so-called false flag operations) planned by TMT during

this period aimed at Turkish Cypriots in order to manipulate them to fight against EOKA for 'self-protection'.²¹ It was also during this period that some Turkish Cypriots who were members of ethnically MIXED labour organizations and supported the idea of unified Cyprus were also murdered. Although the evidence that these people were murdered by TMT is arguable, the two prominent newspapers *Halkin Sesi* and *Bozkurt* gave the news of these murders with apathy.²² Regardless, Turkish Cypriot leadership made it clear that they would push for separation in the years to come.

The clash between EOKA and TMT continued between 1955 and 1960. Both groups were responsible for the death of many Greek Cypriots and Turkish Cypriots as well as British soldiers. What is more interesting is both groups killed members of their respective ethnic groups. So, this was not an ethnic conflict, but it was a political conflict over sovereign power expressed as *enosis* or *taksim*. Is it plausible that EOKA would have stopped its campaign if they had been successful against the British? And how would they have treated the minority Turkish Cypriots once they have achieved *enosis*? Or did Turkish Cypriots have no intention of engaging in intercommunal conflict and naïvely fell into the trap of British plans? How would Turkey have reacted to the situation of their Muslim brothers/sisters being treated like a minority on the island? Or maybe more importantly, losing authority over a territory that some thought to be geo-strategically important? It is hard to provide answers to these, but what is clear is that after this initial period of politically directed intercommunal conflict, there was no turning back.

Meanwhile there was the growing realization in Britain, especially in the context of the post-Suez crisis of imperial governance, that the domestic uprising in Cyprus would only worsen unless a political solution was secured. Prime Minister Macmillan organized a tripartite (Greece, Turkey and Britain) conference to discuss his proposals for the internal self-government of Cyprus, although creating a lot of opposition among Greek Cypriots since it officially brought Turkey into Cyprus politics. After Archbishop Makarios, ethnarch, political leader and figurehead for the independence of Cyprus, opposed the Macmillan proposals, he was sent into exile in 1956 by the British, inadvertently allowing Colonel George Grivas, a former Greek army

general, founder of EOKA and Cyprus-born fascist to become the effective head of the enosis movement.²³

Whatever the effects of EOKA's armed struggle, the British brought Makarios out of exile and convened a series of meetings in Zurich and London to negotiate Cyprus' independence and thereby frustrate both *enosis* and *taksim*. To get out of the domestic problems, Britain along with other allies administered the formation of the Republic of Cyprus in 1960. This republic was to be governed by both Turkish Cypriots and Greek Cypriots, and Britain would retain two sovereign military bases (equivalent to 2.8% of the area of the island). Turkey and Greece (along with Britain) were named as the guarantors of the new republic. Killings of innocent people who supported the new Republic continued during this period.²⁴ It was obvious that extremists on both sides were not going to settle down, but this was no longer the problem for the British as they had already secured sovereign space on the island. When Archbishop Makarios proposed amendments to the constitution in 1963 which would have reduced the power of Turkish Cypriots, the latter group opposed and bi-communal conflict resumed. Immediately Turkish Cypriots withdrew from the administrative duties and did not subsequently return. The UN Security Council Resolution 186 (4 March 1964) paved the way to the establishment of United Nations Peacekeeping Force in Cyprus (UNFICYP), which has been present on the island ever since, and effectively recognized the Greek Cypriots as the 'government of Cyprus'.

Although with the independence of Cyprus in 1960 there was somewhat more formal political representation of Turkish Cypriots in governmental bodies, their economic representation was not very prominent. Turkish Cypriots made up 17.9% of the population in 1962, and most of those were living in rural areas. In terms of the monetary value of the land and real estate, Turkish Cypriots controlled, respectively, 13.3% and 17.5%.²⁵ Greek Cypriots also had the largest share (81.7%) of agricultural land and businesses (more than 90%) as of 1962.²⁶ But it is not known if these numbers include the holdings of the church and Evkaf (religious pious organization of Turkish Cypriots). Given that Turkish Cypriots consumed only 6.1% of electricity in 1963, it can be said that either they were living in areas with limited access to electricity (mainly

villages) or they had more crowded residential units. The contribution of Turkish Cypriots to GNP was 7.5% which is a lot lower than their 17.9% population ratio.

After the events in December 1963, Turkish Cypriots were never officially represented within governmental bodies of the Republic of Cyprus. The civil servants working in the Republic of Cyprus had left despite objections from Turkey.²⁷ A third of Turkish Cypriots (including 25,000–30,000 internally displaced from 90 plus villages) was forced to live in increasingly isolated enclaves (about 2–3% of Cyprus) with minimal and controlled contact with each other, and the rest continued to live under the Republic of Cyprus controlled territories.²⁸ The sea and airports were also under the control of Greek Cypriots which meant that Turkish Cypriots were not able to get out of the island if they wished. Although the enclaves were technically under the control of Turkish Cypriot leadership which consisted of 13-member General Committee under the leadership of ‘Vice-President’ Dr Küçük and the now-notorious Rauf Denktaş,²⁹ the enclaves were all scattered around the island which diminished the possibility of effective communication. However, the real control of the Committee was with the Turkish commanders in TMT, and they were further divided among themselves as those who favoured and those against Dr Küçük.³⁰ Despite all of this disunity and fragility, Turkish Cypriots had to find ways to continue surviving.

A typical day in the enclaves consisted of working in the farmland during the day and keeping guard at night. In an enclave where my parents were living, they told me that they formed their own self-sustained community where people assisted each other in order to survive. My uncle who was 15 at the time says that the weapon he was given during day watch was almost as tall as he was at the time. When the youngsters were on military duty during the day, the adults were resting and attending the fields. They also established ‘schools’ where an educated villager or in some cases a senior university student provided basic education. In some areas, proper teachers were assigned by the Central Committee, but not all of the enclaves were as lucky. It is thus not difficult to imagine the level of education the people living in the enclaves received during that time. When the tensions were partially alleviated in 1968 and embargos on the enclaves were lifted, a pool of young adults with limited formal education

were suddenly given quotas to be educated in many Turkish universities for free, and they were also given significant stipends. Some people took this opportunity, and by 1974 there was a pool of engineers, architects and medical doctors who graduated from prestigious universities in Turkey. These individuals later had the opportunity to form the foundations of Turkish Cypriot government on the island.

For several years intercommunal violence continued especially in rural regions. Finally, in 1968, Turkish Cypriots declared Otonom Kıbrıs Türk Yönetimi (Autonomous Turkish Cypriot Administration, OKTY) within the Republic of Cyprus and attempted to administer their own affairs in a more structured framework. Turkish Cypriots even held elections for ‘vice presidency’ of the Republic of Cyprus which simply implied the president of the autonomous state. Although there was another candidate (Mehmet Zeka), he backed out due to pressure from Turkey, and Dr Küçük became the vice-president again. However, Küçük’s leadership of Turkish Cypriots ended in 1973 when he was replaced in elections by Denktaş.³¹ In other words, the Turkish Cypriot leadership was simply dictated by Turkey. Turkish aid to the island increased during the 1967–1973 period.

The conflict between the two communities reached a climax in the summer of 1974, but not because of increased tensions between Greek Cypriots and Turkish Cypriots. Paradoxically the division of the island and the definitive separation of the two principal communities arose because of the ultimately failed coup attempt within the Greek Cypriot community. Receiving support from the ruling fascist colonels in Athens, Grivas’ successor as head of ‘EOKA B’—the post-independence militant enosis movement—Nikos Sampson, staged a military coup against Makarios on 15 July 1974. Shortly after Makarios’ plea to the UN Security Council for the restoration of (an already broken) constitutional order, Turkish armed forces intervened in Cyprus, landing on 20 July 1974, invoking as justification for the intervention the obligations upon the Republic of Turkey expressed in the Treaty of Guarantee. Whilst Greek Cypriots fought against the coup attempt, Turkish nationalists saw this clear collusion between *enosis*-driven Greek Cypriots and Greek nationalists in Athens as an opportunity to partition the island and secure their ambition of *taksim*. Significant fighting took place between the

Turkish troops supported by the local Turkish Cypriot militia on the one hand and the Greek Cypriot army on the other hand. A second wave after 15 August of Turkish troops consolidated the Turkish military presence on the island, securing its presence to 37% of the northern part of the island and instituting the forced population transfer. This intervention marked the beginning of de facto geo-political division of the island and the definitive separation of the two principal ethnic communities.

Notwithstanding its lack of legitimacy under international law, the Turkish Cypriot community emerged into a distinct, albeit disputed, polity with its own institutions and taking its precarious place in the world order. Since then numerous rounds of negotiations by the leaders of both communities, most under the good offices of the secretary-general of the United Nations, have taken place to 're-unite' the island, or solve the 'Cyprus problem' as it is commonly referred. As yet, to no avail. However, these dense, continuous and arcane peace talks are not the subject of this book and will be referred in passing only where they bear directly on the evolution of the political-economic institutions, policies and processes of the north. Thus, some of the turning points during the negotiations have shaped the evolution of Turkish Cypriot administrations, whilst at the same time constituted opportunities to further strengthen domestic dominance by politicians through *torpil* or *rentierism*. If there is ever a hope for a unified island, these developments must be understood properly. This is the tale of a community which had plenty of opportunity to become an economically and socially highly developed nation but was hindered by individualism and self-indulgence contrary to the nationalistic visions that once led to the separation.

Notes

1. One reviewer noted that 'TRNC does not represent the entire Cyprus, so you need to include Republic of Cyprus data as well' whereas another one complained that 'since TRNC is not a recognized state, its data cannot be used for academic purposes'.
2. Besim et al. (2018).
3. Gokcekus and Sonan (2018).

4. Hoffmeister, F. (2006) talks in detail about the legal aspects of those agreements and the Cyprus problem in general.
5. Kızılyürek (2001), p. 11.
6. There are also other minority ethnic groups such as Maronites.
7. Ker-Lindsay (2011), p. 2.
8. Ibid.
9. Kızılyürek (2001), p. 18. The same source also indicates that over the 300 years of Ottoman rule in Cyprus, there has been 46,000 Turks forced migrated to the island.
10. Ibid., p. 18.
11. The statistics are taken from Kızılyürek (2001), p. 20. Although Kızılyürek (2001) claims high level of interaction and no major conflict between the two groups, Ker-Lindsay (2011) claims 'little direct contact in day-to-day life' (p. 13).
12. Kızılyürek (2001) cites five such uprisings in 1665, 1764, 1765, 1830 and 1833 (p. 25, cited from Heide Ulrich (1980)).
13. Zenon, Stavrinides (1999) cited in Kızılyürek (2001), p. 33.
14. The rest were under 'others'.
15. Kızılyürek (2016), p. 20.
16. Michael (2009), pp. 16–17.
17. Küçük (2010).
18. Hitchens (1997), pp. 45–46.
19. Ibid., p. 45.
20. Kızılyürek (2016), p. 154.
21. Ibid., Chapter 5.
22. The news focused on the fact that the deceased were 'communists', and surprisingly they did not blame EOKA. Kızılyürek (2016) gives a detailed analysis of these.
23. Grivas was known for his brutal tactics in EOKA which were not approved by Makarios. In fact, when several Greek Cypriots were murdered in January 1958 by EOKA, Greek Consul in Cyprus and AKEL protested heavily and Makarios wrote a letter to Greece. Grivas' response was that those murdered were traitors and accused AKEL for treachery (Drousiotis 2009).
24. Two Turkish Cypriot pro-unified Cyprus journalists (Ayhan Hikmet and Ahmet M. Gurkan) were murdered on April 1962. They were killed right before they were going to announce the names of the perpetrators of mosque bombings earlier that year. Since they were against both tak-

- sim and enosis, both EOKA and TMT blamed the other side. Dervis A. Kazaoglu, an active member of ethnically MIXED labour organization PEO and strong believer of unified Cyprus, was murdered in 1965.
25. Kızılyürek (2001). Table 1, p. 63 (source cited from Wenturis, Nikolaus I. (1970), p. 91).
 26. Ibid.
 27. Kızılyürek (2016), p. 399.
 28. Ibid.
 29. Denктаş was banned by the Greek Cypriot House of Representatives after his speech at the United Nations before the acceptance of Resolution 186. He lived in Turkey between 1964 and 1968.
 30. Ibid., pp. 400–401.
 31. Dr Küçük's popularity in Ankara was declining at this time. Another candidate Ahmet Mithat Berberoğlu emerged for these elections, but he was also 'warned' by Turkish authorities, and he withdrew from the elections one day before it was held. Ankara had no doubt that Denктаş should be the 'head' of Turkish Cypriots (Kızılyürek 2016; part 10).

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2

What Kind of Polity?

My main purpose for this chapter will be to sketch the post-1974 period of northern Cyprus' political-economic history in order to allow some useful conceptual and theoretical ideas to be elaborated. These concepts and theories will subsequently serve as the guides to the more detailed sectoral analysis which makes up the majority of the book and thereby helps us understand this period in which policymakers struggled in delivering good governance in northern Cyprus.

The Emergence of a New Governance Regime

Turkish Cypriot leaders soon started to establish state institutions in order to maintain an independent administration in the northern part of the island. As noted, the idea of *taksim* had been developing through the 1960s and early 1970s in both Denktaş's and Küçük's agenda, and the intervention of 1974 was used as an excuse to realize this ambition. For the first time since the Ottoman period, Turks were in charge of their own administrations. At first it was thought that this would be temporary until a more sustainable solution was reached with the Greek Cypriots of

the rump Republic of Cyprus. However, soon enough *de facto* separation became a permanent reality. For Turkish nationalists the legitimating narrative to be told post 1974 was that Muslims had been relocated to the island during Ottoman period, then lived under colonial rule together with Greek Cypriots and finally formed with the 1960 independence constitution an independent government jointly with their Greek Orthodox neighbours only to be treated and abused as a minority. Denktaş, the head of the embryonic administration in the north after 1974, made it very clear that Turkish Cypriots had earned the right to self-determination and would no longer suffer either colonial rule or minority status. The 1974 intervention and subsequent separation appeared to confirm the nationalist narrative, showing a new ‘independent’ Turkish Cypriot polity. Even if that narrative was accepted, the post-1974 politics generated another crucial and ongoing problem: had Turkish Cypriots inadvertently or willingly substituted one colonial power with another, or displaced themselves from one minority status in a Greek Cypriot ethnocracy into a minority status in an increasingly Anatolian Turkish ethnocracy?

By 1983, although not recognized officially by any other state in the world except by Turkey, this new state—now called the Turkish Republic of Northern Cyprus (TRNC)—started operating as a fully functioning republic. The political and economic institutions were being developed, the constitution had been drafted and approved, and government departments had been established for the basic functioning of a state. The initial years of the new governance from 1975 to 1983 would see plenty of government investment in infrastructure, state-provided health and education services and state-provided employment.

The governance regime for Turkish Cypriots came in multiple forms. The first regime of governance had been that of the Otonom Kıbrıs Türk Yönetimi (OKTY; Autonomous Turkish Cypriot Administration) operating from 1967 to 1974. Some quasi-governmental bodies had been formed, mainly concerned with improving the economic conditions of Turkish Cypriots all over the island. With the intervention of Turkey on the island in 1974, and subsequent *de facto* division and separation, Turkish Cypriots formed the Kıbrıs Türk Federe Devleti (Turkish Federated State of Cyprus, KTFD) that lasted between 1975 and 1983.

Some of the key laws and regulations that are still used today were promulgated during this period. Another significance of this period was that the ‘spoils of war’—principally the land, real estate and productive capital taken from Greek Cypriot refugees—first began to be administered by the new regime. There was substantial inheritance in agriculture, industry and tourism sectors after the war that could have proved to be extremely valuable for the economic development of Turkish Cypriots. However, the lasting governance regime came with the establishment of TRNC in 1983. Although established as an independent republic, the reality has been far from that, and Turkey has been involved in the political and economic life of TRNC since before its establishment.

After the separation in 1974, therefore, OKTY was transformed into a federated state in 1975. Rauf Denktaş became the president of this administration and remained a key figure in northern Cyprus political and economic development until his death. The first task of the constituent assembly during this time was to prepare a constitution and an electoral law. As will be detailed in Chap. 3, the political development of Turkish Cypriots took a sharp turn during this time. Until this period, the political discussions normally revolved around the Cyprus problem, and there was mainly consensus on Turkish-Greek-related matters. After the breakaway, there was a new state to be built, and thus the issue of power-sharing came into play. The number of political parties, hence different voices, had increased and opposition voices began to be heard. The discussions during the amendment of 1976 constitution and electoral law that led to the first general elections in 1976 laid the various political and social views that were to come to dominate political development of the north.

A Conceptual Vocabulary for the Analysis of Northern Cyprus

It is not possible to neatly describe and categorize the governance regimes of northern Cyprus insofar as northern Cyprus is a unique, *sui generis*, institution. The best that can be said is that northern Cyprus has manifested successive governance regimes which have been hybrid in nature. Thus,

most obviously, TRNC is not recognized internationally as a sovereign state, which has had the effect, amongst others, of removing northern Cyprus from the formal recording of economic, social and cultural data used by UN organizations and other international public and private organizations. This makes any comparative analysis of northern Cyprus extremely difficult. Nevertheless, this *de facto* state has been shaped by several governance regimes or models of economic accumulation. Before showing in detail throughout this book the operation of those models of accumulation, it would be helpful to outline a handful of key concepts which I argue better account for the political-economic development of northern Cyprus. In turn, I now discuss the concepts of rent and rentierism, of political clientelism and specifically *torpil*, as well as reflect upon the usefulness of the concept of colonial economy to describe the ongoing status and development of the north. I begin, though, with a discussion of the significance of the label *de facto* (and *de jure*) state. Either way, however northern Cyprus' development is accounted for, none merits the accolade good governance.

De Jure and De Facto States

A common distinction made in discussions of the Cyprus problem is that between a *de jure* state and a *de facto* state. This distinction, deriving from public international law, has been crucial for the post-1974 economic history of Cyprus. The term *de jure* state refers to an entity which has the legal personality (or status) of a sovereign state. By contrast the term *de facto* state refers to an entity which seems to have all or most of the key attributes of a state yet does not have or cannot secure its independent legal personality. Pegg (1998, p. 26) gives a commonly held working definition of a *de facto* state as follows:

A *de facto* state exists where there is an organized political leadership which has risen to power through some degree of indigenous capability; receives popular support and has achieved sufficient capacity to provide governmental services to a given population in a specific territorial area, over which effective control is maintained for a significant period of time.

The most important concrete consequence of this distinction is that only *de jure* states, because of their full legal personality, are able to enter into formal international relations including treaty making and membership of public international organizations. A short-hand if not entirely fail-safe guide to *de jure* status is whether an entity is a member of the United Nations. The distinction between *de jure* and *de facto* is often, but mistakenly, reduced to the question of diplomatic recognition, that is, that no other state other than the Republic of Turkey recognizes TRNC, and all states other than the Republic of Turkey recognize the Republic of Cyprus. In short, the securing of international legal personality post 1945 has been ‘constitutive’ not ‘declaratory’, and for this reason there is very little if anything that TRNC can do to realize a *de jure* status.

Paradoxically perhaps, where the ‘international community’ has never recognized the Turkish Cypriot administrations as officials of a state, they have nevertheless engaged with Turkish Cypriot leaders at the highest levels. While paying careful attention to use the ‘correct’ wording for describing their mission titles in order not to offend the Greek Cypriots, several states had ‘representative offices’ (instead of embassies) established in TRNC that continued with international diplomacy. A personal anecdote illustrates the dissimulation of ‘recognition’: When I went to study in the USA in 1996, I obtained my US student visa from an office in the north given on my TRNC passport, but the visa was stamped on a (removable) separate piece of paper (instead of the pages of the passport) and given separately in a sealed envelope (and I also talked in the Introduction how I needed a Turkish passport to use in Germany while transferring). When I arrived the first time, the immigration agent in the USA was puzzled with the visa in a sealed envelope and had to consult with his manager. In later years, the US immigration control even stamped my TRNC passport. So, although TRNC was not recognized internationally, the holders were allowed to obtain visas to the UK and the USA, though most other European states did not allow that.

The Republic of Cyprus, since the 1960 independence constitution, has been the single *de jure* sovereign power over the whole island of Cyprus and has enjoyed UN membership and full diplomatic relations across the world (except with Turkey). Arising from this status, it is the Republic of Cyprus which sits at the United Nations General Assembly,

is a member of the World Trade Organization and reports to the World Bank and has joined the European Union, and its civil society associations duly participate in myriad international non-governmental organizations. Conversely, international organizations—public and private—receive invitations from the Republic of Cyprus to visit, participate and even oversee activities within the Republic of Cyprus. The absence of international legal personality—although otherwise demonstrating the other facets of a state such as government infrastructure, legal order, judicial systems, military and police forces and so on—marks the Turkish Republic of Northern Cyprus (TRNC) as a *de facto* state. Thus, all those benefits arising from international legal personality—from the World Bank compiling economic data on member states to local football teams participating in international football association competitions, to international human rights organizations having no local presence, to exclusion from international trade agreements—have been denied by northern Cyprus since 1974.

But nothing in Cyprus is categorical and clear, and the *de facto/de jure* is a formalism which obscures significant ambiguity. Whilst it is demonstrated throughout the book that governance provided by the Turkish Cypriot administrators has been mediocre at best, it has always been the case that since 1974 the control of the northern territorial areas has been mainly managed by another state, that is, Turkey, so, following Pegg, can we talk about ‘effective control’ in this case? Furthermore, it is known that the heads of the Central Bank and Civil Defence Organizations in TRNC have been chosen by Turkey (and in some cases their official appointment is not done according to TRNC laws), and thus it is hard to claim an independent governance. Özersay (2009, p. 33) defines TRNC as ‘a *de facto* state who is heavily dependent on Turkey on economic, military and political decisions’, but he disagrees that these qualities are enough to classify TRNC as a ‘puppet state’ in accordance with international law. Pegg (1998, p. 113) notes that ‘all of the key positions in the TRNC’s decision-making apparatus are staffed by Turkish Cypriots’; thus TRNC should not be classified as a puppet state. Chapter 7 discusses that some of the important managers of the state enterprises were ex-military members or other Turkish individuals, and the government MPs and Denктаş almost always communicated with Turkey before they took

high-level decisions. So, if the only criterion in the classification of puppet state is the nationality of the administrators, then we need to keep in mind that over the years many Turkish individuals were given TRNC nationality, and these people were promoted to high-level public positions.

A key condition of the Republic of Cyprus membership, in January 2004, of the European Union, was that the *Acquis Communautaire* (the application of all EU treaties and EU law, including rights) would not extend to northern Cyprus in the absence of a final and comprehensive peace agreement. The position of the Republic of Cyprus governments, echoed and confirmed by the UN system, has consistently been that since July 1974 the northern third of the island has been under military occupation of a foreign power, that is, Turkey. The Republic of Cyprus has persistently asserted its *de jure* authority over and against the *de facto* reality of a distinct entity governing northern Cyprus. Furthermore, throughout the many attempts by the United Nations to bring the leaders of the two communities to reunify the island, it has been done with the ‘Turkish Cypriot community’ (not the TRNC) as one party allowing for ‘engagement without recognition’. As a result, neither the legal writ of the Republic of Cyprus nor of the European Union holds effectively over the north, whilst at the same time there have been important concrete *de facto* relations, economic relations included, between them and TRNC.

Endemic Clientelism

Identifying the modes of politics and the manner in which political power is organized, irrespective of the content of particular policies or ideological orientation, is a primary task of any political-economic analysis. One of those modes which features strongly in Cyprus politics generally and in northern Cyprus in particular is political clientelism. Analysis of clientelism has a long and varied history, but one classic statement is that of James Scott (1977, p. 92) that clientelism describes an ‘instrumental friendship in which an individual of higher socio-economic status (patron) uses his own influence and resources to provide protection or benefits, or both, for a person of lower status (client) who, for his part,

reciprocates by offering general support and assistance, including personal services, to the patron'. More recently and with a greater emphasis on the political character of clientelism, Susan Stokes (2007, p. 605) has offered a general description, if not working definition, of political clientelism as 'the proffering of material goods in return for electoral support, where the criterion of distribution that the patron uses is simply: did you (will you) support me?' Further, she suggests, '[i]t is the distributive criterion of electoral support that distinguishes clientelism from other materially oriented political strategies'. And that 'clientelist redistribution ... is only available on condition that the client complies by providing political support'. Others, including Kitschelt and Wilkinson (2007, p. 10), have sought a more explicitly economic definition of clientelism as 'based on direct material inducements targeted to individuals and small groups of citizens whom politicians know to be highly responsive to such side-payments and willing to surrender their vote for the right price'. This they call a 'patronage-based, voter-party linkage'. Whilst there are undoubtedly important local variations in the mechanisms of clientelism, these three conceptualizations serve well to help analyse the history of northern Cyprus. Helpful discussions of clientelism can be found in Shefter (1994), Kitschelt (2000) and Piattoni (2001) and especially Stokes (2007) upon whose summary the present outline rests. In the case of the development of northern Cyprus, we shall see how nepotism, specifically extended family connections, informed the local variety of clientelism known as *torpil*.

Of course, clientelism—to be understood as distinct from corruption, although there may be notable overlap or similarities—does not only apply to less developed nations. However, the magnitude of nepotism is much higher in the states where notions of transparency, accountability and rule of law have not fully developed. Although on the one hand *modernizing* states are supposed to dispense with such practices and develop a rational-legal order to enter the community of legitimate states, on the other hand the conditions in which political and economic modernization in northern Cyprus was driven through—ethnic conflict, foreign intervention and occupation, forced population movement and resettlement, ethnographic and geographic separation, international isolation and so on—either fostered or were enabled by clientelism. As time has

passed, the clientelistic mode of governance which saw the establishment of the de facto state continued to operate, even after 1983 and the self-declaration of independence of the TRNC, and indeed deepened and compounded ensuring that ‘good governance’ remained ever distant and the state could never fully achieve democracy and economic development. In a key report prepared by the World Bank in 1992, it was argued that ‘good governance is central to creating and sustaining an environment which fosters strong and equitable development, and it is an essential complement to sound economic policies’ (p. 1) which thereby stressed the importance of governments on economic development of a nation. The report identified four key ‘measures’ in this regard. These were ‘public sector management’, ‘accountability’, ‘the legal framework for development’ and ‘information and transparency’. Unfortunately, after the passage of more than 40 years, I will show throughout the following chapters that northern Cyprus governments have performed extremely poorly on all of these measures.

Sonan (2014) has been more or less alone in academic literature in using this concept of clientelism in the case of northern Cyprus and has showed brilliantly the roots of local political clientelism for the state. He argues that Rauf Denktaş and his political party, the National Unity Party (UBP, discussed further in Chap. 3), laid the foundations of clientelism in northern Cyprus after the division. He argues that in order to maintain their power and to make sure that opposition did not develop, they used the ‘national cause’ argument to receive support from Turkey and continue staying in power for decades. During the period that the UBP has been in power, the economy did not develop and many state resources were wasted. Sonan’s excellent analysis only covers the aforementioned party, but I would argue (and show in the following chapters) that when the erstwhile opposition parties came to power in the 1990s and later in the early 2000s, they continued with similar clientelistic politics. Today the whole society is regulated by this clientelist distributive mechanism, and stopping or reversing it will be a very difficult if not impossible job for any political movement or figure.

The reproduction of clientelist politics is not just driven by the patrons. Although one might accept the proposition of Stokes (2007, p. 607) that ‘[t]he clientelism-patronage distinction corresponds to ... one between

economic monopoly over goods which the patron controls independent of the outcome of an election, and political monopoly over goods that he controls only if he retains office', it does not describe the particular dynamics or mechanisms of clientelism. Thus, whether nepotism or more obvious corruption and anything in between, embedded clientelism is also driven by the expectations and norms of the variety of actual or potential clients. Thus, not only politicians but also public sector employees have been engaged in such behaviour albeit at different scales. Whenever I returned to Cyprus after my studies and I had a business to do at a public office, my parents would tell me 'go and find such and such, he knows us!' When I refused and tried to accomplish tasks using official channels, it took a lot longer and caused a lot of frustration. Finding someone to speed up the process at civil services has been a norm among Turkish Cypriots rather than an exception. But is it only to speed things up or in some cases to sidestep the legal requirements? When a public servant uses a state-owned vehicle during work hours to run personal errands, he/she does not think of it as corruption. Similarly, when a minister uses state-assigned official vehicle on a Sunday to go to a picnic, neither the public nor the minister thinks of it as engaging in a corrupt or corrupting behaviour. As a community, we have 'normalized' these actions and justified them by saying 'if I don't do it, someone else will'. What we haven't realized is what kind of society and governance will that lead to: politicians as well as general public using state resources for gaining some kind of advantage.

From Rentierism to Rent-Seeking (and Back Again)

An often associated but distinct concept of clientelism is that of rentierism, rent-seeking and the rentier state. Rentierism generally refers to the economic mechanism by which value, typically financial revenue, is extracted from the activity of transactions, rather than from the product or service provided and enjoyed. Rentierism is to be distinguished from simple rent in that rentierism is a charge on access to the good or service

in the first instance; it is not a simple rent, which is a charge on the use of the good or service. Rentierism therefore refers to a widespread practice of rent-seeking behaviour which itself may be described, following Tullock's (1989) classic formulation, as a third party introducing a charge on accessing (but not yet enjoying use of) natural or contrived scarce resources. The concern of political economists with rent-seeking behaviour was originally summarized by Krueger (1974) as generating (1) competitive rent-seeking (rather than profit seeking), (2) total welfare loss and (3) divergence of social and private costs leading to misallocation of resources.

In short, rentier economics, whether macro or micro, are systems which are significantly governed by access charges. Rentier economies are therefore typically characterized by numerous transaction activities but which themselves add no utility value to the good or service and impose considerable social costs. The cost of a good or service therefore increases not because of higher production, labour or technical values but because the absolute and proportionate value of transaction costs have increased. A couple of quite different examples will illustrate this distinction: Erdal needs to apply for a driving licence. Notwithstanding the fact that Erdal presents all the formally necessary identity proofs, insurance documents and so on, the licence-issuing office requires that Erdal secures stamps from three different government offices before processing the licence application. Each stamp does not confirm that some technical requirement has been fulfilled (after all, Erdal has already got the ID proofs, past his driving test, etc.)—it adds no value to the licencing process—it merely raises revenue. The more stamps, the more transactions, the more opportunities for revenue raising (at no investment cost to government). A second example of rentierism directly ties to clientelism: Serdar is unemployed but membership of party X will place him in the pool of potential appointees to public employment if party X is elected. To party X, this entails no cost, only revenue whether or not party X is actually elected. If party X is elected to office and fulfils its implicit bargain with Serdar, it is the public purse which ends up paying for Serdar's patronage by party X. For Serdar, access to the party-regulated labour market is an essential, but itself a non-productive, status.

Rentier economies tend to be characterized as ‘bureaucratic’ because it is through the administration of transaction points—increasing their number or altering the charge at each transaction point, that is, manipulating ‘scarcity’ to raise revenue—that governance is exercised. But rentierism is not limited to government and public authorities. Any private market, particularly of so-called natural monopolies, or at least markets in which access can be exclusively readily regulated are prone to rentierism—for example, and classically, land or housing itself. Key to the significance of rentierism is that the familiar methods of distribution or allocation of goods and service—namely, prices reflecting labour, production, energy, transport costs, product development, scale efficiencies, interest and inflation rates, competition and so on—are obscured or discounted by the logic of rent-seeking. In other words, rent-seeking activity comes to displace, albeit never fully, classical capitalist profit-seeking market-driven governance.

A closely related concept to rent-seeking—that is, the process of securing a rentier relationship—to be used in this book is that of the rentier state. Typically the rentier state has come to refer to states which derive significant international revenue from regulating access to goods and services and ‘natural commodities’. The iconic examples are those of oil economies such as Saudi Arabia and the other Gulf hydrocarbon states wherein historically prospecting, extraction, production, refining, transport and distribution have all or mostly been carried out by foreign, international, companies whose business model has been based on investment and profit seeking. Meanwhile the host states have contributed little or nothing to the exploitation of the ‘natural’ hydrocarbon wealth but have charged trillions of dollars in rent for access to the oil and gas. The classic statements on the rentier state can be found in Mahdavy (1970), and Beblawi and Luciani (1987), and with respect to northern Cyprus in Kahveci (2013).

The first analysis using this framework goes back to the early 1970s when the countries in the Middle East had a huge impact on the world’s energy market. This common image of the hydrocarbon rentier state clearly does not describe the history of northern Cyprus possessed of no obvious natural or contrived scarcity. But there are several features of this model that could be useful in our analysis. The state has extracted major

revenues (rents) from some natural resources but much more from contrived scarcity in housing, real estate and employment, and has not placed enough emphasis on development of other value adding processes. The economies of these classic examples, as was to be the case with northern Cyprus, were classified as 'opaque and over-administered by over-staffed and inefficient bureaucracies' which ultimately leads to unproductive economies.¹ And since there was no reinvestment in productive activities, the states would 'allocate' the wealth through subsidies or public expenditures. Furthermore, the revenues collected from the management of these natural resources were allocated in a way to ensure continuation of the power to manage these rents which exactly sounds like political clientelism. Furthermore, substituting the natural scarcity of hydrocarbons with access to or distribution of what I have labelled 'the spoils of war' and in the case of northern Cyprus, one sees a history of huge rent-generating opportunities and normalization of rent-seeking politics. Politicians were quick to realize this, and most of the high-profile land areas and intact buildings were either placed under the control of the state or allocated to the 'close friends' at very low costs. In order to placate a recently forcibly transferred refugee public, the state provided plenty of subsidies to different sectors and provided employment at the public sector with almost zero investment in productive activities.

The other two major models of the international rentier state are of (1) foreign aid rentierism, that is, regulating access to and distribution of foreign aid, and (2) geo-political rentierism, that is, regulating and distributing access to space. As will later be shown, northern Cyprus has been a recipient of substantial foreign aid from Turkey as well as hosting a significant military occupation economy. How was that foreign aid distributed, upon what criteria? Who, in northern Cyprus, regulated access to foreign aid? Did the provision of foreign aid which was crucial to the survival of the northern Cyprus, not least in its *de facto* status as the Turkish Republic of Northern Cyprus, actually encourage rent-seeking activities both amongst citizens of the north and of the TRNC in relation to the donor, Turkey? How did the infrastructure develop in the north after 1974? Financial aid from Turkey could also be considered as pure rent because for the longest period of post-1974 *de facto* state, there were no checks and balances and public accountability of the aid sent to the island.

It was earlier suggested that northern Cyprus had no 'natural scarcity' value, but subsequent to 1878 when Britain acquired Cyprus (for explicit purpose of tapping the Ottoman rent revenue), its unrivalled geo-strategic location seemed to offer key scarcity value. Whilst the 1923 Treaty of Lausanne saw the new Republic of Turkey renounce any claims on Cyprus, by at least 1974 and more so since then, geo-location has had a growing rent value to Turkey. Arguably, as we shall see, domestic political-economic development in northern Cyprus can be explained by the appreciation of Turkish Cypriots in the rent-seeking opportunities to be found in Turkey's regional geo-politics. Ironically the latest round of northern Cyprus geo-political rent-seeking may be identified in the new hydrocarbon politics of the eastern Mediterranean.

Colonialism, Neo-colonialism or No Colonialism

Finally, an oft-neglected concept needs to be introduced into the analysis of northern Cyprus, namely, that of colonialism. When I first started talking with Greek Cypriots about the Cyprus problem (this did not happen until 1996 after I had moved to the USA, after all one could not cross the UN buffer zone between north and south until 2004), most of them tried to assure me that they had nothing against Turkish Cypriots. Their quarrel, they insisted, was with Turkey whom they saw as an aggressive occupier of the north, having largely expelled the Greek Cypriot population and placed Turkish Cypriots under Turkish colonial rule. With respect to northern Cyprus over the past 44 years, can we still classify that power as one of colonialism even if it arose as apologists would have it, initially at least, from humanitarian motive rather than forcible exploitation? And what if the colonized area is a de facto state claiming independence? What if the 'saved' no longer require the protection of the 'saviour'? Is it necessary to send 'settlers' from the 'mother' country to the colonized territories? A narrative of foreign, colonial rule determining development in and of Cyprus was, of course, not new.

Whatever the disputes between Cypriots have been—whether understood as ethno-nationalist between Cypriots of Greek Hellenic heritage and Cypriots of Ottoman Turkish heritage, whether understood as linguistic nationalisms between grecophone and turcophone identities or whether understood as religiously divided Orthodox Cypriots and Muslim Cypriots, to mention just the major claims to underlying dispute—the island of Cyprus, including in the post-1960 independence period and the post-1974 division, has been substantially shaped by its international relations. The internal development of Cyprus, including of the north post 1974, has been governed to a large extent by its social, economic and political position in the international development order. Cyprus, subject to foreign rule since at least the Lusignan feudal order (if not earlier under Byzantine rule) of the twelfth century onward, has always been a colony of successive empires (subsequently Venetian, Ottoman and British). Even with independence secured in 1960, British Sovereign Bases remain on the island (principally at Akrotiri and Dhekelia) to this day. Since 1974 there has been a formal Turkish military presence in the north, of currently around 40,000 troops. It is easy to see how many commentators, particularly those on the political left, continue to find value in the concepts of colonialism or neo-colonialism to describe the international organization of power over Cyprus.

Hoffmeister (2006, p. 51) is amongst those who have argued that although there exists ‘a government [in the north] with a capacity to establish and maintain legal order in the sense of constitutional autonomy’, there are two key features that challenge the notion of self-governance of Turkish Cypriots which are ‘the position of Turkish army and the large financial influence of Turkey on TRNC budget’. However, are these two features sufficient to conclude that northern Cyprus is a Turkish colony? Since 1974 there have been many Turkish immigrants sent to the island at the direction of or under the supervision of Turkish state agencies where they settled or currently work. More than half of the inhabitants in northern Cyprus today were not born on the island. Substantial financial aid has been sent to the island since 1974 and half of this aid is in the form of grants (no repayment requirement). Without this aid, the economy in the north could not have sustained itself. Finally, there is a presence of large military foreign forces on the island who are

not under the control of the domestic government. Did the locals agree to these developments willingly? Most complain about at least one of the three topics, but when confronted by the classical manipulative opinion of ‘without the help of motherland, Greek Cypriots will achieve *enosis*’, locals have tended to subdue into silence.

Looking briefly at the military presence and foreign aid in turn, first there is no denying the presence of Turkish army in the north. The troops that were sent to the island in 1974 stayed, and their numbers have increased over the years, albeit the publicly announced number of military personnel on the island could be misleading. The main purpose of the army is to ‘protect the borders from Greek Cypriot threats’. The fact that Turkish Cypriot administrators have always welcomed and praised the presence of these troops makes it harder to argue that these troops are occupying the north of the island. On the other hand, do these forces exert any pressure on domestic matters? There are two sets of military groups on the north of the island, the Security Forces Command (*Güvenlik Kuvvetleri Komutanlığı*, GKK), which are supposedly under the control of domestic authorities, and the Turkish Armed Forces (*Türk Silahlı Kuvvetleri*, TSK) which simply constitutes the military force sent from Turkey. It is the TSK forces that control the borders, with numerous bases scattered around the northern territories, most of which are on Greek Cypriot-owned land. Although the GKK is directly under the prime minister’s office in the TRNC, the head of GKK has always been appointed by the Turkish military. The civilian police force is also under the control of GKK, and many government programmes since 1994 have included promises to change the status of police force from military to civil, although this has not been achieved to date. The suspicions of local Cypriots that some high-ranking military were involved in smuggling and bribery seemed to be confirmed when artefacts from St Barnabas Monastery in 1994 were dug up by some of the military personnel according to official parliament records (discussed in detail in Box 3). At a much smaller scale, I personally know close relatives, ties with people in the military, who received rights to go hunting (a very common sport among Turkish Cypriots) in military zones which is normally prohibited for everyone else. The power of military over civil order can be seen in the most recent example in 2018 where some tourists were ‘caught’ taking

pictures of the restricted Varosha area while they were standing in public area, and they were tried before a military court instead of a civil court. It is fair to say that military personnel in northern Cyprus are free from local government's control and they enjoy a full autonomy in this 'independent' state.

Second, what of the financial aid from Turkey? Although we will discuss the details of this aid in Chap. 4, it should be said immediately that there is no denying that without financial aid from Turkey, northern Cyprus would not have survived its isolation and developed even to its present status. The question here is whether or not the aid was used to dominate local politics. Again, Hoffmeister (2006) argues that although it is not common for countries to receive crude financial aid from wealthier countries, in the case of TRNC, the only aid did come from one country. Thus, it can be argued that the donations were used to control domestic politicians. We have already seen before that Turkey was directly involved in local politics during the 1967–1974 period through the launch of TMT and with close relations with Denktaş. Later we will see again that in presidential and parliamentary elections, Turkey's involvement would be felt. It is a historical counter-factual speculation to suggest that the aid would have been stopped if the outcomes did not turn out in Turkey's favour. Regardless, it is still safe to say that the Turkish embassy in Cyprus has constantly been involved with the domestic politics directly or indirectly. Most recently in 2016, when a celebrity Turkish citizen living in Cyprus criticized Turkey online, he was immediately arrested by Turkish Cypriot police on direct orders from TRNC's Minister of Interior and placed on a plane back to Turkey. Occasionally, colonialism is that simple.

Just as the prominent development economist Paul Collier has asked 'why the poorest countries are failing and what can be done about it?' so I ask in this book about northern Cyprus. Although using Collier's definition, northern Cyprus cannot be classified as a poor nation, some of the explanations for failing of these poor nations seem applicable in the case of northern Cyprus. One of the key 'traps' Collier highlights is that of bad governance in small countries and argues that 'governance and policies matter, conditional upon opportunities', and then he adds that 'bad policies and governance need not be a trap: societies can learn from failure' (p. 66).

I shall argue that northern Cyprus had plenty of opportunities for economic and social development despite not being accepted as a state by the international community. However, bad governance has continued since 1974, and instead of learning from failure, the society actually adapted itself to clientelistic politics and government, compounded by the hierarchy of power found in both classical and neo-colonialism, thereby preventing escape from this trap. Paradoxically, though, northern Cyprus society has never been typically poor, indeed has experienced relative wealth and thereby, arguably, had little incentive to adapt and innovate away from the status quo. What this discordant polity did not realize is that bad governance has created a very fragile economy that is heavily dependent on Turkey.

How to characterize Turkish Cypriot governance in post-1974 era? Whether it is a *de facto* or *de jure* state, or whether the governments are motivated by clientelistic and rent-seeking principles, the simple fact is that the officials involved in the management of northern Cyprus have done an incredibly poor job over the last 45 years. I intend to show in the substance of the following chapters that governments acted in an unprofessional and venal manner while building the institutional framework of the state and while deciding on policies that would affect its economic development. The so-called Cyprus problem has been an important negative factor in this history, but cannot take the full blame. After all, on many occasions, Turkish Cypriot and Turkish leaders claimed that the Cyprus problem was ‘solved’ in 1974 with Turkey’s intervention. If so, then who are to blame for the ‘failed’ state in northern Cyprus on top of the politicians involved in the governance?

Note

1. Ozyavuz and Schmid (2015), p. 9.

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3

Economic and Institutional Foundations of Turkish Cypriot Governance and the 'ITEM' Law

Public governance for Turkish Cypriots emerged through multiple forms. The first period and type of governance regime was that of the Autonomous Turkish Cypriot Administration (ATCA; *Otonom Kıbrıs Türk Yönetimi*, OKTY) between 1967 and 1974, the period when Turkish Cypriots first wanted to leave the Republic of Cyprus. They formed some ethnocratic government bodies which were mainly concerned with improving the economic conditions of Turkish Cypriots across the island. The Turkish Cypriot Chambers of Commerce and Industry were both established during this period. The Cyprus Turkish Cooperative Central Bank (*Kıbrıs Türk Kooperatif Merkez*, KOOPBANK) established in 1959 acted as the major financial institution for Turkish Cypriots during this period. It was with the complete collapse of constitutional rule with the Grivas-led coup attempt and the subsequent intervention by Turkey on the island in July 1974, followed by the forced population exchange that de facto separation began and Turkish Cypriots formed the so-called but provisional Turkish Federated State of Cyprus (TFSC; *Kıbrıs Türk Federe Devleti*, KTFD) that lasted between 1975 and 1983. Although regarded as politically necessary, yet anticipated to be of a temporary nature, some very important laws and regulations that are in force even today were

drafted during this period. The final form of governance came with the establishment of the Turkish Republic of Northern Cyprus (TRNC; *Kuzey Kıbrıs Türk Cumhuriyeti*, KKTC) in 1983. Although emerging as a de facto state since 1974, northern Cyprus has not been diplomatically recognized by nor acquired international legal personality with any state in the world except by the Republic of Turkey. Over the period since 1974, through different forms of governance, TRNC emerged as a democratic republic. In this chapter, we shall discuss the key developments in laying the foundations for institutional and economic infrastructure needed for the survival of a nation. My main focus in this period will be on the policymakers' continuous struggle to provide good governance.

Before we continue with the governance in northern Cyprus after 1974, I would like to paint a picture of the economic conditions for this part of the island at the time they started their quest to independent governance. One of the important sources that summarizes the early state of Turkish Cypriots is provided in the first Five-Year Development Plan (FYDP) that covers the period 1978–1982. Such development plans are required to be prepared by the constitution, but we will see that governments have failed to do so consistently. The first FYDP starts with the following motivational brave statements (which have been also included many government programmes since then):

The Peace Operation [interference of Turkey] have led Turkish Cypriots to achieve political and economic freedom and allowed them to decide their political, social, economic and cultural future with their own decree; and the Cyprus Turkish Federated State's Constitution has enabled Turkish Cypriots to plan sustainable economic, social and cultural development by using the resources of the country efficiently. (Italics are added, p. 8)

Some of the economic and social indicators were as follows. The primary economic sector in 1976 was identified as agriculture with 36% of gross domestic product (GDP), followed by construction and industrial (25%) and tourism (11%). The remainder (services, transportation, civil services) are under less important sectors which contributed a total of 28% of GDP. The primary, secondary and tertiary sectors respectively employed 45%, 16.8% and 27.1% of total employment in the country.

About 46% of total land within the borders of the state was categorized as agricultural land (53.6% of those was used for barley and wheat). This has led the programme to target agriculture and industrial development as primary areas for the first five years. The total industrial export in 1976 was 24 million TL, but it was believed to have the potential of 214 million TL. By the end of 1976, there were 1280 registered businesses at Turkish Cypriot Chamber of Commerce (TCCC) and 80–85% of these firms employed less than five employees. Cooperatives were also important at this time. By 1976, there were 440 cooperatives with 53,523 partners. As of 1977 there were 87 physicians, 11 dentists and 14 pharmacists in state healthcare services. The state had two general hospitals, two regional hospitals and ten health centres. There was one nurse per 1318 persons and one midwife per 1261 persons in the country. In the state hospitals, there were 3.5 beds per 1000 people. Finally, by the end of 1978, a total of 22,112 families (88,169 people) who were refugees from the south or immigrants from Turkey were allocated dwellings in different parts of north Cyprus. The total population of KTFD in 1976 was 133,785 (but 145,000 according to SPO).¹ According to a survey conducted on 883 families in 1977 (we don't have information on the methodology used), 18% had no formal education, 53% had elementary education, 20% secondary, and the rest had completed tertiary education. In other words, at the time of the separation, the education level of Turkish Cypriots was not very high, and combined with lack of experience in business and industry, they were at a disadvantage in terms of human resources even though they had inherited a lot of spoils of war. In the next sections, I will discuss the progression of Turkish Cypriots in several areas and analyse how the politicians have handled this progression or the lack thereof.

As noted earlier, foreign states had been following developments in northern Cyprus whilst not recognizing the state officially. A US cable (1975) summarized the economic situation within a year after separation as follows: 'The Turk Cypriot economy today [19 August 1976] is marked by (1) Uneven but steady improvement; (2) Continuing financial, trade and technical dependence on Turkey; (3) continuing problems arising out of post-war uncertainties and population displacements and shortages of labor, know-how, management skills and foreign exchange.'² The report

gives examples of stabilization of the north such as the price of tomatoes going down from 22 shillings per oke³ to 2–3 shillings, the establishment of Turkish Cypriot television (19 July) and the adoption of banking regulations that nearly eliminated smuggling from the south. The agricultural sector had improved which was evident in the increase in citrus fruit, potatoes and wheat and barley productions compared to a year earlier. Water shortages were still a problem which, according to the report, the Turkish Cypriots were ‘exploring feasibility of bringing water to the north from the mainland either by a tanker or by submarine pipeline where a French firm has just been awarded pre-feasibility study contract, results of which should be available in early 1977’. The idea of bringing water from Turkey by submarine pipeline was to be realized eventually in 2015.

The above report also discusses the improvements in other economic sectors. The industrial sector’s development, argued by the report, is one of the weakest due to lack of business and management skills, know-how and skilled labour. The report states that most of the factories (or workshops) that were reactivated are under the control of a ‘notoriously inept, state-controlled Industrial Holding Company’⁴ whose fate we will discuss in detail in Chap. 7. Although the official figures show an increase in the number of tourists compared to a year earlier, some of the business owners in this sector were claiming that business was down. There was also a shortage of foreign exchange due to a stall in tourism and foreign trade. Under these conditions the foreign aid from Turkey (roughly one quarter of north Cyprus budget) had been very important in keeping the economy afloat. The ‘motherland’ influence on the workforce was also visible with ‘an estimated 10–15,000 Turkish worker-immigrants—some temporary, some permanent—augmented a Turk Cypriot workforce’. The embassy report concludes with the following: ‘In sum, the web of political and economic relationships pulling the north into Turkey’s economic orbit is so extensive and complex that the process has probably become irreversible.’ This actually has proven to be exactly correct over the years. The north was never able to achieve true economic and political independence, and the dependence on Turkey has influenced the growth trajectory in the wrong direction. The next sections will demonstrate how incompetent policies coupled with lack of public resistance have brought northern Cyprus to where it is today.

The economic development was a priority, at least on paper, for northern Cyprus and Turkish governments. Turkey had promised to assist not only financially but also provide consulting at the highest levels regarding the economic policies. The two governments regularly had Joint Economic Meetings in the early periods but which stopped in the 1990s. Two countries also signed many economic and social protocols which we will be discussing in Chap. 4. I start with the discussion of the general state structure and introduce some of the key institutions in the next section.

The Political Parties and the Early Years

After the de facto separation in 1974 (triggered by the collapse of the 1960 constitutional order and Turkish intervention), the prototypical or embryonic administrative arrangement for the Turkish Cypriot community known as the Autonomous Turkish Cypriot Administration was transformed into a self-styled federated state in 1975. Led by Rauf Denktaş, erstwhile vice-president of the Republic of Cyprus and leader of the Turkish Cypriot community, he became the chairman of the provisional ATCA, subsequently president of the TRNC from 1983 to 2004 and remained a key figure in northern Cyprus' political and economic development until his death (in 2012). The first task of the constituent assembly of the ATCA at the time was to prepare a constitution and an electoral law. The political development of Turkish Cypriots took a sharp turn during this time. Until this period, the political discussions normally revolved around the Cyprus problem, and there was mainly consensus on Turkish-Greek-related matters. After the 1974–1975 breakaway, leading Turkish Cypriot figures—but by no means all—argued that there was a new state to be built and thus the terms of power-sharing came into play. The number of political parties, echoing different voices, had increased, and opposition (non-separatist) voices began to be heard. The discussions during the amendment of 1976 constitution and electoral law that led to the first general elections in 1976 laid the various political and social views that would come to dominate the political development of the north in the coming years, even until today. Thus even from the earliest years,

Turkish Cypriots had organized into different political movements or parties reflecting quite different and sometimes contradictory political subjectivities. These developments and differences are summarized next.

Cumhuriyetçi Türk Partisi (CTP, Republican Turkish Party)

This party was established in 1970 and their inclination was a ‘markedly left, anti-imperialism being its main professed concern’,⁵ but later ‘catering to a predominantly white-collar constituency’.⁶ This party supported a federal solution to the Cyprus problem, and they were normally associated with the Communist Party of the southern Cyprus (AKEL). Over the years, Denктаş and other right-wing supporters used the close ties of the leaders of CTP with Greek Cypriots as a sign of ‘treachery’ and ‘against the national cause’ and utilize this as a weapon in domestic political elections. The founder and first president of the party, Ahmet Mithat Berberoğlu, was initially nominated to run as vice-president (*Cumhurbaşkanı Müşavirliği*) in 1973, in the original Republic of Cyprus of the 1960 constitution, against the candidacy of Rauf Denктаş.⁷ However, he withdrew from the elections and was later replaced by Özker Özgür as the president of the party in 1976.⁸

Özker Özgür and CTP continued to cause unrest to Denктаş over the years. Özgür was outspoken and openly criticized Denктаş on Cyprus negotiations as well as the early governments regarding their unsuccessful politics on economy and their closeness to the republic of Turkey. Things became more personal when Özgür addressed Denктаş as ‘godfather’ in one of his news columns published in *Yenidüzen* newspaper in 1986. Denктаş took a libel action to court claiming that the word ‘godfather’ meant ‘mafia leader’ and such an implication was an insult to his honour. The district court found for Denктаş and awarded 200 million Turkish lira (around US\$150,000 in nominal values) to be paid.⁹ After Özgür appealed, the amount was reduced to 80 million TL, yet throughout this time, Özgür and CTP were harassed by other public officials and militants of Denктаş’s political party.

As explained in the introduction, I will include excerpts from the parliamentary reports from time to time in order to give the readers a taste of the kind of discussions held and the various instances of the MPs and political parties on different issues. Parliament held a special meeting on 14 June 1989, to discuss another newspaper column written by Özgür. The column made a comparison between Turks living in Bulgaria and Turkish Cypriots living in northern Cyprus, and Özgür claimed that there was an identical kind of assimilation and identity crisis between these two groups. MPs from right-wing political parties unanimously objected to this comparison and attacked Özgür for implying that the Turkish peace operation on the island had resulted in the assimilation of Turkish Cypriots into a broader Turkish population. Several MPs had criticized Özgür for making such a comparison and blaming him for causing harm to Turkey-TRNC international relations as well as to the 'common national cause'. When one of the MPs of the government started addressing Özker Özgür as 'Efendi' (mister) instead of 'Sayın' (esteemed), all the CTP MPs left the room. The same MP added 'if I was in the parliament on June 2 (the date where a similar speech by Özgür was made in the Parliament), I would have cut out the tongue who talked ill about the Motherland' (TRNC Parliament Reports, 14 June 1989, p. 91). Some of the other non-government non-CTP MPs also left in protest after that. The Turkish embassy in northern Cyprus also revoked Özgür's Turkish passport after these statements.

CTP had very close links with the labour unions as is expected from left-leaning political parties in the world. The party was very vocal on labour-related issues over the years, but was destined not to receive electoral support even though most voters were from the working class, especially during the early years of ATCA and the TRNC. Intra-party unrest over the Party's ideological questioning after the collapse of Soviet Union was to drive Özker Özgür out of the party in the late 1990s,¹⁰ seeing his replacement as party leader in 1996 by the much less outspoken Mehmet Ali Talat. Talat, who was a refrigerator repairman before joining the party in 1973, continued defending the idea of reunification and solution of the Cyprus problem. CTP formed coalition governments with right-wing parties under Talat's leadership, and he was elected the second president of TRNC in 2005 after the failure of the Annan Plan in 2004. In 2015,

although not an MP but still the president of the party, he was quoted openly supporting Turkish President Erdogan and importance of the 'motherland' in domestic politics.

Ulusal Birlik Partisi (UBP, National Unity Party)

This party was formed on 11 October 1975, with Rauf Denktaş elected as its president. This party was 'to be Atatürkist, and would constitute an unconquerable fortress against the left' (Dodd 1993, p. 109). Denktaş at the time was already the president of the Turkish Federated State of Cyprus (TFSC/KTFD), and now he also created a political party that would participate in the parliamentary elections. When the first elections took place on 20 June 1975, this party received 53.7% of the votes (turnout was only 74.3%)¹¹ not because of the ideologies or party programmes, but simply because the party was headed by Denktaş whose personality had the popular backing of Turkish Cypriots throughout the early Cyprus negotiations. This party came to serve in subsequent governments alone or in coalition with other parties over the years. Their main political strategy will be 'enforcing ties with the motherland and working towards the international recognition of TRNC (after 1983)'.¹² Although there were internal disputes in the early years of the UBP resulting in the loss of MPs, the party tended to continuously receive the largest share of the popular vote until 2003 when for the first time CTP had received more (but not the majority). It was in the early 1990s when the president of the party, Derviş Eroğlu, came into dispute with Denktaş that sparked nine deputies to leave UBP and form another political party, Democratic Party (DP).

But the overriding significance of the UBP for this study is that the roots of political clientelism and rentierism in northern Cyprus can be attributed to Denktaş and the UBP.¹³ This party stayed in the government for so long not because they were delivering good governance but simply because they were using the state resources for clientelism and rentierism which brought them plenty of supporters. For example, in 1984, around 3400 temporary civil servants were promoted to permanent positions by the Council of Minister's decision although this was

against the very same constitution written by the UBP.¹⁴ The same party attempted to repeat similar behaviour in 1997, 2000 and 2017 with an intent to garner electoral support from the direct and indirect beneficiaries of rent distribution. Over the years the UBP continued to distribute such ‘gifts’ and thereby gain popularity among the public. Cold war tactics were also used for the simple purpose of undermining the opposition, the main opposition being the CTP. As indicated above, Denктаş would attack the leader of the opposition party using the state’s courts and prosecutors. The close ties with Turkey, as the ‘motherland’ and heavy promotion of its ‘saviour’ status, helped Denктаş and the UBP to gain popular votes even though the economic and social development in the north was faltering. The leftist parties, with their opposition to the charismatic ‘natural’ leader Denктаş, had little chance.

Toplumcu Kurtulus Partisi (TKP, Communal Liberation Party)

After the constitution of the KTFD was accepted, the next step was parliamentary elections to replace the constituent assembly. CTP and UBP were already established and preparing for the elections. Another party by the name of the Halkçı Partisi (Populist Party) also emerged during this time (5 August 1975) but soon after some of the leading members left to form Toplumcu Kurtulus Partisi (TKP, Communal Liberation Party) on 18 March 1976. This party ‘declared itself to be “social-rights” party dedicated to Atatürkist principles that was liberal and democratic, but much motivated by social concerns’.¹⁵ Some important figures in Turkish Cypriot politics became members (Alpay Durduran (outspoken opposition in the parliament), Mustafa Akıncı (served 14 years as mayor of Nicosia and current TRNC president), Ismail Bozkurt, Mehmet Küçük, Turgut Mustafa, Fuat Veziroğlu, Özker Yaşın, Mustafa Nalbantoğlu) although they diverged from each other in the following years.

This party obtained 20% of the votes in the first general elections in 1976 only three months after it was established. This also indicated that people in northern Cyprus tended to vote for individuals rather than along party lines because such party candidates had been in politics long

before the establishment of the party. One of the founders of TKP, Mustafa Akıncı, also became the mayor of Nicosia in the same year. In the 1981 elections, this party almost doubled their seat numbers but not because they were performing better, but rather because of internal problems in the otherwise dominant UBP. The popularity of the party diminished towards the end of the 1980s. Although social problems—the key concerns of both CTP and TKP—increased during the 1980s, it was the Denктаş-led UBP which continued to dominate. Indeed some TKP members, such as Mehmet Küçük and Fuat Veziroğlu, left to join the UBP despite these parties being at opposite ends of the political spectrum.

There was also some intra-party unrest which led to some members to form another party in the early 1990s (including some members from CTP), but this new party never became strong enough to send a representative to the parliament. Alpay Durduran was the leader of this new breakaway and formed the New Cyprus Party (NCP; Yeni Kıbrıs Partisi, YKP) in 1989. This new party's programme 'emphasized the sovereignty of Cyprus, the repatriation of recent immigrants from Turkey, the closure of the Northern Cyprus/Turkish Aid Committee, and the reduction of the Turkish Embassy staff in Nicosia'.¹⁶ Durduran was also a candidate in the presidential elections in 1990 but he only obtained 1.25% of the votes.

Right before the 1990 general elections, CTP, TKP and YDP (New Birth Party) joined forces against UBP and formed a common platform in the Democratic Struggle Party (Demokratik Mücadele Partisi, DMP). These three parties stressed 'their joint intention to change the electoral law and have new elections, but they were in fundamental disagreement on major policy matters'.¹⁷ In the end, this platform obtained 44% of the votes but only 16 out of 50 seats (32%) in the parliament. Most of the CTP and TKP members elected as MPs boycotted the elections by not participating in the assembly. Then the UBP, now led by Eroğlu, formed the government, and Serdar Denктаş (the president's son) was included in the new cabinet for the first time as a minister.

The new government also terminated the membership of parliament of those who had boycotted the parliament on the basis of 'not participating at the parliamentary meetings for a duration of a month without any valid excuse'.¹⁸ Six of these elected but boycotting MPs—Özker Özgür, Naci Talat, Mehmet Civa, Fadıl Çağda, Feridun Unsav and Salih Usar—

contested this decision before the Constitutional Court (TRNC Constitutional Court, Dossier number D.1/91) arguing that although they were elected as MPs, they had never actually participated in the parliamentary oath process; thus, their deputyship had not begun yet and therefore the lack of attendance in parliament could not be held against them. The high court found against the six and did not overturn the Council of Minister's original decision.

Demokrat Parti (DP, Democratic Party)

As mentioned above, the Demokrat Parti (DP, Democratic Party) was formed after the UBP president came into conflict with Rauf Denktaş and nine deputies from the UBP left to form their own party in 1992. Hakkı Atun was to become the first president of the DP who would be replaced later by Serdar Denktaş in 1996 (who still serves today as the president of the party and has been in parliament consecutively for 27 years). The Demokrat Parti was to have exactly the same ideology as the UBP, as it was formed by the same person (Rauf Denktaş) and followed by individuals who left UBP. All that differed was individual personalities, and all the internal-party opposition effected was the establishment of a second right-wing party which reduced the share of the vote over the years supporting the UBP. Still, the DP would also become a key party in many of the governments formed after 1994 as no single party would otherwise have won enough seats to form a government, and when a coalition between CTP and UBP would be unthinkable (but not for long).

So it was that the DP formed a coalition government with CTP after the 1994 general elections. The MPs who have served side by side as the UBP for many years were now criticizing and arguing with each other fiercely in the parliamentary assembly meetings. This did not show democratic vitality so much as the idiosyncrasies of these MPs. The very regulations that DP members began to criticize were amongst those that they had approved while members of the UBP, and the clientelistic practices of the new government criticized by UBP were the same practices they had undertaken themselves for so many years. It was during this time that an

important amendment to the law that regulates the allocation of immovable properties left by Greek Cypriots in the north (ITEM law) was passed. We discuss the details of this law later in this chapter.

Type of Governance and Elections

Right after the Turkish intervention on the island in August 1974, the Turkish Cypriot community started working on forming their own self-governance. As indicated above, the Autonomous Turkish Cypriot Administration was transformed into the provisional Turkish Federated State of Cyprus (TFSC/KTFD) on 13 February 1975. Rauf Denktaş' declaratory move in the ATCA assembly was assented to and received with unanimous applause. Five days later the government met to discuss the creation of a dedicated parliament, evolving out of the ATCA assembly, to be assigned an orthodox law-making function. The new parliament was to consist of 50 members with representatives from various circles including the original 25 members of ATCA and Rauf Denktaş. As the nominal president, Denktaş was empowered to also appoint four members directly to parliament. The other representatives were a member from CTP, Türk Cemaat Meclisi Memurları Sendikası (Turkish Community Assembly Public Servants' Union), Kıbrıs Türk İlkokul Öğretmenler Sendikası (Turkish Cypriot (TC) Elementary School Teachers Union), Kıbrıs Türk Orta Okul Öğretmenler Sendikası (TC Middle-School Teachers Union), Kooperatif Merkez Bankası (Cooperative Central Bank), Kıbrıs Türk Gazeteciler Cemiyeti (TC Journalists Association), Kıbrıs Mülkiyeliler Birliği (Cyprus Civil Services Association), Kıbrıs Türk Hekimler Birliği (TC Physicians Association), Kıbrıs Türk Mimarlar Ve Mühendisler Odası (TC Chamber of Architects and Engineers), EVKAF, Kıbrıs Türk Barosu (TC Bar Association), Kıbrıs Türk Ticaret Odası (Turkish Cypriot Chamber of Commerce) and Kıbrıs Türk Eczacılar Birliği (TC Pharmacists Association), two members from Kıbrıs Türk Çiftçiler Birliği (TC Farmers Association), three members from Türk-Sen, Fazıl Küçük and one appointee from Council of Ministers. A new constitution for the KTFD was put to a vote (8 June 1975), and local elections (23 May 1976), presidential elections (20 June 1976) and

general elections (20 June 1976) were also held. Although the 1975 constitution was heavily objected by the opposition parties, in a low turnout of 72% of eligible voters, 99.4% of votes cast accepted the new constitution. Based on this provisional constitutional settlement, five governments held power between 1976 and 1983 the proclamation of the TRNC (for a more detailed survey of political events during this period, refer to Dodd (1993, pp. 104–124)).

Subsequently and evolving from the KTFD period, the post-1983 TRNC constitutional settlement provided for three kinds of political elections: presidential elections, parliamentary elections and local government elections, including municipalities which are all required to be held regularly every five years. The number of general elections as well as the corresponding votes received by the political parties is provided in Table 1. Throughout the post-1983 period, the governments tended to dissolve before the parliamentary term was completed, but according to constitutional provisions, the party receiving the highest number of votes would be given another chance to re-form a government and, in most cases, a government came to be formed (with a coalition party) without the need for another general election. However, it has been common and standard practice for there to be a simple change of ministers or government partners (or in some cases the same partners will form a government again which begs the question of why they dissolved in the first place), thereby, again, eliminating the need for a general election. It is for these reasons that TRNC has witnessed more than 40 governments but only 10 general elections between 1981 and 2013.

The parliamentary elections are held to elect 50 members to the parliament. The Election and Referendum Law, 1976 (*Secim ve Halkoylamasi Yasasi*, 5/1976), provides the procedures for these elections. The ad hoc committee in charge of drafting this bill had 21 meetings between 15 October 1975 and 23 January 1976 with nine members.¹⁹ The bill was enacted by a majority of votes but only after extensive discussions on key issues. The discussions at the parliament focused on two major points. The first issue was the exclusion of civil servants from eligibility as candidates in the constituency in which they were currently employed (unless they resigned from their posts), but they could be a candidate for a constituency different to that of their workplace. Fuat Veziroğlu claimed that

the government (UBP) could easily transfer a civil servant to another location before the elections and provide an opportunity to become a candidate at his own constituency of residence (TFSC Constituent Parliament Proceedings, 6 February 1976, p. 46) which would create unfairness among the people and that the exclusion was, he argued, a violation of the constitutional principle of equality. This claim was challenged by the non-UBP members on the grounds that such an arrangement was against the constitution Article 54 (paragraph 3) which says, 'declaring candidacy is not subject to leaving public post'. The opponents also pointed to the fact that a significant portion of the working and intellectual population at the time were working as civil servants; thus, excluding this group from actively engaging in political elections would be against democratic principles. Other non-UBP MPs also questioned the legal and social negative consequences of this provision, but given how the UBP controlled the majority of the seats, the article was accepted by 21 votes against 19.

The inability of civil servants to participate in elections as candidates for political office has been criticized over the years. At the outset of the independent state, most of the educated individuals had been employed as civil servants. Therefore, the left parties claimed that prohibition of these individuals from participating in politics would mean prevention of healthy development of politics due to lack of fit individuals for the office. Another argument would be basic rights of citizens to participate in possible activities to shape the future of the state. The counterargument was that of a 'conflict of interests' that might arise when civil servants participated in politics and hold positions in public offices simultaneously. The small size of northern Cyprus with its limited wealth of human resources as well as the cultural feature of *torpil* (nepotism) could make both arguments valid in this discussion. Nevertheless, the same formal prohibition still stands to this date.

The second problematic issue arose with the parliamentary electoral system itself. The UBP recommended a system wherein whichever party won a simple majority of the votes (51%) should receive all of the available seats in the parliament (Article 136, paragraph 3). However, if no party were to receive a simple majority of votes, then the seats would be distributed between the political parties proportionate to their respective

shares of the vote. This was heavily objected by non-UBP members on the grounds that this would lead to a dictatorship in the country and they defended the proportional representation. Ismail Bozkurt recommended a modification to the entire article after which Nejat Konuk and the committee modified the article. Paragraph 3 was modified as follows: the candidates who receive more than half of the votes in a region will be elected as an MP, but a single party cannot have more than one third of the representatives from this region. In turn, this proposal was further challenged by Naci Talat, Fuat Veziroğlu and Alpay Durduran. In fact, Fuat Veziroğlu exited the assembly during the voting on this article who was followed by ten other members (TFSC Constituent Parliamentary Proceedings, 27 February 1976, p. 136). Was it better to be present and vote 'NO' or to leave the room and not vote at all in order to protest the article? The answer to this notwithstanding, after ten hours of discussions on 27 February 1976, this article was accepted by 22 votes against 4 (Özker Özgür, Kemal Deniz, Ekrem Avcioğlu, Haluk A. Akman) and with 11 representatives in absentia. In short, the electoral system in northern Cyprus was built, from the outset, on shaky foundations.

Turkish Cypriots were governed by this constitution until the new TRNC Constitution that was approved in the referendum in 1985. Rauf Denktaş and the government parties supported the new draft constitution and sought to use all their power to get it approved. For example, the state schools and offices were ordered to be closed so that people could attend to mass 'YES to the constitution' meetings.²⁰ The CTP would be the only political party to mobilize against the draft constitution with the claim that 'this constitution is supporting Denktaş-UBP-and foreign capital' and they had claimed that there was no need for a new constitution.²¹ But other parties had also criticized Denktaş for using state resources to campaign in favour of the constitution.

The constitution of TRNC, which is still operative today, was approved in a nationwide referendum on 5 May 1985. Out of 91,810 registered voters, 78.35% participated in the election, and 70.18% of the participants voted in favour of the new constitution.²² Although this was a huge victory for Denktaş and UBP, acceptance rate of a nation's constitution, especially a new-born state, should have been higher in my view. In fact, the rejection rates in Girne and Lefkoşa were 33–34% compared to

Famagusta at 23.75% which hosted plenty of refugees from Turkey who were brought to island after 1975. Between 1975 and 1985, a total of 25,134 citizenships were granted to Turkish nationals (Hatay 2005, Appendix Table 1), and although not all of them probably voted in favour of the new constitution, this large number could easily sway the outcome of the elections. On the other hand, it is also not obvious if those who voted against did in fact knew the contents of the proposed constitution. Regardless of the reasons, a new state with a new constitution was finally underway. Since 1985, there have been nine general (early and regular) elections to determine the TRNC's parliament members. UBP obtained the highest percentage of eligible votes until 2003 when for the first time CTP obtained slightly higher votes. But the key political party for the formation of TRNC government has been DP since 1993. Although DP never obtained the highest (or even the second highest) share of votes, they have been in coalition government many times since their establishment. These three parties jointly had control of parliament 90% of the time until 2018.²³ Thus, it is safe to say that any poor governance in TRNC could be attributed to one or more of these three political parties.

The electoral system in northern Cyprus can be characterized by a complicated 'party-list proportional representation system, with seats allocated according to the d'Hondt formula' (Hatay 2005, p. 20). There are three possibilities for voters to cast their votes: (1) to vote for one party (STAMP), (2) to choose a party and tick individual names within one party and (3) to choose individuals from different parties and among independents (MIXED). Each voter can only vote for the candidates in their own electoral district, and each electoral district is allocated a certain number of parliamentary seats where more populated districts receive more seats (but not necessarily proportional to their sizes). The first option is preferred by the political parties as the candidates at the top of their list will get the votes first and does not give the choice to the voters. The second option is more 'democratic' as it allows the voter to choose among the list of the candidates within the party of their choice, but does not help if someone wants representatives from different parties and independent candidates. The MIXED option (known as *karma* in Turkish) is the most flexible in that sense, but this option requires voters to select at least half of the number of total candidates required in their own

region. In other words, someone living in Nicosia had to select at least nine candidates; otherwise, the third option was not available (any number less than that will disqualify the vote). Karma voting basically allows voters to choose individuals rather than parties which are usually not favoured by the political parties.

Apart from the two major issues discussed above, the opposition also criticized the bill regarding 'karma votes' at the 1976 meetings. The non-UBP members of the assembly criticized the bill on the grounds that it requires casting of at least half of regional quotas instead of any number which does not give the flexibility to the voter and is regarded as anti-democratic. Naci Talat Usar from CTP identified this requirement as 'unconstitutional'. Ironically, 40 years later his party along with DP and UBP would approve an even more complicated modification to this rule. The modifications in 2016 converted the electoral system into one region, where the voters can vote across the nation, but if anyone wants to use the Karma option, he/she has to vote at least half of required numbers in each district (which now there are six districts).

The number of electoral districts has changed over time. Initially, there were three election districts (Nicosia, Famagusta, Kyrenia), and then in 1998 Güzelyurt and İskele were added, to be followed by Lefke in 2016. Each voter can vote in her own region, and each party is required to have a different list of candidates in each region. The representativeness of members from the regions will be determined according to their respective populations. Given the small number of voters within each region, one could be elected as an MP with as little as 5000 votes. However, the chances for an independent candidate are very slim compared to somebody whose name appears in the list of a party, since the system obliges candidates to become a member of a political party in order to be supported by the party machinery and listing mechanism.

The lists for the parties are decided by the executive boards of the parties and in some cases, just by the party president. This is another indication of the lack of democracy in the political arena of northern Cyprus. Each party has registered members from whom they collect membership fees, but the members are only partially involved in the decision process of election lists. There have been rumours that the members who want to be included in the list have to pay significant amounts. Furthermore, the

place or ranking of a candidate in the party list is also important unless a party receives all the votes in a district. For example, if a party can get five representatives in Nicosia (due to its share of total votes), then only the top five names in the list will be elected. The sixth listed candidate will receive nothing. Given how most people will not be bothered to choose individual names within a party and they will just put one stamp, it becomes vital that the candidate's name is closer to the top of the list. But those who are elected will increase their influence within the party until the next elections, and if needed, they will be more likely to pay (since their opportunity cost is higher) to be at the top of the list which creates a self-reinforcing circle of political privilege within a party. It is no surprise then that the same individuals and their relatives will serve in a party for a long time.

Municipality elections tend also to be contested on a party-organized basis. There are currently total of 28 municipalities in TRNC. The municipalities are semi-independent where they have their own elected assemblies with defined spending and revenue-raising powers given by parliamentary legislation. The revenues of local governments are limited to fees for water usage and waste collection and disposal, real estate (property) tax and some income from other sources such as public parking. There was a fee for street lighting paid by households that had been collected by municipalities but since 2010 collected by the Cyprus Turkish Electricity Board (Kıbrıs Türk Elektrik Kurumu, KIBTEK).

The presidential elections are held every five years. Table 1 also shows the full set of presidential elections and their corresponding votes.²⁴ According to the original KTFD Constitution (Article 79, paragraph 2), the same individual was limited to serving two consecutive terms as the 'head of the state' (it was then not called president), but the new 1983 TRNC Constitution eliminated this restriction. Thus, Rauf Denktaş was able to serve as the head of the KTFD 'state' and then president of the TRNC for a combined 30 years (1975–2005). During this time, Denktaş acted as the chief negotiator in the Cyprus negotiations and the key promoter of closer relationships between northern Cyprus and the Turkish 'motherland' using the 'national cause' as the main excuse whilst simultaneously active in the internal politics of the UBP and later through the DP. Denktaş's dominant position received little effective

challenge, with the closest formal call being that made Derviş Eroğlu in the 2000 presidential elections (but Eroğlu withdrew from the race before the second round was held). This was not the first time Eroğlu withdrew from a competition against Denktaş. In 1982, he withdrew from candidacy for presidency of UBP after 'having a meeting at the Turkish Republic Embassy in North Cyprus' because he 'didn't want to cause any inconvenience in the North Cyprus government at this stage' (Bozkurt Newspaper, 25 October 1982). The Denktaş-supported incumbent leader of the party won the elections, but the conflict between Denktaş and Eroğlu continued. Finally, before the 2005 elections, Rauf Denktaş retired as a presidential candidate and Mehmet Ali Talat of the pro-settlement CTP was elected president. Derviş Eroğlu re-entered the active political arena in 2010 and was elected as the third president of TRNC, but when he ran again for a second term, he was defeated by another returning political veteran, the former mayor of Lefkoşa Mustafa Akıncı, who had been away from active politics for nine years, to become the fourth president of TRNC.

Without exception, presidents of the TRNC have traditionally acted as the chief negotiator at the Cyprus peace talks with the Greek Cypriots, the United Nations and other parties. Of course, the president's domestic duties were heaviest as the head of the Council of Ministers, empowered to call for immediate meetings of the council as the case arose. The president also has the authority, with proper reasoning, to return any newly drafted law to parliament for reconsideration before approval. Also, the president's signature is required for the appointment of upper-level civil servants which, as will be shown later, has become a chronic financial and political problem in TRNC. Finally, the Higher Education Council (YODAK) used to be under the president's control (until 2017) and given how much value and emphasis the governments have been placing on university education as a 'sector' in TRNC, the presidents had the power to control the development of this sector, but they had never used their power to do so. In the end, these legally provided powers have not been important as campaigning tools until the most recent presidential elections in 2015. Even then, after Akıncı won in 2015, despite his heavy emphasis and promise during election campaign to use these tools if elected, he has not fully done so.

Parliament (or General Assembly)

The general assembly in TRNC, here referred throughout as parliament, is in charge of ratifying laws. Parliament has 50 members, and the main duties of members of parliament are given as ‘enacting and modification of laws, planning overall development of the nation, approval of state’s budget and other duties’ (TRNC Constitution, Article 78). Whilst there are different offices of state under each ministry, they have tended to be shuffled from time to time. Each ministry has a general secretary and undersecretary (administrative head of the ministries), and each office has a director who is responsible for the day-to-day operations and reports directly to the undersecretary of the minister.

New or amended legislation is first discussed in parliamentary subcommittees. There are three or four regular committees who would work on a given topic, and, as required, from time to time a temporary committee would be convened for the specific purpose of drafting a dedicated bill. Significantly though, only those parties with at least five MPs could have representation on the subcommittees. Once a draft bill had been agreed by the responsible subcommittee, the new (or modified) bill would be debated, when other MPs could convey their ideas on the topic, and voted upon in parliament, article by article. Finally, the bill in its fully amended entirety would be subject to a parliamentary vote. Since all that is required to pass the bill is the majority of the votes of those in attendance on that day, the bills prepared by the incumbent governments have very little chance of being rejected. The only higher power to potentially postpone, but not veto, the passing of a bill is the president, who could send it back to the parliament for further consideration. However, if parliament sends it for approval a second time, the president is constitutionally bound to approve it.

The Council of Ministers—equivalent to the cabinet in the UK—may be called to meet with a minimum of 48-hour notice at the behest of the prime minister. Such meetings may discuss any topic determined by the prime minister. The Council of Ministers meetings in TRNC have taken place pretty regularly since 1975, unlimited in their gravity on the one hand and their triviality on the other hand. For example, by way of con-

trast the Council of Ministers has been called on numerous occasions to set forth its members' views on UN-mediated peace negotiations. Yet with far more frequency, one of the most commonly taken Council of Ministers' decisions has been to 'approve the funding of a civil servant who will be travelling overseas for attending a state related activity'. The rules and regulations regarding the reimbursement of travel expenses of civil servants are clearly stated in the relevant bylaws. It is surprising (and frustrating) to see that the Council of Ministers seek to decide and approve such issues. Similarly, another set of frequently taken decisions in the Council of Ministers is change of name applications of private companies. Isn't this the responsibility of the office of Company Registrar? There are literally thousands of such simple decisions²⁵ that could easily be taken by the directors of the relevant offices but which instead are taken effectively by the Council of Ministers. Such an intractable custom is central to the rentier and clientelistic politics of northern Cyprus.

The constitutional design of the TRNC allocates power to the council to take such decisions, but little accountability. For example, according to statute Public Procurement Act (*Kamu İhale Tuzugu*), whenever the state wishes to purchase a service or a product above a certain value, the related office has to announce invitations to tender and the terms of contract. However, the statute provides in Article 3(2) that 'the state is not subject to this bylaw for the bids that are 'special' in nature. But the council of ministers has to specify what makes such bids special' (my translation, and subsequently unless otherwise indicated). Nobody knows what this item was intended for (some claim it is for the purchase of military equipment), but it leaves much room for abusing this special exemption. Thus, suspected nepotism seemed to be enabled with a decision for the purchase of a product/service without going through proper channels and assign it to this special exemption. The purpose for which this article was most commonly used was for health products where urgency, to overcome delays for full standard procedures, was invoked. It was not until 2016 that a new public procurement law removed this exemption, though it did not eliminate nepotism opportunities entirely.

Another commonly abused law has been that regarding the granting of TRNC citizenship (*Yurttaşlık Yasası*, 25/1993) that was enacted in 1993. The draft bill would be returned to parliament three times by the presi-

dent (Denktaş) for reconsideration of disputed articles. In the end, it was accepted by 30 votes (the source does not indicate how many voted against it, only that İsmet Kotak was highly vocal during the discussions²⁶). The procedures for eligibility of citizenship are clearly stated in this law. However, as with the earlier example, Article 9-1C of this law provided an exemption clause that ‘the foreigners who are *deemed necessary* to be given citizenship by the Council of Ministers’ are not to be subject to the other requirements. Of course, there is no definition of the word ‘necessary’ and the law does not require that the Council of Ministers provide any justification, which has given the perfect opportunity to the council to grant citizenship to anyone they want.²⁷ Again, this provision has been key for clientelistic politics as well as mediating relations with the Republic of Turkey. More recently between April 2016 and September 2017, UBP-DP coalition government had granted 9294²⁸ citizenships, most of which were attributed to the above-mentioned article. The commonly held interpretation was that the granting of citizenship and hence voting rights was simply a UBP-DP investment for the upcoming 2018 elections.

Certainly, the power to grant citizenship has been exploited by policy-makers. The law in effect before the current law was from 1975, and it gave the right to the Minister of Interior to recommend names for citizenship. According to an inquiry by the parliamentary committee that looked into 1990 elections, the Interior Ministry was open even on the day of elections, which was a Sunday, to grant citizenship to Turkish nationals.²⁹ But the new law in 1993 extended the possible circumstances that warrant for exclusionary citizenships. Since 1993, there have been four further changes to this law. During 1993–1995, there were on average 1833 citizenships granted to Turkish nationals per year, but this number decreased in the following years (Hatay 2005). The last change in 2015 saw the addition of a regulation of the immovable properties of foreigners who have had their TRNC citizenship revoked. A revocation of citizenship compels the erstwhile citizen to sell his/her assets within six months. If not completed, then the Council of Ministers will be directly involved with the sale of the properties and put the money raised into a local bank after deducting any liabilities, if any. In other words, the Council of Ministers has the right to give and the right to revoke citizen-

ship and is implicated financially in the sale of assets, thereby confirming the clientelistic power relationships at the heart of government.

There are also Parliament Research Committees (PRC) working in parliament, formed upon request from a group of MPs regarding specific topics of interest. A simple procedure, given by Parliamentary Standing Orders, Article 114, paragraph 6, is followed: First, parliament votes on whether such a committee should be formed or not, and then if a majority is secured, a committee is established with members from each of the political parties in parliament. Second, over a maximum period of three months, for which only one extension is permitted, the committee prepares the report. The committee is required to submit its report to the parliament even if the research is not completed (in which case the committee has to give justification). However, it has been the practice of the parliament to grant more than one extension to the committees in which time most of them did not produce any report. In the past, the TRNC Parliament has established PRCs to investigate some of the most important events (some of which we discuss in later chapters) such as ‘whether or not there was illegal conduct at the 1990 presidential elections’, and ‘whether or not TRNC government had any negligence in the outcome of the European Court of Justice’s decision not to import any TRNC products to EC’, and ‘the reasons behind the bankruptcy of KTHY (Cyprus Turkish Airlines)’, and ‘whether or not there is any illegal conduct by an MP in signing an \$11.5 million contract with a private company on behalf of the government (in 2015)’ and so on. On the one hand, the establishment of PRCs to investigate key problems in TRNC governance suggests strong parliamentary sovereignty and powerful independent scrutiny. Unfortunately, most of these politically and financially significant investigations have either never been concluded or have reported very late. This practical failing combined with the party and electoral system dysfunctionality has severely compromised a potentially vital corrective and mechanism for holding decision and policymakers to account. For example, there was a PRC established in March 1994 charged with investigating the ‘1990 presidential and general election crimes’ and yet was this committee was still granted extensions in May 1997.³⁰

The State Offices

Civil servants in northern Cyprus are divided into three broad categories as defined in the Civil Servants Law (Kamu Görevlileri Yasası, 7/1979), namely, (1) administrative or managerial, (2) professional and technical class and (3) general (Dodd 1993, p. 174). The latter two categories can be temporary or contractual. Civil servants are further sub-categorized by 'degrees' and 'grades' within each category which determines which salary scale and point is applicable. Movement up the grades had been subject to performance review until the early 1990s, but since then has been changed to automatic annual increases. Thus, once made permanent, a civil servant will move up the ladder without the need for any enhancement in skill, competence or productivity. Continuing professional development is anathema in TRNC and so reinforces the image of public sector positions as clientelistic sinecures.

The offices of state all have their own laws of establishment. The establishment year of state offices is provided in Table 2. These laws define the duties and responsibilities of these offices as well as the required maximum number (establishment for the post, or *kadro*) of civil servants who could be employed. It is the Public Service Commission which is charged with appointment and promotion of permanent civil servants. As we can see, the state offices were not all immediately formed after 1983. In some cases, it took the governments several years to pass the laws and regulations for some of the key offices—for example, Population Registry Office (1987), Urban Planning Office (1988), Allocation and Rehabilitation Office (1989), Tourism Planning Office (1990)—that are required for the proper governing of a state and an economy. It is always worth keeping in mind that the entire population of the TRNC to be governed through these offices is no greater than a modest English town or single London borough, such as Chester or Nottingham, or Enfield or Bromley.

This is not to say that the current list of offices is enough for the efficient governance of the state. Each office is required to have a director who is responsible directly to the minister. Furthermore, each office is required to have at least a vice-director, a secretary, a driver and a messenger along with other permanent staff. The Offices of Chamber and

Industry are two separate offices, but 4 of the 13 responsibilities required in each office in the relevant bylaws are worded exactly the same.³¹ It is then natural to ask if these two offices are to be in charge of similar duties, what is the point of separating them? All these requirements provide an opportunity for the politicians to appoint their own selections to these multiple positions in exchange for votes. Again, clientelism and occasionally open venality has been encouraged by the system of government which, in turn, reproduces clientelism and venality in public office.

As in the USA, for example, incoming governments in the TRNC remove the department, office heads and other senior civil servants holding executive positions in the previous administration. In their place the new government appoints their own personnel, but without the 'advice and consent' of the legislature as happens in the USA. Instead, the removal of upper-level civil servants is regulated by a special law, the Upper-Level Managers Appointment Act (*Ust Kademe Yöneticileri Atama Yasası*, 53/1977), and these civil servants are subject to a 'three signature decree' rule. This rule states that those to be appointed to senior-level civil servant positions will require assenting signatures of the president, the prime minister and the relevant minister (in case the relevant minister is the prime minister, then the Minister of Finance) without any other consideration. Of course, there are minimum job-specific criteria (education, experience) required by the position itself, but the three signature would be enough to appoint and remove anyone the incumbent government wishes (Ekici, 2016). In fact, in 1995 under a (CTP-DP) administration, the law was amended to lower the education requirements for appointment so that any high school graduate who had been working for 15 years in the civil service could be eligible for appointment as undersecretary of the prime minister. The real flaw in the law is that those who are removed from their position have not been dismissed from the civil service and remain on the public payroll, nor they can be demoted to a lower grade or point. As a result, a new status, called *Musavir* (loosely translated as 'advisor'), has been created for those who have been removed with each new government. A *Musavir* can potentially get paid, until retirement, at the highest salary grade and point without doing any work (or, in many cases, waiting to be re-appointed once again someday by patrons in a new

government). This practice has been utilized without exception nepotistically by all past governments.

When the Upper-Level Managers Appointment Act was first enacted in 1977, there were around 50 upper-level civil servant positions listed subject to this procedure. The list included general secretaries of the ministries, directors of any government offices, and the prosecutor's office and the Court of Account. Over the years the list has expanded, and currently there are around 100 civil servant positions covered by the law (but some of the positions in the list have multiple possibilities such as 'general secretaries of ministers', and so the total number of upper-level civil servants whose appointment is at the whim of politicians is around 130). It was no surprise that as of May 2016, there were 146 Musavirs. The simple reason for creating so many positions is to enable the government officials with enough power to exercise patronage and disburse rent in a clientelistic political economy.

Municipalities

After the 1974 division of the island, there were 11 municipalities in KTFD but has increased since to 28. The municipalities are managed independently and they have their own elections. Although, as noted above, they have limited revenue-raising powers of their own (such as for water usage, street cleaning fee, immovable property taxes), most of their income comes from transfers from the central state budget. For many years, the municipality elections were strong indicators for the subsequent general election. The sharpest competition arose in the five major city municipal elections since they controlled the largest revenue to be collected and disbursed and the venue for greatest clientelistic employment opportunities.

Why is municipality-level rentierism important? Although each mayor and municipality were subject to legal regulation, historically most nepotistic behaviour emerged and became normalized in TRNC at this smaller scale and by the conduct of mayors. For example, if a person had extended their house without requisite permissions because the incumbent mayor had refused the necessary permit, the alternative mayoral candidate

would secure that voter with the promise of a grant of approval. Or, if a residential street needed new asphalt or sidewalk—provision of which is municipal obligation anyway—then promise to vote for the incumbent mayor would see the work undertaken immediately before the election. Such small examples are real and numerous. In addition, the mayor also had the right to hire more individuals to work at the municipality regardless of whether or not there were functionally required. At the time of Cemal Bulutoğluları (mayor of Lefkoşa from 2006 till 2013), the number of employees at Nicosia municipality increased to more than 900 which put the office in great financial difficulty.³²

Table 3 shows the number of staff and total debt of all the municipalities in 1994 (before the 1995 Local Government Act was accepted; see next paragraph). The total number of permanent staff in all of the municipalities was 864 and the total temporary staff was 276. It is interesting that 13 of 28 municipalities in 1994 had two or fewer permanent non-worker staff. In other words, the mayor and one secretarial staff (in some cases just the mayor) were responsible for all the administrative duties. The workers of course will be responsible for day-to-day actual workload, but how could it be expected to manage a municipality with so few permanent employees? The population of the north was not very high at the time, but it raises the question that if the municipalities could be run by less than two people, then where was the need to have a separate municipality? Most of these municipalities had accumulated debt by 1994, but the numbers were not very large except for the largest municipalities. The financial transfers from the state budget constituted between 50% and 85% of the municipalities' total revenues.

The most recent law that regulates the workings of the municipalities is the eponymous Local Government Act (Belediyeler Yasası, 51/1995) that goes back to August 1995 (which in turn replaced an earlier law, 15/1980). The need for a new law was first mentioned in the 1990 government programme of UBP (Diler 2015, p. 422). During the parliamentary meetings, Mustafa Akıncı, who has served as the mayor of northern Nicosia for 14 years between 1976 and 1990, criticized some of the articles of this bill upon which young Serdar Denktaş told him that such criticisms belonged to the subcommittee meetings that Akıncı was supposed to attend. One of his criticisms was on Article 18 that gives the

municipalities the power of setting price ceilings for the retail and wholesale prices of products sold within their borders. Akıncı basically says that these are not possible in today's economies and such 'responsibilities' will only be on the paper. He continued for about two hours and criticized many of the articles in the drafted bill after which the committee members would respond to the criticism and defend the bill. In the end, the bill was accepted by 33 in favour and 3 against (all of whom were TKP members: Akıncı, Bozkurt, Karagil) votes. Fourteen MPs did not participate in voting. Such examples of even minor points with not much of political or economic implications sparking discussions/protests in the parliament show the low levels of professionalism of the policymakers.

The general financial positions of municipalities have not improved much in recent years. As of 2015, the state subsidy to the budgets of the local governments was about as much as their own revenues (see Table 14 of TR Economic Report (2015), p. 67). The amount of subsidies is not proportional to the size of the population of these local governments. Despite such a high percentage of subsidy, in 2015 only 5 out of 28 municipalities did not have a deficit in their budget. The data does not indicate if electricity bills are paid in full or not. Furthermore, the local revenues of the municipalities are hardly enough to cover their own labour force expenses. The total number of direct staff at all the municipalities in 2015 was at least 3073.³³ This simply indicates that the local governments cannot survive without subsidy from the central government, and it is unlikely that they can invest in local projects without aid from the government or outside sources.

Original Accumulation: The First Rentier Distribution

A basic institutional framework of the state in the north had been established by the end of the 1980s. The important state offices and state-provided welfare benefits were established along with their regulating principles and corresponding laws. The number of human resources needed to fulfil these public positions was also not scarce as many unem-

ployed Turkish Cypriots after the division, along with the migrants from Turkey who were naturalized, were employed as civil servants at these institutions. It was an official government practice to employ as many as civil servants possible and provide them with good benefits. It is this practice that I have described here as that of a vicious circle of a rentier state producing clientelistic politics, which enables a clientelistic politics to demand the reproduction of a rentier order. But what the early architects of governance did not anticipate, as they attempted to address immediate and pressing problems of post-division society, was that in providing employment with clientelistic intentions coupled with direct interference of bureaucracy, it crippled the state's institutions and created a culture where the public and politicians constantly fed off of each other without adding any value to the economy. It was the so-called ITEM law on the distribution of the 'spoils of war' that provided the key tool of clientelism and which had been made lawful jointly by the right- and left-wing parties which can be perceived as the beginnings of rentierism in northern Cyprus.

Law for Housing, Allocation of Land and Property of Equal Value (*İskân Topraklandırma ve Eşdeğer Mal Yasası, ITEM Law*)

The issue of the resettlement of land and immoveable property rights in north after the 1974 division is of crucial significance, indeed the single most important topic of the Cyprus peace negotiations. Given the sensitivity of this issue, there is very little publicly available and reliable material on its political-economic history, but I remain convinced that the history of this topic must be broached in this book. However, most formal documents on the matter are not open to public use, thereby limiting the light that could be shed on this issue. After Turkey intervened in Cyprus in the summer of 1974, about 60,000 Turkish Cypriots and 150,000–180,000 Greek Cypriots were forcibly 'transferred' as refugees, flooding respectively to the north and south of what was to become the Green Line.³⁴ The crossing of the refugees took some time as the administrators on both sides negotiated truces and some of the refugees spent

time in United Nations' controlled areas. By 1 October 1974, there were seven members of parliament of ATCA who still did not cross to the north. There were also substantial numbers of people subsequently transferred from Turkey (due to official government policy to bring human resources for the reconstruction of the breakaway state) to the north of the island where they were subsequently given citizenship.³⁵ (Insofar as the purpose of this book has been to examine the economic history of northern Cyprus, I will not discuss the fate of the Greek Cypriot refugees in the south. Here I only discuss how the land and other properties were allocated to the domestic and non-Cypriot migrants in the north.)

At first thought, given that the total amount of land and property left behind by the Greek Cypriots were a lot larger than that left by their Turkish Cypriot counterparts, the distribution of these should have been very smooth. Turkish Cypriots claimed that they owned 679,057 dönüm of land in the south and some 35,823 dönüm in the buffer zone (Table 1.7, Gurel and Özersay 2006). And according to Turkish Cypriot figures, Greek Cypriots left 1,228,838 dönüm in the north (and 126,230 in the buffer zone).³⁶ In other words, Greek Cypriot-owned land left in the north was about twice as much as the land left by Turkish Cypriots in the south. There were two different kinds of resettlement that the state had to worry about. There were Turkish Cypriot refugees who had left some property in the south before migrating, and then there were the immigrants from mainland Turkey who needed some kind of incentive to willingly decide to come to the island. The two groups had to be treated differently. The main piece of legislation that dictated the rules regarding allocation of vacant properties to the refugees based on points system was passed by the parliament in 1977 which was called Law for Housing, Allocation of Land and Property of Equal Value (Gurel and Özersay 2006; İskân Topraklandırma ve Eşdeğer Mal Yasası, ITEM). The law that dictates the duties of the Office of Resettlement and Rehabilitation (*İskan ve Rehabilitasyon Dairesi*) was established in 1989. Over the years this law was to go through some major changes which further complicated property allocation.

According to a decision taken on 27 April 1976 (BK #8335), the Council of Ministers approved the 'general principles' that were to be observed for the allocation of land, put in force until the ITEM law was

passed in 1977. Between 1 October 1977 and 31 December 1979, there would be 20,420 applications under this law where 52% of the applications were for land, but since the main enabling law required for processing applications was not passed until March 1979, the office in charge could not perform its duties.³⁷ According to one source, following these distributive principles, 15,580 families in 179 villages were allocated land, equivalent to 1,876,367 dönüm dry land (which was about three times the area of lands left behind by Turkish Cypriots in the south).³⁸ If we assume an average of three people in each family (which is rather conservative), then it means that more than 45,000 families had been allocated land within three years of the division. Also, during this time, a total of 3463 business offices were allocated (3058 to individuals and 405 to legal entities). As part of the 'Refugee Rehabilitation Credit Fund', 3300 individuals and 124 cooperatives were extended loans totalling 205 million TL. Other assistance in the form of giving livestock, furniture and food were extended to refugees and those with economic difficulty. The total resettlement until May 1981 was of 22,153 families (or 91,173 people).³⁹

The allocation was to be carried out based on two principles. First of all, the 'value' of the property in the north was determined and a certain number of 'points' were assigned. Then, the state would announce 'packages' which was to include the available Greek Cypriot properties that could be obtained by meeting the 'point value' of the property with the assigned points or by waiting for the next package where there may be a property affordable with the assigned points. The point system was however not very scientific or fair for that matter. The village headperson (*muhtar*) were basically in charge of determining the list of properties abandoned by the Turkish Cypriot refugees from the south. Those who couldn't prove the ownership of their properties (because they had lost the official documents, for example) would report an arbitrary value which had to be confirmed by the *muhtar* and selected 'trustworthy' individuals. Unfortunately, this is the first point where it went wrong. Those who were close to the *muhtars* (or to the politicians who were friends/relatives with them) were listed as owning more property than was actually the case; thus, their 'points' were calculated to be higher than they actually were. And the state leaders used the point system to favour per-

sons close to them or to increase the wealth of the state thereafter making it useful for their own goals later. For example, the Pious Foundation (Evkaf) had plenty of estates in the south before the division. According to the point calculations, the total value of the estates left in the south was 1,307,199,929 points, but they were given 1,857,536,437 points equivalent of property in the north.⁴⁰ In other words, more 'valuable' land was given to this organization simply because the organization was managed by people close to the government officials. Such examples of overvalued allocations to private individuals are also available. These are clear examples of the clientelistic behaviour that was to dictate the political affairs in the north in the years to come.

The unfairness in the allocation practices would later cause unrest among the public. There was a claim by 'Zarar Görmüş Güneyliler Cemiyeti' (Group of Harmed Southerners) in the eighth meeting of Social and Economic Council Meeting (August 1987) that 'It does not make arithmetic sense that 45,000 Turkish Cypriot refugees from the South cannot be resettled into the places abandoned by 200,000 Greek Cypriots refugees.'⁴¹ But if more than 91,000 people had been allocated a place as of 1981, this means most of those were not local Cypriot refugees, but either immigrants from Turkey or people who were not affected at all (e.g., had already been resident in the north previously). Hakkı Atun, who was *chef de bureau* of the resettlement issue, had admitted that the process was overwhelmingly frustrating and in some cases refugees would not get an allocation and just enter an empty building and occupy it (but which would later be evicted).⁴² Over the years, the law that regulated the allocation of this land has been modified several times arguably making matters even worse.

Eventually the full Law for Housing, Allocation of Land and Property of Equal Value (henceforth ITEM law) was passed on 1 October 1977.⁴³ In order to speed up the process and finalize all the allocations, two separate Identification, Assessment and Compensation (*Saptama, Degerlendirme ve Tazmin*) commissions were formed in 1982 and then increased to five commissions in 1985. The land allocations would be carried out after applications by those eligible to the 'reserve packages' that were announced. These packages included list of possible allocations with corresponding point values, and then the eligible refugees were to

apply according to the points they had. An eligible person may choose not to apply even if he/she had enough points but did not like the listings. The first package was announced in November 1982.

Movable properties, by contrast to land and building allocations, would be collected at a warehouse in Nicosia, to be allocated to refugees or sold to others under the control of the Finance Ministry. But the allocation of immovable properties (land and housing) was not that straightforward. The head prosecutor at the time, Oktay Feridun, had advised against the giving of title deeds of the immovable properties as it would have been against the international law. He also stated that many of the registries had been changed⁴⁴ so that titles could be given because the banks would not loan any money without collateral.

The issue of land allocation for the refugees and other groups affected by the war was also included in the TRNC Constitution that was accepted in 1985. The 'Temporary Article 1', paragraph 2, states the following:

The TRNC countrymen have the right to demand immovable property from the state in exchange for their properties foregone within Cyprus beyond the borders of TRNC; this right is regulated by relevant laws and these individuals have the priority for the transfer of the titles of the immovable properties covered under Article 159, paragraph (2) of this Constitution.

The third paragraph of the same article in the constitution also requires the state to take any necessary steps to provide social, economic, financial and other assistance to all the 'refugees' in order to make sure they are useful for their families and for the society. This right in the constitution basically also applied to immigrants from Turkey who settled in the north of the island after 1974. The last paragraph then placed a five-year time limit on completion of all the transfer of the 'equivalency titles' making sure the priority in paragraph 2 was enforced. So according to the constitution, the allocation of land and properties (with or without ownership titles) to all the domestic and foreign refugees should have been finalized by 1990. Of course, this was not accomplished, and over the years the relevant legislation was modified to fit the needs of the politicians rather than the refugees.

The original law had three kinds of allocation. One is the 'equivalent property' allocation that was given to those who had left property in the south. Those who left any property in the south were to be given an 'equivalent' property in the north, and in case this was not possible, they should receive compensation (Article 46). The 'equivalent value' of the properties shall be calculated at the market value at the time the law went into effect (Article 47). As already noted, prior to this law coming into effect, the list of properties had been decided by the muhtars and other respected elders of the villages. Now the law required the establishment of a 'commission of determination, evaluation and compensation' and an 'advisory board' that would see through the property allocation. The members of the former commission would be representatives from different ministries, and the members of the advisory board for each village and town would be appointed by the Council of Ministers but two of the members of this board would include members from *Zarar Görmüş Güneyliler Cemiyeti* and Turkish Cypriot Farmers' Association.⁴⁵ The people who left property in the south could fill in the necessary forms and apply to the commission which was now in charge of determining the value of the property left in the south by taking into account multiple factors such as the productivity of a land, location (seaside, inlands) and type (concrete, new/old, adobe brick) of the property. Unless there is any objection by the applicant, the commission assigned a 'Property Valuation Report' that could be used to obtain a property in the north that had the equivalent valuation. The valuations were to be calculated in TL, but in 1982 they changed the unit of measurement to simple 'points'.

There were two further specified allocations: by agricultural land and by housing and small businesses. Agricultural land was given to people (including any Turkish citizen, so also including refugees from Turkey) in the region they lived and should use those for farming purposes. The latter land distribution could also be given to any other low-income (less than 36,000 TL/year) persons. There were also clearly defined tables that show how much agricultural land could be allocated for different types of fruits/plants. The assigned land could not be passed over to anyone else within 20 years (though if the assignee died before this time was up, the next of kin could continue using until the time limit was reached), but the other type of properties that were given to compensate for properties

held in the south (so-called equivalence or *eshdeger* type) were not subject to this restriction. The housing and small business allocations were also made as long-term leases. The people who were eligible for this type of allocation—given here in decreasing order of priority—were veterans and families of martyrs (those killed in the intercommunal conflict), 1974 refugees, 1963 refugees, refugees who came from outside KTFD and those who needed an economic boost (Article 25, paragraph 2). These kinds of allocations were subject to rents and other taxes. Furthermore, these kinds of allocations could be given a certificate of allocation (*tahsis belgesi*), and as long as the applicant could satisfy the legal requirements (pay the rent and taxes), such documents could not be taken away from these individuals unless the Council of Ministers decided that there was a public interest in doing so. In short, the assignees who were not the owners of these allocated places could not sell or rent the property to a third party, but they could use it for 20 years as long as they pay rent and taxes.

The ITEM law was to go through several changes over the years. Originally 'equivalent ownerships' were given to only those who could prove to have left any property in the south where the official proof included the Republic of Cyprus documents, or in case of missing documents, the muhtars or other respected village members would be the designated individuals. The first controversial modification took place in 1982 where *mucabit* points (veteran points) were given to the members of TMT and Turkish military personnel (who were involved in first and/or second intervention in July and August 1974, respectively) regardless of whether or not they had any properties in the south. There were 35,581 people who obtained points under this classification.⁴⁶ The points obtained in this way could be used on an allocated property but not given the ownership rights. This, in effect, was the first step to create unfairness since there were many who were eligible under original regulations who were still waiting to receive properties. There were some other minor changes in the 1982 modifications, but the introduction of *mucabit* points (especially to Turkish army personnel) was the most unreasonable one.⁴⁷

Yet further modifications were made in 1989 (12/1989) which extended the list of people who had the 'right to allocation' by including

‘all the members of Turkish Peace Forces who participated in the first or second Peace Operation in 1974 and have obtained the TRNC citizenship anytime since then and have started living in TRNC before May 3, 1985’. These individuals were now eligible for *Kesin Tasarruf Belgesi*⁴⁸ (absolute possession certificate) only after ‘equivalency property’ allocation was finalized and the value of points to be received by these individuals would be determined by the Council of Ministers. This in essence was a step by the incumbent government to demonstrate their appreciation to some people in the ‘motherland’.

Box 3.1 Discussions on 1989 Amendments to ITEM Law

Parliamentary discussions around the proposed amendments included⁴⁹ incumbent Minister for Settlements, Mustafa Adaoğlu, arguing that the constitution of 1985 basically gave the property rights of all the land within TRNC borders to the state; thus, they could be used in any allocation deemed by the relevant laws. Özker Özgür on the other hand claimed that since this practice was against international law, it would not have any validity (p. 4748) and reminded that the government in 1980 drafted a bill for the transfer of Greek Cypriot properties in the north to the KTFD ownership, but the attorney general said this cannot be done unless compensation is paid to the real owners upon which President Denктаş refused to approve the bill. The Prime Minister Derviş Eroğlu responded to this by saying ‘We can give title deeds without a problem. The problem of compensation is another issue’ (p. 4752). In other words, the incumbent government kept the property allocation and Cyprus negotiations separate from each other, and they never worried about the compensations that would be needed to be paid if the real owners were ever eligible to come back. The entire bill was passed by 27 votes against 5 (p. 4854) which means some of the opposition party members did not vote.

The next set of amendments complicated property allocation enormously. First in 1991, the parliament extended the absolute possession certificate (Article 45A) to those who had ‘deed rights through allocation’ (*tahsisten hak sahibi*) who basically included all those who were given land or property for economic development even though the individuals did not leave any property in the south. But as we discussed above, such certificate does not necessarily indicate ownership which prohibits the individuals from selling the allocated properties. Still, in 1995 the three

political parties in the parliament (CTP, UBP and DP) joined to change this article in a way that furnished ownership titles on these individuals as well.

The modification in 1991 was challenged by *Zarar Görmüş Güneyliler Cemiyeti* and taken to the Constitutional Court. Their claim was simply that when there are still people eligible to obtain property as part of the ‘equivalency rights’, the new modification allowed people with no property left in the south to obtain title deeds of properties in the north. According to the Constitution Temporary Article 1, paragraph 2—that was identified earlier—the priority in land allocation was given to the refugees who left property in the south, and so this new proposal served to undermine the constitutional rights of these Turkish Cypriot refugees. The court found against by four votes against one on the basis that since the property rights of these people were given by law (1982 changes) before the constitution went into effect (1985), the rights could not be challenged.⁵⁰ This law would be challenged again by others in the years that followed.

Box 3.2 Discussions on 1995 Amendments to ITEM Law

There were numerous debates in the parliament before the 1995 changes were accepted. The incumbent government (CTP-DP) blamed their predecessor (UBP) for not solving the land allocation ‘problem’ in the past 21 years (since 1974) whereas UBP representatives have focused on other great achievements they had during this time. But at the end of it, all of them favoured the new changes and believed that it would bring consistency to the TRNC economy. The only party which was opposed to these changes was TKP on the basis that the proposed modifications were against the principles of social justice.⁵¹ Regardless, after ten hours of discussion over two weekend days, the new changes were accepted by the majority vote, and those who were not refugees but were allocated equivalent land would now have the option of securing the title deed. Kalyoncu (CTP) claimed that the deeds would be internationally acceptable only after the solution of the Cyprus problem and nobody could contradict that (p. 8470). But Mehmet Civa from the same party would later say that ‘let’s not bring in the international law, this is our internal matter’ (p. 8474). In other words, he was aware that these deeds will have no acceptability in the international law contrary to what his fellow party man claimed earlier. Upon accusations by UBP members who reminded CTP about their criticism

in the past regarding 'whose property are you giving to whom? [kimin malini kime veriyorsunuz]', Mehmet Civa responded by saying that 'We as CTP might have said something like this in the past, but we are not a dogmatic party and we can support new policies in accordance with changing events, changing needs, and the needs of the country's people and citizens' (p. 8472). Ironically, Özker Özgür was the key criticizer of 1989 modifications of this law as we discussed above, but now (as the deputy prime minister) thought that somehow this could be resolved as part of a solution of the Cyprus problem (p. 8437). The TKP was the only party who opposed to these proposed modifications where Gülsen Bozkurt cited three reasons for her party's objection, namely, that (1) Deed rights through allocation [Tahsisten hak sahibi] definition was unfair; (2) there was already 4.5 billion points unsatisfied so those applicants should have been given a priority; and (3) those who were tenants for some time would be eligible for obtaining deeds (p. 8450).

As we discussed above, the amendments in 1995 gave ownership rights to anybody who was allocated a Greek Cypriot property but also introduced more complications. Article 45A specified the regulations regarding eligibility of ownership. First of all, as before, those individuals who were allotted property should apply to the commission who will decide the point equivalence of the properties. But now, the individuals could use their own points (e.g., *mucabid* points) or pay the state 20 TL per point to gather the necessary points required for the value of the property. This also meant that anybody could sell their points to anybody else (probably higher than 20 TL) if they didn't need any property but instead could use the money. This actually prompted a 'point market' where wealthy individuals bought points from different individuals and used it to obtain high-value lands across the country.

There were also some other important changes in this amendment. Article 93(1) allowed the political parties and trade unions to have ownership of the properties they were allocated. Then, if an allocated property was classified as a first- or second-degree archaeological site, the individuals were compensated by equivalent points or property.⁵² Ertuğrul Hasipoğlu (UBP) insisted that there should be no exceptions for archaeological sites because 'everywhere you dig in Famagusta, you will find a historic grave' (p. 8447). Ahmet Derya and Kenan Akin claimed that

Antiquities Law (*Eski Eserler Yasası*, 60/1994) was passed when UBP was in the government and thus Hasipoğlu should not object to these exceptions upon which he says ‘this is my own personal view, not my party’s’.⁵³ There were 2245 applications within the first year (as of 31 May 1992) that was made possible by these changes. By June 2002, this number increased to 19,104 where 5530 of those were cancelled due to errors in filing and 11,849 title deeds were allocated.⁵⁴ More than 10,000 deeds were given to those who were only allocated property after the division because they were involved in the conflicts or they were refugees from Turkey, or they were simply in need of land and property to maintain living. Also of course in this list are the close friends and supporters of the governments.

Between November 1982 and June 2002, there were total of 40,744 applications filed to the Deed Office and 98,043 title deeds were allocated (2003 Transition Program, p. 408). The reason for higher number of deeds than the applications is that an individual could be given multiple immovable properties (land, housing, business space) in exchange for his/her properties left in the south. But the interesting thing is by June 1993, a total of 91,225 persons (23,164 families) had been reallocated under these regulations. Given that the total number of refugees from the south was around 60,000, this number is suspiciously high which probably indicates that some of the allocations went to people who were not refugees (Table 3.1).

The compensation of property rights to refugees has been on the table of the Cyprus negotiations agenda for many years. The most important turning points in this matter have been the ruling of the European Court of Human Rights (ECHR) in 1996. A Greek Cypriot refugee, Titina Loizidou, applied to the court in 1989 asking for return to her property that was now in northern Cyprus territories and that she should also

Table 3.1 Files processed under ITEM law, 1988–2002 (various years)

Year	1988	1992	1993	1997	2002
Files submitted	37,302	38,937	38,937	40,235	40,744
Property value document given	8629	19,820	21,935	22,681	23,122
Ownership title given	11,573	33,434	48,011	82,983	98,043

Source: SPO 2003 Transition Program

receive compensation for the time since 1974 that she was not allowed to go there. The application coincided with the time when Turkey signed the agreements that they would recognize the rulings of ECHR at the beginning of 1990. The court ruled in favour of Ms. Loizidou and ordered Turkey to pay compensation of damages around \$1 million. This decision set an example for future applications from any individual who had been forced out of their properties and deprived of lawful enjoyment of rights.

The technical details of this decision notwithstanding,⁵⁵ the ruling of the court required changes to both Turkish administration of the north (as effective occupier) and of the local Turkish Cypriot administration towards the resettlement and property issues in the years to come. Turkey did not pay the compensation immediately. In fact Turkey rejected the decision on the basis that it was a ‘political’ decision and the status of Turkey in Cyprus as a guarantor placed the case beyond the court’s jurisdiction. During this time other similar applications were being heard at the court. Finally, in 2003 Turkey agreed to pay for the amount ruled by the court along with interest.

After the ECHR ruling, Turkey responded by having TRNC introduce the Immovable Property Law (67/2005). This law formed the basis for the establishment of the Immovable Property Commission (*Taşınmaz Mal Komisyonu*) whose purpose was to ‘establish an effective domestic remedy for claims relating to abandoned properties in Northern Cyprus’.⁵⁶ This commission was created in an attempt to require the Greek Cypriot claimants to exhaust that mechanism before going to higher court. The ECHR accepted this commission as a ‘domestic remedy’ in another court case against Turkey in 2010. The commission has been operational since 2006, whereby receiving applications, paying compensations or ruling for exchange or restitution of property to Greek Cypriots. As of August 2018, 6456 individual applications have been filed and 922 of them have been concluded in settlement which is equivalent to around 17,150 dönüm of land/property. There is also 345 dönüm of property that was restored to the rightful owners. The total amount of compensated land is only 1.4% of the total land the Greek Cypriots claim they had left in the north. There is still a long way to go.

The compensation paid to this date amounts to a little more than GB£290 million.⁵⁷ This amount is obviously financed by Turkey. Although we don't have detailed information on the specifics of compensations, I know from personal correspondence that the amounts are well below their market value and there are only a handful of very large compensation (more than ten million pounds) among these. In other words, the applications to the commission are mainly by small land owners who just want to receive some compensation before it is too late. In fact, there is talk that Turkey will no longer finance the compensations and could ask the local government to find funding for this purpose. This would mean higher property taxes for the Greek Cypriot land owners in the north. Regardless of the consequences for Turkish Cypriots, Turkey had managed to postpone payment of higher compensation to the Greek Cypriots by establishing this commission but whether it can be classified as 'an effective remedy' is another issue. Considering the current political situation in Turkey, which is further than ever from becoming a member of EU, it is naïve to imagine that Turkey would pay much attention to the court's decision in the future.

The allocation of immovable property in the north unfortunately has been managed very poorly. As with many other aspects of state governance, the policymakers in the north have erred badly. I have discussed above how modifications to the law over the years have complicated the allocation and gave rights to many individuals who were not actually refugees although the constitution clearly stated that these individuals had the priority in land allocation. One can hear lots of stories on how people who owned very little or nothing in the south were given plenty of immovable property because they knew the right people. Again, most of the public did not oppose this either because they or someone they know were beneficiaries, or they were scared of the political repercussions. Now the property issue is probably the single most complicated discussion topic at the Cyprus negotiations. The people who did not deserve the property may have already sold it to someone else who thought he/she was making an investment for the future. If the government now decides to charge extra taxes in order to save for possible future compensation, then who is going to pay such taxes? Probably not the politicians who have started all this but instead the public who believed

in them and did not speak up. The allocation of immovable property began right after 1974 which marks the beginning of rentierism and clientelism. Instead of reversing it, CTP went along with this when they came to power in 1994 and actually helped ‘legalize’ an internationally illegal practice.

Notes

1. The Population Registry Office reports indicate that between September 1974 and December 1979, a total of 119,000 national identity cards have been granted (1979 Activity Report of the Ministry of Interior).
2. US Cable (1975).
3. Oke was the unit of weight measurement used in agriculture where 1 oke = 1.25 kg.
4. US Cable (1975).
5. Dodd (1993), p. 108.
6. Hatay (2005), p. 18.
7. According to the Republic of Cyprus constitution, the president of the Republic would be a Greek Cypriot and the vice-president would be a Turkish Cypriot. Thus, Turkish Cypriots continued to elect a ‘vice-president’ even after they claimed their autonomous state after 1967.
8. According to Mehmet Hasgüler (2017), there are conflicting views about the reasons of why Berberoğlu withdraw from the elections, but he claims that the common ground is that he was ‘forced’ to withdraw. <http://www.kibrisgazetesi.com/yazarlar/prof-dr-mehmet-hasguler/ctpnin-ilk-baskani-ahmet-mithat-berberoğlu/3010>.
9. Thirty years later, a similar case was heard in the Nicosia District Court where Doğuş Derya (an MP from CTP) accused Bertan Zaroğlu with the same reasoning ‘zem ve kadih’ (Fasil 148) as a result of comments made online. The court awarded Derya with 30,000 TL plus 15,000 for the attorney fees. This amount is much less than 200 million awarded in 1987 in the same court (with different judges).
10. Kahveci (2013), pp. 69–70.
11. Dodd (1993), p. 110.
12. Ibid.
13. See Sonan’s (2014) analysis on this.

14. The status of these people was legalized by the law 22/1984. As of January 2018, 12 of these people are still working in the civil services according to Personnel Office data available at <http://www.personel.gov.ct.tr/%C3%9CstMenu/%C4%B0statistik.aspx>.
15. Dodd (1993), p. 109.
16. Ibid., p. 143.
17. Ibid., p. 150.
18. TRNC Official Gazette #74, 30.6.1990.
19. Semsi Kazim, Cagatay Ali, Mustafa Guryel, Nejat Konuk, Umit S. Onan, Ozel Tahsin, Naci Talat, Ekrem Vural, Fuat Veziroğlu.
20. Bozkurt Newspaper, 3 May 1985.
21. Dodd (1993).
22. Bozkurt Newspaper, 7 May 1985.
23. I calculated the number of days each government has served and added the total number of days served by these three parties. If there was a coalition government, then I divided the total days by two to find each individual party's days served. The total number of days for each government is available at Diler (2015).
24. The top two contestants go to the second round unless majority vote is achieved in the first round.
25. For example, on 19 January 2000, the council approved the purchase of eight different books in the amounts ranging from 1000 to 2000 copies (Decision Nos: E-61-2000–E-67-2000). I would be very glad if the Council grants the same courtesy for my book.
26. TRNC Parliament Proceedings, 21 May 1993, pp. 7319–7359.
27. Two of the earliest citizenships granted by the Council of Ministers were for the prime minister of Turkey in 1975 Bulent Ecevit and his wife Raşan Ecevit.
28. <https://www.havadiskibris.com/evren-toplam-9295-vatandaslik-verildi/>.
29. Sonan (2014), p. 182.
30. TRNC Council of Minister Decisions, #97/4/1997.
31. Ekici (2016).
32. Although Court of Accounts prepared a report on this issue, the police and attorney general as well as the parliament never acted on this despite many public criticisms.
33. TR Economic Reports (2015), Table 19, p. 73. The numbers for Girne (Kyrenia) are not available in this report.
34. Morvaridi (1993), p. 219.

35. In 1978 and 1979, respectively, 4465 and 4724 TR citizens were granted KTFD citizenship (source: 1978 and 1979 TFSC Activities Report of Ministry of Interior).
36. Greek Cypriots claim they had more land in the north, but for the discussion here, we use TCs' own figures which still indicate that the amount of TC land in the south is a lot less than the GC land in the north.
37. TFSC, General Secretariat of Ministry of Interior and Settlement, 1978 Activities Report, p. 25.
38. KTFD'ne Bakis [A look at TFSC], May 1981.
39. Another source puts the numbers between August 1974 and June 1983 at 23,164 families (91,225 people). Obviously, these numbers are not consistent with each other.
40. TRNC Ministry of Labor, Activities Report 2000, p. 46.
41. The report prepared at the eighth meeting of Social and Economic Council Meeting, p. 21.
42. Atun (2016).
43. There were also some other laws regarding property allocation but ITEM was the most important one. The readers can refer to Gurel (2012), pp. 16–30, for the details of other laws.
44. Feridun (2015), pp. 59–61. He also added that the Turkish bureaucrats in charge of Cyprus-Turkey relations (Alper Orhon and Ziya Muezzinoglu) would express their dislike with this opinion.
45. The head of this commission would be a lawyer with at least five years of experience, but the law does not specify how this person should be elected. In 1981, they changed this requirement to 'a lawyer with at least five years of experience or anyone who has worked for at least ten years as civil servant and have worked at upper-level management'. And then in 1991, they also added 'civil servant retirees who served as director or chief at the related ministry' or 'retired mayor or political civil servants (*siyasal kamu görevlisi*)' to the list.
46. SPO (2005), p. 289. Mucahids include 'Mucahids, Fighters (mukavemetci), and Turkish Peace Forces (Türk Barış Kuvvetleri, TBK) members'.
47. Also change in item 4, instead of 'large businesses', 'similar businesses' were also included under equivalency law. Item 18 now allows the allocated properties to be used for loan applications at banks, state or coops

- (before banks were not in this list). But the equivalent properties are exempt from these rules (the allocated ones cannot be sold for 20 years).
48. Kesin Tasarruf Belgesi (absolute ownership certificate) is not the same as title deed (Durduran claims that Denктаş gave this assurance to the USA, UK and West Germany representatives and informed the parliament, p. 4763).
 49. TRNC Parliament Proceedings (17 February 1989).
 50. Dossier number D.1/93, 12/91, p. 8. The court also states that according to the affidavit of ministry's undersecretary, about 90% of all the allocations for the refugees from the south are completed by this time.
 51. In particular, Gülsen Bozkurt (TKP) claimed that there are some people under 'allocated' categories who are going to be given titles which is simply not fair because there are still people under 'equivalent property' group waiting for a property in exchange for their points. Also the people who were 'rented' the properties without any written directives (instead by nepotism) will now be eligible to obtain titles under the new regulations, whereas the actual refugees who left property in the south and have points will have to wait for announcement of government packages.
 52. The archaeological sites' rating is done under Antiquities Law.
 53. UBP and DP coalition government will sign a Council of Ministers decision in 2016 that changes some of the ratings of archaeological sites in Tuzla, Famagusta, whereby changing the ratings from second degree to first degree (more serious) and second degree to third degree. According to ITEM law, those who would be affected by this change could apply to the commission and obtain an 'equivalent' property elsewhere since their land now is rated first degree and they cannot use it for agriculture. *Toparlanıyoruz* Movement complained about this to High Court of Antiquities (*Anıtlar Yüksek Kurulu*) and they overturn this decision.
 54. SPO 2003 Annual Transitory Program, p. 409.
 55. The complete court decision can be found at hudoc.echr.coe.int/eng?i=001-45610.
 56. <http://www.tamk.gov.ct.tr/english/index.html>.
 57. Details on annual compensation amounts and different types of compensation since the beginning can be found at <http://www.tamk.gov.ct.tr/istatistik.html>.

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4

From Separation to Convergence: The Economic Development of the Republic of Cyprus and the Turkification of Northern Cyprus

In this chapter the history of the political-economic process of the initial separation and drift away from the rump Republic of Cyprus and the simultaneous drift towards and ultimate convergence with, even dependency upon, the Republic of Turkey is traced. This enduring tension has given an abiding discordant character to the history of the Turkish Cypriot polity. Thus, Turkish Cypriot governance has been oriented by two lodestars since the 1974 division. On the one hand, there were erstwhile neighbours now concentrated in the south who were very close geographically but ever more distant socially and politically. On the other hand, newly transforming relations with the 'motherland' became steadily stronger. When Turkish Cypriots were busy setting up their institutions and establishing the clientelistic traditions in domestic politics, the Greek Cypriots were on a path to a planned economic development. Denktaş and his supporters found the newly formed state's salvation in Turkey, albeit with objections from opposition parties. Before we discuss the specific economic developments under Turkish Cypriot governance in this chapter, a brief summary of the economic history of the Republic of Cyprus is worthwhile in order to be able to compare the direction, degree and nature of the divergent path taken in northern Cyprus.

An Overview of Developments in the South

Greek Cypriots had both advantages and disadvantages immediately after 1974. On the positive side, Greek Cypriots did no longer need to deal under their controlled territories with the minority Turkish Cypriots and had the full backing of international community. However, most of the physical capital in industrial, agricultural and tourism sectors were either destroyed or after 1974 under the control of Turkish Cypriots in the north. The Republic of Cyprus (RoC) had a balanced budget and trade, and there was minimal foreign borrowing before the de facto separation where both of these indicators were reversed afterwards.¹ Despite the loss of the majority of physical capital and land resources in important economic sectors, the south was able to turn things around and create a very strong economy and manage to become part of the European Union in the years to come, whilst the north faltered and stumbled as will be described throughout.

The following quotation from a US Cable describes the Republic of Cyprus economy in December 1974:

Although 1974 physical war damage minimal, sectoral review of post-war greek cypriot economy reveals some severe losses. Key sectors of agriculture and tourism, both major foreign exchange earners, employers and creators of demand, were hardest hit, with other important sectors sharply curtailed. Inflation, unemployment and large budgetary deficit have become major problems. Fx [foreign] reserves remain high but could be halved by end 1975. (US Cable 1974)

The same source also reveals that Greek Cypriot administrators were taking steps to ‘revitalize economy’ and concludes that the ‘greek cypriot economic future depends on greek Cypriots’ acceptance of reality, social psychology, will, and interpretation of their national future’. Under the Emergency Action Plan of 1975–1976, the government invested about 34 million CYP in revitalizing the economy (restoring and building up manufacturing, agriculture, housing, transport, communications). Private sector investment at 68 million CYP met 90% of its required target).²

Tourism and agriculture had been major sources of income (and foreign reserves) for Cyprus before 1974. It was claimed that agriculture had accounted for more than 20% of overall GDP and employed 34% of the economically active population (US Cable 1974). However, we don't know if these numbers also included Turkish Cypriots who were also concentrated in the agricultural sectors. Nevertheless, the same source indicates that post-war citrus fruit lands retained in the south were 20% of the overall land supply, and tobacco lands were all under Turkish control. Regarding the tourism industry, a significant portion of the total bed capacity of the industry was to remain in northern territories.³

The most urgent problem in the immediate post-1974 period in the south was the relocation and readjustment of some 200,000 internally displaced Greek Cypriots. Not only had these people been evicted from their homes and lost their personal belongings, but their very livelihoods. The unemployment rate had reached as high as 16% by 1975.⁴ The government addressed the high unemployment rate initially by encouraging people to seek temporary employment abroad, and in the longer term focused on investing in labour-intensive industries such as construction.⁵ One of the outcomes of the post-1974 period was that plenty of jobs previously occupied by Turkish Cypriots in the construction sector were now available to be filled by the unemployed Greek Cypriot refugees. Some of these refugees were also placed in temporary housing that was abandoned by the Turkish Cypriot refugees, but other social housing projects also had to be initiated. Furthermore, other construction projects (a new airport, upgrading of sea ports, new hospitals/roads/schools) were also underway which increased the demand in this sector. Although this sector started to boom, its impact on economic recovery was limited compared to the manufacturing, trade, hotel and restaurant sectors. In any case, the initiatives of the government with regard to this sector 'helped to alleviate human suffering and societal breakdown' at the very least.⁶ The counterpart government in the north sought to achieve the same objective by distributing in a clientelistic manner the land and housing evacuated by the Greek Cypriot refugees as we discussed in the previous section.

Contrary to the practice of governments in the north of boosting the public sector, the southern counterparts realized the importance of private

sector for quicker economic recovery of the state. One of the key private investors at the time was the Orthodox church. Immediately after 1975, the church made significant investments in manufacturing sector and financial businesses with high value added components and a financial institution.⁷ Cooperative Credit Societies also had an impact on the economic recovery by providing loans to small family-oriented firms. But such extension of credits was also available before the separation, so their additional impact cannot be assessed at this stage. Nevertheless, private investments of the church and easy access to credit by small business owners, coupled with government initiatives of providing tax incentives for international businesses, marked the key features of post-1974 Republic of Cyprus economy.

The two significant elements described in the previous paragraph had different outcomes for the northern economy. The Muslim Evkaf (Pious Foundation) was the church equivalent in the north and controlled significant amounts of land and real estate. The roots of Evkaf go back to the Ottoman period in Cyprus and continued to operate throughout the colonial period, independence in 1960 and beyond 1963. The history of Evkaf in northern Cyprus deserves a separate manuscript, but I would offer one crucial piece of important information here⁸: The head of the executive board of this office (Evkaf used to operate independently from the government, but in 1991, a law was passed to integrate the Office of Religious Affairs with this institution) was appointed by the prime minister of TRNC, and there are no explicit clauses on the procedures for appointment of the other six members of the board in the relevant clauses. Thus, the management of a very wealthy historically independent organization was basically also placed under the authority of the incumbent governments. Although this organization had plenty of land and wealth after 1974 (the land they owned in the south was compensated), they did not contribute to the economic development of the north unlike the church's role in the south. In contrast, the real estate of Evkaf was either rented at very low prices (and long term) to selected individuals or was never utilized.

Another important economic institution that had been providing loans for Turkish Cypriots since 1959 was the Cyprus Turkish Cooperative Central Bank (*Kıbrıs Türk Kooperatif Merkez, KOOPBANK*). The Bank

has been mainly providing loans to the agricultural sector but then emerged to become a major financial institution in northern Cyprus holding around 25% of demand deposits in the north's banking sector.⁹ However, they also provided loans to other entities under 'government guarantee' to pay for fuel to be used in electricity plants or to pay for debts of SEEs to keep them afloat. But those loans were rarely paid back, and the bank is now in serious financial trouble, a condition that is constantly denied by government. The employees of this institution also have very generous benefits and retirement benefits. The main problem here is once again the connection of politicians where the Council of Ministers appointed the executive board of the bank. Thus, two key potential 'private' investors (Evkaf and KOOPBANK) that could have played an important role in the recovery of north Cyprus economy, as had their counterparts in the south, had instead been managed by government appointees.

Despite high inflation immediately following 1974, real per capita income in the south had increased 41% between 1970 and 1980 which was about half of the increase in the previous decade.¹⁰ The distributions of labour in economic sectors in 1970 were mainly agriculture (39.8%), public services (14.3%) and manufacturing (13.7%) followed by construction and trade. Given that many Turkish Cypriots were already living outside the control of the Republic of Cyprus in 1970, it is highly likely that these numbers do not include Turkish Cypriot workers, which makes it easier to compare the Republic of Cyprus numbers after 1974. The top three sectors in terms of employment opportunities in 1980 were the same but with different ordering with manufacturing (21%), agriculture (19.6%) and public services (19.2%).¹¹ The representation in the same year in the north was, respectively, 10.4%, 38.1% and 30.1%. In terms of employment opportunities, it can be seen that the south had begun to switch more towards manufacturing sector which was more likely to contribute to the growth of real economy compared to the north where the state had become the number one demander of labour. The contribution of manufacturing sector to GDP in 1980 was 17% in the Republic of Cyprus and 13.9% in the TFSC, whereas in 1970 it had been 12% in RoC. Despite the fact that significant resources in manufacturing sector were inherited by the north (mostly under the control of Sanayi

Holding, see Chap. 6), their potential impact on GDP were not fully realized in the north.

Another success of the south had been in foreign trade. Before 1974, majority of exports from Cyprus were food and minerals which were replaced by manufactured products after the division. As of 1980, 50% of the exports were manufactured goods.¹² They also succeeded in selling their products to rich oil nations of the Middle East. In 1977, the ratio of exports to the Middle East as a ratio of imports from the region was around 1.8¹³ where in the north the ratio was 0.35 which indicates that the south was able to extract more foreign revenues from trading with rich countries compared to its northern counterpart. Let's keep in mind that there was no embargo on the exports of the north at the time, and Middle Eastern countries were more sympathetic towards Turkish Cypriots as they shared the same religion. Regardless, the Republic of Cyprus was more successful in foreign trade.

Another major success of the south compared to north has been the development of the tourism sector. Although most of the bed capacity was lost in 1974 and the island's only airport was now inaccessible, the tourism industry in the south recovered quickly. Receipts from the tourism sector constituted around 20% of total export earnings around 1976–1977 that increased to 30% in 1980, and around 60% in 1986.¹⁴ By 1990, revenues from tourism represented 22.6% of GNP.¹⁵ Not only did these revenues represent significant earnings for the economy, but they also provided a good source of foreign currency needed for the recovery of the economy. By comparison, tourism revenues were only 5.1% of GNP in the north in 1990 (and only averaged 4.4% between 1980 and 1990 period).

While the policymakers in the north were busy with the distributive rentier politics of clientelism, and Turkey was busy in the early 1980s with the impact of the military coup, their counterparts in the south of Cyprus, with some financial help from international circles, were already on their way to not only put the economy back on track but also to bring it forward. Instead of division between different views, the political parties, trade unions, cooperatives and the church 'focused the collective psyche on material advancement through the reconstruction and maintenance of a successful mixed economy'.¹⁶ On the other side of the island

though, the 'right' and 'left' parties were constantly arguing without any action, the bosses of trade unions choosing sides with the political parties and not working towards the good of the country and the people trying to strip the benefits of the newly established state without thinking much of the future sustainability of the economy.

By the end of the 1970s, south Cyprus had already recovered from war economics and started to focus on the road to become a developed economy rather than a developing one. Although the economy experienced high inflation (mainly caused by the oil crisis), reduced competitiveness of the manufacturing sector and change of focus towards tourism industry in the middle of the 1980s, there were other positive indicators. The first catalyst in this respect was the customs union agreement with the European Economic Community (EEC) in 1987 which reduced the customs tariffs to Cyprus exports to EEC area countries. Although some claim that Cyprus exports were not very successful competing with the cheaper Eastern European products at the time,¹⁷ these kinds of ties with European countries, especially after the establishment of TRNC in 1983, were a huge political and moral success for the Republic of Cyprus. The next phase in the economic and political development of RoC was the EU membership.

The Republic of Cyprus submitted an application to become a member of the EEC in July 1990. The application was accepted in 1993 and the negotiations began. The Republic of Cyprus became a full member of the European Union in 2004. Obviously, the negotiations for accession did not include any Turkish Cypriot representatives and did not require solution of the 'Cyprus problem' as a prerequisite for accession. Thus, the Republic of Cyprus revised their policies accordingly and focused on becoming part of the EU which was anticipated to bring further economic as well as political security to the Republic. The economy began to invest more in long-term goals and benefit from mutual interaction with the EU in the areas of technology, research and funding.¹⁸ The economy experienced increasing growth rates (at constant prices) between 1995 and 2000, ranging between 1.8% and 5%. The average growth rate between 1995 and 2004 was 3.7%, albeit the average for the decade after accession to the EU (2005–2015) has been only 0.8%.¹⁹ After Rauf Denktaş 'opened' the borders in the north on 23 April 2003 unilaterally,

which led to the free movement of individuals between the two sides of Cyprus, there was a lot of hype that the whole of Cyprus (north and south) would accede to the EU in 2004, but unfortunately for both sides that did not materialize.

We have introduced some indicators for north Cyprus' economic and social well-being in the introductory chapter. Let's compare some of those to the Republic of Cyprus numbers. In 1976, the Republic of Cyprus had 1042 persons per doctor and 3093 per dentist (as opposed to 1250 and 4028 for north²⁰) though their numbers decreased to 264 and 966 in 2016 (552 and 2164 in the north). Health expenditure in the north had only increased from 6.1% to 7.7% of government's budget during the same period, whilst the south spent 6.5% of GDP on public health in 2015 and north spent 2.5% of their GDP. In terms of education, the student/teacher ratios in 2015 were more favourable in the north with 10.9 against 12.8 in primary schools and 9 against 9.3 in secondary schools. However, per capita income in the north in 2016 was around \$13,900 against \$23,186 (20,947 euros) in the south. Inflation and unemployment rates are less stable in the north. Government debt in the south in 2015 was 107.5% of its GDP, whereas in the north it was 173.1% which was an alarming ratio (when at the same time, Greece was on the brink of bankruptcy with a debt-GDP ratio of 171%). What was more troubling for the north was that more than 65% of its public debt was held in foreign currency; thus with TL depreciating constantly against foreign currencies, this debt continued to increase rapidly. Overall it is safe to say that the north still has a lot to cover to catch up with their now distant neighbours.

These are only some general statistics on overall well-being of a nation's economy and some of its important sectors such as health and education. Of course, these comparisons are not comprehensive or conclusive, but it is fair to say that south has achieved a better economic and social development compared to the north after 1974. Furthermore, the gap is probably even wider if we compare environmental and human rights indicators which are unfortunately not readily available for the north. An influential businessman in the north speaking at a local conference pointed to the 'larger houses' and 'more luxurious cars' as signs of better economy in the north. What good is a larger house if there is no drinkable water or

reliable infrastructure, and what good is a luxury car if there is no road safety? Recently some local newspapers close to the incumbent government have released the electricity prices in different countries (including the UK) in comparison to north to show that we are actually not paying high prices (this was done in response to public criticism on the increase in electricity prices). What they have forgotten is to also release the earnings of people in the north and in those countries (thereby revealing the purchasing power parity). Such manipulative arguments by the governments and business sectors do not change the fact that the economic development of the south has been superior to the north. But this has not been a 'problem' for the policymakers since their benchmark model has never been the south. Instead, the leadership under Denktaş and UBP (and later DP) made it their priority to obtain financial aid and economic advice from the Republic of Turkey.

Drawing Closer to Turkey

The Turkish government had continuously sent financial aid to northern Cyprus since 1974 and to the Turkish Cypriot community before the division. Although in the early years, there was aid from different countries, most of the aid since 1975 had come from Turkey in two forms.²¹ The first type of aid was in the form of grants which are given without any interest. The second type of aid was that in the form of loans. In more recent years, aid provided directly to the private sector in the form of low-interest loans has also been used. All such aid has been managed by the office established in Nicosia under the name of TR Coordination and Development Office (which used to be called TR Aid Group). The complete list of aid provided by this office according to different types is provided in Table 4.

After 1993, the Office started extending loans to the private sector and then in 1998 to the state. The former loans were intended to jump start the private sector and provide alternative employment opportunities for individuals, thereby reducing the burden on public sector. By the mid-1990s the government budget was in a critical condition, and there was already a pool of young retirees who were anxious to take part in the

private sector. But the loans to the state were directly being used towards recurrent public sector spending, mainly as wages and salaries of civil servants. Again, the aid was channelled into the budget, and its usage was left to the decision of the policymakers. After 2004, the Turkish government provided some loans to the state on the condition that they make some reforms in the public sector regulations, that is, loan conditionality was introduced. Should the government not be able to fulfil the conditions, it was not allocated the entire aid budget.

There were also other kinds of agreements and protocols between Turkey and the northern Cyprus governments that included technical, social and cultural collaboration between the two states. There were a total of 134 protocols during 1976–2001.²² The agreements (some of which are just addendums) were distributed as 5 in the 1970s, 24 in the 1980s, 97 in the 1990s and 8 in the 2000s which makes the average of 5.4 per year in 25 years. Fourteen of the agreements were signed only in 1990. The first agreement between the two states was signed on 28 April 1976 regarding ‘technical assistance and cooperation’ between KTFD Energy Ministry and Turkish Electricity Board (TEK) regarding restoration of the existing electricity infrastructure and construction of two new 30 MV gas turbine electricity plant.

One of the early agreements was to have regularly held joint meetings to discuss possible economic collaborations between the two countries. There were a total of 13 such Joint Economic Commission Meetings (*Karma Ekonomik Komisyon Toplantisi*). The first one took place on 9 March 1978. These meetings were held between high-rank officials from the respective governments. The first protocol was signed by Nejat Konuk (president) on behalf of KTFD and Teoman Kopruculer (Minister of Commerce) on behalf of Turkey. The protocol included several mechanisms that would be ‘considered’ between the first and the second meetings of the commission. These mechanisms were intended to improve Cyprus Turkish Airlines, sea transport system, Free Port Region (*Serbest Liman Bölgesi*), foreign currency and excise duty tax. In other meetings, the progress on these ‘considerations’ would be updated and new requests from each side would be shared.

There was an item that allowed individuals to bring merchandise from Turkey to northern Cyprus without paying any taxes if the merchandise

was for personal use. In other words, the person didn't have to obtain an exporter/importer certificate. The original limit for this was 50,000 TL in the first meeting, but then it was gradually increased to 500,000 TL by 1982. However, there were not to be any substantial, concisely written, measurable steps that could improve the economic condition of KTFD. For example, there was an 'agreement' on both sides to have the necessary Money and Exchange Control Law (*Para, Kambiyo Denetim Yasası*) to be passed by KTFD parliament in the third meeting of the commission, but as of the fifth meeting, the commission report says 'the progress of the parliament regarding the passing of this law is satisfactory' although the law was not passed till later. And then there was no mention of this in the other meetings, and the mentioned law was finally passed in 1997 (38/1997). The last of these economic meetings was held in September 1994. It is fair to say that these meetings were nothing more than an excuse for a social gathering with no intention of actual policymaking.

Some of the earlier agreements included investment in the infrastructure of the newly founded breakaway state. The first one we mentioned above was about the restoration and improvement of electricity infrastructure. Then there was the preservation of water project in Güzelyurt. In December 1986 after the prime minister of Turkey, Turgut Özal, visited the island, the two sides signed an Economic Cooperation Protocol, and in 1987 another protocol on improvement of the workforce. The labour agreement would enable the workers from Turkey to come and work in northern Cyprus. During those times, the working conditions in Turkey were not very attractive so plenty of workers came to northern Cyprus to find jobs. Finally, there was a Guarantee of Investments agreement signed in 1988 which increased incentives for Turkish businessmen and investors to come to northern Cyprus in order to contribute to the economic development of TRNC.

Several key agreements were not concluded until the 1990s including the energy cooperation agreement of 31 May 1990 when the electricity boards of both countries signed an agreement for two fuel oil generating plants (each with a capacity of 60 MW) to be built in TRNC by Turkish Electricity Board. KIBTEK (Cyprus Turkish Electricity Board) was to be responsible for providing support to the TEK personnel who would be

working on this project. The cost of this project was to be financed by TEK through loans from foreign creditors and using money from the Turkish state budget. However, KIBTEK is responsible for paying all of the cost (including the interest payments) back to TEK, and until that time, TEK will be the sole owner of the newly built plant. The protocol estimated the total cost to be around the sum of \$125 million and 223.5 billion TL. This amount was 40% more than the total local revenues of TRNC in 1990.

Another key agreement that had unexpected consequences was the June 1991 visa agreement that allowed citizens of Turkey and TRNC to visit the other country by using their national identity cards instead of passports. This not only increased the number of 'visitors' from Turkey, since the TRNC lacked control mechanisms, 'visiting' arrivals soon came to stay on the island and work and live illegally. This has made it very difficult for the local administrators to monitor the population growth which affected the demographic and social structure of northern Cyprus in the years to come. Whether or not the administrators 'wanted' to monitor this change or even whether bothered by it is of course another question.

Turkey has also had an impact on domestic politics of north Cyprus over the years. 'Their [some bureaucrats and administrators] experience of the real limits on the autonomy of the TRNC's administration created awareness of an increasingly obvious discrepancy between reality and the rhetoric of "sovereignty". This related not only to policy, but also to the administration's top positions, some of which were reserved for citizens of Turkey; the TRNC's police remains [still today] under the control of the Turkish army.'²³ We will discuss in Chap. 7 that some retired military members from Turkey were appointed as the general managers of the SEEs. Later, the Turkish embassy initiated the establishment of a political party (*Yeniden Doğu Partisi*) in the mid-1980s.²⁴ And we have seen in this chapter that after Turgut Özal visited the island, there were significant changes in the economic policies of the TRNC government. In 1998 parliamentary elections, Eroğlu (leader of UBP) tried to sway votes in his party's favour by focusing on how good the relations were between the UBP and Turkey, and thus, if elected, they would have been able to

secure more aid than the rest of the political parties.²⁵ Although favoured by Turkey at the time, Eroğlu lost his privileges when Turkey decided to side with Rauf Denктаş who blamed the banking crisis of 1999 and 2001 on the government (UBP).²⁶ Turkey asked Eroğlu to step down from presidential elections of 2000, to no avail at first, but on the eve of the second round, he was to withdraw and Denктаş's win was thereby guaranteed. Later during the same period, the commander of the Turkish Cypriot Security Forces (GKK) who was appointed by members of Turkish army argued with Akıncı (whose party was in the government at the time) and later demanded from Eroğlu to sack the directors of two government-controlled media outlets (BRTK and TAK) on the basis that they were censoring his statements.²⁷ Turkey continued its meddling in domestic matters in the new millennium. In the aftermath of the Annan Plan, a new political party, the Freedom and Reform Party (*Özgürlük ve Reform Partisi*, ORP), was formed once again with the backing of Turkish embassy, and the members from the party were elected to the parliament and served on the government.

One of the major criticisms by the local opposition has been of the Turkish military personnel on the island. The criticism is not about the presence of the military forces but rather the wayward behaviour of high-level officials. We have discussed before that the civil police is under military management and how many governments promised to change this in their programmes but had been unsuccessful. On the contrary, some of the most economically profitable locations and estates had been allocated to the control of the Turkish military over the years, although some locals think that this is better than letting the domestic politicians to dispose them for their clientelistic politics. In any case, Turkish military personnel in Cyprus have never been under obligation to report to any civilian authority within the Turkish Cypriot system. A commonly cited event among the locals has been the 'St Barnabas Burglary' which involved certain military personnel, but the perpetrators have never been identified (see the box below for further information). The actions of military personnel in north Cyprus have extended into civil life without any accountability.

Box 4.1 Details on Burglary at St Barnabas Monastery²⁸

On 14 March 1996, a group of ten soldiers led by a colonel and in a vehicle that belonged to Civil Defence Organization went to St Barnabas Monastery between 19:00 and 20:00 hours. They told the caretakers that it was a routine military exercise and asked them to wait inside. After they left, the caretakers looked around but saw nothing suspicious until the next morning when they realized some of the old graves under the monastery had been excavated. It was at this point that they informed their directors. The details after this are more interesting.

The director of Antiquities and Museums Office (Eski Eserler ve Muzeler Dairesi) called next morning the commander of the area where the monastery was located and asked about the military exercise. At first the commander said he would have been aware of any such exercise but that he wasn't in this instance so he would further ask his superiors. Later the regional commander called the director back and said 'there is nothing to make a big deal about it'. The same director also called the head of the police force and asked the same question, but they gave the same response. As per civil service regulations, the director then informed the related minister who then asked the prosecutor's office for advice who in turn informed them that the necessary documents to begin an investigation had already been forwarded to the police department. Prime Minister Hakkı Atun issued a press release on 19 March in which he told the public that the events happened as a response to a 'significant' notice the military had received, and since no harm came to the museum, no further investigation was needed. After this, the head prosecutor sent another letter to the Ministry of Education and Culture explaining why they stopped the investigation.

The Parliament Research Committee completed its report in about seven months (31 January 1997). When a representative from Security Forces Command (Güvenlik Kuvvetleri Komutanlığı, GKK) was invited to a meeting, he declined and instead submitted a written response through the office of the Ministry of Foreign Affairs and Defence that stated that the military operation (not an exercise) had been carried out in response to a significant notice they have received, but the nature of the notice was not mentioned. Similarly, the head prosecutor Akin Sait said the same thing, and he added that both the prime minister and he knew what the notice was about, but he declined to mention it to the committee members. The committee was unsuccessful in reaching a conclusion based on lack of transparent statements, and concluded the report as follows:

The committee finds the fact that Head of Council of Ministers [Prime Minister] and the Head Prosecutor did not try to reveal the truth behind the events at odds with the principles of democratic and modern state of law, and we don't approve of this situation. (p. 2424)

After this, MPs took turns to 'discuss' the report. Of course, soon enough it turned into a blaming game. CTP members attacked the lack of professionalism of the prime minister and head prosecutor and criticized the GKK for not attending the committee meeting. UBP/DP members defended GKK's explanation of 'confidential' notice and talked about how GKK is important for national safety. Other opposition party (TKP) members criticized the lack of professionalism in state matters and claimed that CTP was not very interested in this event from the beginning (it was TKP who asked the parliament to start an investigation). Yet another session ended with no accomplishment. But this event indicates how the governments in north Cyprus are weak against Turkish military, and that military personnel could not be penalized even in case of declining the invitation of Parliament Research Committee (which is legally binding). The Turkish military in Cyprus was untouchable and uncriticizable.

The literature on foreign aid and its impact on the recipient country is a long-debated issue among political economists. One side of the argument is that the donor countries extend aid in order to protect or promote their own strategic interests (military, political, economic) by using the aid dependency as a tool to influence the recipient country policymakers.²⁹ On the other hand, there is the view that the aid is simply extended for humanitarian purposes that are intended to assist the economic and social development of the recipient country and are thus 'altruistic' in nature.³⁰ Regardless of the motivations of the donor country, the effectiveness of the aid also depends on the administration of the aid in the recipient country. If the aid is used 'properly', the country can benefit substantially by investing in economic and social indicators (such as health, education, infrastructure). But the downside is that aid can be used by the administrators in order to strengthen their power which would foster corruption, rent-seeking and even more aid dependency. Obviously, the final outcome of the aid depends on many factors and would be different among various donor and recipient country combinations.

Turkish Aid to Northern Cyprus

Turkish aid to northern Cyprus presents a rather interesting case study on this literature. Turkey always claimed that the aid was given for altruistic

reasons in order to help Turkish Cypriots to overcome the difficulties and struggles experienced during the 1963–1974 events. The official position has always been that they are helping TRNC to be fully developed and self-dependent so that they can compete in the world. However, several MPs in the Republic of Turkey's parliament also emphasized the importance of the island for 'Turkey's security' along with the importance of well-being of Turks on the island (Republic of Turkey, Parliament Proceedings, 23 July 1974, pp. 66–67 & p. 73; 19 August 1974, p. 32 & p. 29). I also remember when I was in high school, we were always reminded that Cyprus has a very 'geo-strategic' position in the Mediterranean and could be militarily dangerous for Turkey if this island was to be lost to 'the enemy'. Thus, it sounds like both humanitarian and strategic reasons were behind the extension of aid to northern Cyprus governments over the years. Despite the economic burden of the north and the complaints of highest level officials in Turkey on the misuse of aid by Turkish Cypriots,³¹ the aid kept on coming with few checks and balances.

What about the administration of this aid by the local actors? Turkish aid has been welcomed by all the political parties in northern Cyprus. The difference in principle arose when CTP complained that the Turkish officials were directly meddling with the TRNC policies and they were using aid as an instrument was denied when, in government office, they would also give in to the demands of Turkey (e.g., in signing the AKSA agreement, change of legislation regarding the entry salaries of civil servants or the centralization of funds) in later years. Denktaş and UBP on the other hand would constantly praise all sorts of aid from the 'motherland' and dismiss any claims regarding political interference. However, we have seen in the previous chapter that in the presidential elections of 1973, the candidate of CTP withdrew one day before the elections as well as in 2000 elections Eroğlu withdrew in the second round. There were also allegations that Turkey had interfered at the highest level in 1990 presidential elections.³² We will also see later how the Turkish officials would be appointed as the managers of SEEs and how the protocols/agreements between the two countries would dictate the economic development of TRNC. What is interesting is that the policymakers in the north would hardly undertake the changes required by the agreements

between the two nations and yet financial aid would continue to flow without any penalty especially during 1983–2000.

Although there was almost no checks and balances on the aid extended by Turkish governments, there was some interference in domestic matters after the establishment of TRNC. A significant development between the two countries took place in 1986 when Turkish Prime Minister Turgut Özal visited TRNC. This was the first visit by a prime minister of Turkey since the establishment of TRNC. The visit was mainly about the economic development. Özal came to the island with several businessmen and gave a speech at the TRNC Parliament proposing immediate measures that if the TRNC was to follow the liberal economic direction that Turkey has recently adopted, a strong economic development would be forthcoming. To this effect the two countries signed an economic protocol that was to dictate the evolution of the northern Cyprus economy, heavily opposed by the parliamentary CTP. A press conference held during Özal's visit was only opened to select newspapers, and Naci Talat Usar (CTP) claimed that this was done intentionally to promote the visit and the economic protocol by using the state resources. Erdal Onurhan (the Minister of Economics, Commerce and Industry) claimed that this dinner was not paid through state resources; thus they could invite whomever they want (TRNC Parliament Proceedings, 22 December 1986, p. 2470).

The above-mentioned protocol in 1986 did require some serious changes.³³ TRNC products could be exported to Turkey with zero customs duty as long as the product included at least 30% value added and at least 40% domestic input. The interest rates charged by banks would be equalized between Turkey and TRNC, and there would be a free flow of Turkish lira and other foreign currency between the two countries. Corporation tax would be reduced to 25% so as to give incentives to the foreign investors, and capital gains tax would be decided according to real increase. There was to be a hiring freeze of the contractual and permanent civil servants, and if anyone retired (or died in office), then there would be a reshuffle between existing workers instead of hiring anew. Total employment in civil services would be reduced by 15% by the end of 1988. Eligible years of service for retirement would be increased to 25 years, and retirees could only receive benefits after the age of 55. The

price of water and electricity services should be increased to 'reasonable' levels. Those who were reallocated according to ITEM law were to be charged tax or rent. The aid promised by Turkish government for the years of 1985 and 1986 would be paid by the end of 1986. The technical assistance to solve the problem of electricity supply was to be provided by Turkey, but the costs of investments were to be paid by the TRNC with the money collected under 'electricity tariffs fund'. Finally, the 'labour laws' and collective bargaining and right to strike laws were to be reconsidered, and strikes and lock-out practices at the 'Free Port Region' were forbidden.

The main criticisms by CTP militants were the lack of a mention of the industrial sector in this protocol and the prohibition of the right to strike by those working in the Port Region. Salih Usar claims that the latter request by the protocol was simply a violation of the TRNC Constitution and could not be applied.³⁴ Regarding the first objection, Salih Usar claimed that Sanayi Holding had been intentionally pushed towards bankruptcy by UBP and that there was no mention of improving industrial sector in northern Cyprus in this protocol.³⁵ The CTP emphasized that without industrial development (no production), the country would not be able to achieve economic growth with services and trade/commerce. Erdal Onurhan responded to this by saying that although there was no mention of industrial sector in the protocol, the regulations regarding providing incentives for the development of this sector had already been laid out in the law 45/1984 which are still valid today, and thus there was no need for including anything new in the protocol.³⁶

The changing economic relationship with Turkey can be seen in Table 4 with reference to GDP and import values from Turkey. By using these one can calculate the ratio of foreign aid to gross domestic product. This number provides an idea of how heavily the TRNC was dependent upon foreign finances. The analysis should be carried out separately for loans and grants. Also, we can look at the ratio of loans and grants (or combined aid) to total imports from Turkey. One argument here is that since TRNC economy relies heavily on imports especially from Turkey, we need to find out how much of the aid was going back to the donor country. It turns out a lot more than the total aid (loans + grants) from Turkey were being used to buy goods and services from Turkey (with the

exception of 2000 and 2001 which correspond to economic crisis in both countries). In other words, all the money transferred by Turkey to TRNC ended up back in the Turkish economy. The same table also includes information on per capita aid received by the Greek Cypriot neighbours in case the readers want to compare.

In terms of the economic development, there is no doubt that without the aid most of the infrastructure would not have been developed. As the state was using more than 70% of all of its revenues to finance current and retired civil servants, there was not much capital left for investment. But there is also the argument that the aid that went into public services was also utilized by the many immigrants from Turkey; thus Turkey is basically aiding its own citizens rather than helping the northern Cyprus economy. A more rigorous scientific test looking at the relationship between the grants over the years and GDP of northern Cyprus can be conducted using a Granger causality test.³⁷ It turned out that the grants did not have any statistical effect on the growth of GDP (i.e., foreign aid does not Granger cause GDP growth). However, when loans are included in the analysis and looked at the total financial aid, there was significant positive relationship between the two. In other words, total aid from Turkey has contributed positively to the economic development of northern Cyprus over the years. The reason could be that while the grants were substantial, on average 38.8% of them were being used for defence which does not have much contribution to the overall GDP. Also, the amount allocated for infrastructure development may not have been used as efficiently as intended (corrupt governments) and thus did not have the intended outcome. But including loans, with conditionalities, in the aid especially directed at public sector did increase production activities and hence contributed to the growth of the economy.

As to the political dependency arising from financial dependency, two issues need to be considered. In the early years of the establishment until the middle of the 1990s, TRNC was seen as the precious little child that was saved from Greek Cypriot atrocities and thus was to be protected at all costs. Nationalist views were at the heart of discussions, and whenever there was a need for money, President Denktaş was highly effective in extracting more aid from fellow right-wing nationalist governments in Turkey. Furthermore, Turkish officials were not too bothered by sending

the money as it was only a tiny fraction (less than 0.5%) of tax revenues and it was for a 'noble' cause. And every time a government changed in Turkey (which happened regularly in the 1990s), Denktaş would form strong bonds using the 'national cause' as the key; however the arrival of the AKP to power in 2002 introduced a new relationship with TRNC.

The AKP was also sympathetic to the national cause in northern Cyprus, but they were not willing to waste financial assistance. When the AKP leader Erdogan and Denktaş came at crossroads with each other, the left in northern Cyprus flourished and for the first time since 1976 had the majority of the votes in the general elections, and their leader, Talat, became the president in 2003. Followed by the rush of the Annan Plan, and the support of AKP, the left stayed in power for some time until they proved to be no different from the rest when it comes to wasting country's resources. By contrast the AKP in Turkey consolidated their power steadily and were more confident in deciding policy towards and in the TRNC. Needless to say, with this also came political meddling, and especially the right (UBP and DP) became unable to stand up to the demands made by Turkey with the fear of inability to receive votes in case aid ran out. The most revealing example of this was how the two government coalition parties have organized and participated in a gathering in northern Cyprus that promoted and supported openly the views of AKP regarding the constitution change referendum in Turkey in April 2017. Of course, such matters could be totally independent from issues of financial aid. Colleagues who have participated in meetings with top-level officials from the Aid Office have told me that when confronted by professional and prepared Cypriots, these officials would tell them over the years the people they have met to discuss financial aid were just blunt and ignorant individuals. This suggests that the reason why Turkey wanted to control the money coming into the island was not because they also wanted to control the politicians (that is already given anyway), so much as ensuring that aid be used in a more efficient manner, and they are fed up with the money being wasted by the corrupt politicians over the years.

US Cable (2009) summarized the relationship between Turkey and northern Cyprus.³⁸ The document revealed how Turkish Cypriot demands for more financial aid was always satisfied despite broken promises by the

TRNC regulators. Turkey had been complaining about the excessive spending (high salaries, burden of civil services, ministerial Mercedes) of TRNC and continually asked the governments to curtail this spending. When the law change was introduced in 2008 regarding the lowering of entry salaries of newly hired civil servants, the report acknowledges that 'this was done as a sop to Turkish demands to show fiscal rectitude. The actual effect on the budget, however, will be close to zero, at least for several years.' US government commentators also concluded that despite irresponsible spending of TRNC officials, Turkey would never consider stopping the financial aid because 'Cyprus is viewed as a fundamental national cause, and therefore untouchable.' True as it may be, we have seen over the recent years that many of the requirements of Turkey regarding legislation changes and other government practices have been granted by the policymakers because governance without financial aid from Turkey would cause a lot of economic difficulties and cost the politicians their seat at the parliament. This has been true for both the incumbent and opposition parties.

As long as the Turkish Cypriot governments did not criticize Turkey and her involvement in northern Cyprus, they continued to receive assistance from the 'motherland', and the protocols and agreements between the two countries proliferated. Aside from cultural and technical protocols, the main ones included the economic protocols that basically came to substitute for the home-grown development plans for northern Cyprus. The protocols that came to cover three-year periods basically required reduction in public debt, improvement in infrastructure and increased private investments. Whilst all of these made economic sense, governance in northern Cyprus was not strong enough to take all the necessary steps to achieve the changes required by Turkey. Two exceptions were the creation of a single social security system and lowering the entry salaries of civil servants which we discuss in Chap. 6.

Looking at the more recent history, two important protocols are worth mentioning. The first one was the project to bring water via submarine pipelines from Turkey to northern Cyprus. Appearing as a very humanitarian project, not many people objected to this. However, the project was not executed on equal grounds. When the two governments

first signed the protocol in 2005, it did not include any terms about pricing or management rights of the water to be piped from Turkey, but when the project was about to finish towards 2013, the public started to be concerned and there was a lot of speculation. In the end, it turned out that the water sales were to be controlled by a firm selected by Turkey, and if this water was ever to be sold to another country (e.g., Republic of Cyprus), Turkey was to be the sole owner. Furthermore, TRNC was required by the protocol to pay for a minimum annual quantity regardless of their need. Given that the entire cost of the project was financed by Turkey, TRNC governments were not going to be permitted to manage the distribution of water given the history of poor governance. Still, why didn't TRNC governments negotiate all of this at the beginning of the project and maybe propose reimbursement of the cost of the project in exchange with the transfer of exclusive ownership rights once the water had reached northern Cyprus? The water has been made available for residential use for several years now, but the infrastructure regarding its use in agriculture, as well as the formally selected firm to manage the water resource, is yet to be finalized. So, the answer to my question above is probably, 'Does it really make any difference?'

The second protocol that ignited a lot of public resistance was the 'Coordination Office' agreement. This agreement basically allowed Turkey to establish an office in TRNC charged with 'coordinating' cultural and social events in TRNC. The employees of this office were to be paid by Turkey whilst the office remained exempt from local financial and administrative responsibilities. Even though there already existed a TRNC state office holding this brief, the DP-UBP government signed this protocol and sent it to the president for approval. Many civil societies have established a platform and united against the establishment of this office. The so-called #Reddediyoruz (We are rejecting) Platform have held several demonstrations and marched to the president's palace to put pressure on him to overturn this agreement. In the end, the president did overturn the protocol, but not because of its content, but simply because of a technical issue which could easily be corrected and re-signed. The intent of this office is simply to interfere with the cultural and social life in northern Cyprus and carry out the Turkification and Islamization

goals of the AKP government. Even without such an office, the kind of interference in social and cultural life of northern Cyprus by Turkish government had already started. The office would have only made it legitimate and easier to eliminate local administrators.³⁹ Those who justified the establishment of such an office point out to the amount of financial aid and other funded humanitarian projects by Turkey since 1974, claiming that there is no free lunch.

Having been cut off from the rest of the world, Turkish Cypriots had two options. The first option was to use the 'spoils of war' and financial aid sent by Turkey in economically efficient manner to advance the newly born state. Without a doubt, the international absence of recognition would have hindered a healthy development, but looking at the example of the Republic of Cyprus, polity in the north could have mimicked their progress. The second option was to not be bothered with planned development and use the available resources for rentierism and political clientelism. By choosing the second option, the polity in northern Cyprus have effectively created an unsustainable, foreign-aid dependent, colonial economy.

The economic 'development' in the northern part of Cyprus has not followed a conventional path. Under normal circumstances the state is considered to lead growth by proper economic planning. However, in the case of northern Cyprus, the state, through its discordant behaviour, has actually hindered a healthy growth trajectory. Therefore, in the following chapters, instead of describing a standard path of economic growth, I will first discuss how the policymakers used the key institutions at their disposal to pass regulations that created an aid-dependent economy and then talk about the response of semi-state-owned (but managed fully by the governments) enterprises and the private sector to the inefficient government practices. In this respect, the following chapters will discuss in detail particular sectors and areas of economic development, namely, the labour market (Chap. 5), the social security system (Chap. 6), semi-state-owned enterprises (Chap. 7) and the private sector (Chap. 8). My intent in those discussions will be twofold: to give institutional and legal background and to show how the policymakers and the general public contributed to their development, or stagnation.

Notes

1. Strong (1999), p. 63.
2. Paxton (1978), p. 376.
3. Ekici and Caner (2016), Table 2.4.
4. Syrighas et al. (2012), Chart 1.6, p. 15.
5. *Ibid.*, p. 17.
6. Strong (1999), p. 247.
7. These investments were a cement factory, a bank, a plastic and a metal pipe factory and a mining company (Strong, p. 253).
8. TEPAV (2014) (in Turkish) has a comprehensive overview.
9. Strong includes some discussion of this Bank's contribution to the economic development (pp. 262–270).
10. Strong (1999), p. 78.
11. *Ibid.*, p. 79.
12. *Ibid.*, p. 81, Fig 2.9.
13. *Ibid.*, p. 83, Fig 2.11.
14. *Ibid.*, p. 90, Fig 2.16.
15. *Ibid.*, p. 113.
16. *Ibid.*, p. 108.
17. Syrighas et al. (2012).
18. *Ibid.*, pp. 28–29.
19. This does not mean that the economic development stopped significantly, but rather there were other economic problems (e.g., global economic crisis that began in 2008, financial crisis in Cyprus) that derailed the economic trajectory of Cyprus.
20. The earliest available for north are from 1977.
21. Other financial aid was the humanitarian aid by United Nations and the USA. In 1978, the state hospital was constructed with the financial assistance from Turkey. The equipment to be used in this hospital was donated by the USA and UNHCR in the amount of 463.2 million Cyprus pounds, and \$900,000 worth of other projects were ongoing. Other help in the form of technical assistance or training scholarship was also awarded to the Turkish Cypriots by the international actors (TFSC, Ministry of Health and Social Services, 1979 Activities Report, p. 77).
22. Ismail (2001).
23. Lacher and Kaymak (2005), p. 156.
24. *Ibid.*, footnote 27.

25. Sonan (2007), p. 8.
26. Ibid., p. 12.
27. Ibid., p. 14.
28. TRNC Parliament Reports, 31 January 1997a.
29. See Morgenthau (1962) and Syed (1970) for earlier analysis on this point of view.
30. See, for example, Ohlin (1966).
31. Republic of Turkey, National Security Council, Proceedings Report, Volume 7, Session 110, 1 July 1982, pp. 143–145.
32. Sonay Adem (CTP) claimed that there was a meeting held at Turkish President's Chambers on 1 February 1990 (participants included Turkish president, foreign minister, state minister, Turkish ambassador in Nicosia and commander of Turkish Army) to discuss how to interfere in the 1990 elections in TRNC to make sure Denктаş and UBP win (TRNC Parliament Proceedings, 24 October 1997b, p. 440).
33. Economic Collaboration Agreement between TRNC-TR [KKTC-TC Arasında Ekonomi İşbirliği Protokolü], 5 December 1986.
34. TRNC Parliament Proceedings, 22 December 1986, p. 2400.
35. Ibid., p. 2413.
36. Ibid., p. 2467.
37. Granger causality is a statistical test for determining if there is a statistical relationship between two time-series variables that can be used to forecast each other (Granger 1969).
38. US Cable (2009).
39. There was a change of government and the establishment of this office is currently put on hold. However, the interference of Turkey in north Cyprus' political, social and cultural life continues.

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5

The Labour Market

One of the key challenges of the newly formed state was the establishment of a properly working labour market. A significant proportion of Turkish Cypriots had been working in the agricultural sector before the declaration of the KTFD in 1975. There were a small number of educated individuals who were working mainly as civil servants in the Republic of Cyprus state offices or in the police force. Insofar as the new state came to form its own governmental institutions, the small number of such experienced labour was insufficient. Furthermore, post-division there were also around 30,000–35,000 refugees from south (mainly farmers) and subsequently also 60,000 immigrants from Turkey who were distributed around the northern part of the island making up the new labour force. There was certainly a shortage of civil service labour while at the same time there was a surplus of mainly low-skilled labour. According to the official figures, the active labour population, in 1977, of the KTFD was 89,600.¹

The state undertook two key measures to deal with the disequilibrium in the labour market. The first was to provide employment to many displaced Turkish Cypriot individuals in civil services and at quasi-state-owned enterprises. Although this initially seemed to be a

positive development, we show throughout this section and most of the book that this initiative was motivated by other non-economic purposes. A second step was to allocate agricultural land and accommodation to new immigrants from Turkey so that they could settle and contribute to the growth of the economy in northern Cyprus. This also proved to be a very conflictual and divisive practice as the lands and houses that were distributed, through the ITEM law, were the ones that had belonged to Greek Cypriot refugees who had fled to the south after 1974, and the regulations regarding the allocation were arbitrary and unfair.

One of the most difficult tasks for any economic analysis is to examine the overall effect of attempts to increase employment on economic growth. These difficulties are compounded in the case of northern Cyprus under the KTFD and then the TRNC, insofar as the official figures regarding unemployment rates are not accurate as they only used the number of people who formally registered as unemployed to calculate unemployment rates. More fundamentally, record keeping immediately after 1974 could not have been accurate as most of the institutions of economic governance, including basic data gathering, were not established until 1983. Despite these deficiencies, in this section a historical examination of employment in the public sector, most obviously the civil services, as well as the private sector will be shown. In so doing, the official political view regarding the evolution of labour demand in civil services will be recorded and analysed. In the absence of anything but sporadic and spot data regarding private sector employment until 2004, the analysis of this sector relies upon social security registration data to estimate the employment numbers in the private sector after 1980. Not least because they are one of the few sources of labour market data, the historical developments of trade unions in northern Cyprus are also discussed to understand how the labour market, particularly in the public sector, evolved. The discussion of employment in state economic enterprises (SEE) is left for another chapter.

Labour Demand in Civil Services

Civil service employees, that is, those public sector employees paid from the central budget, were given special advantages immediately after the separation. The decision of Autonomous Turkish Cypriot Administration (ATCA/OKTY) on 19 September 1974 (Decision #5561) would lay out the framework for the allocation of housing and furniture to the staff of ATCA itself. A committee of seven members was charged with determining the rules of allocation of housing and furniture to those who were employed in public services of ATCA and did not have any real estate property under their own or spouse's name (so technically if someone had a property under a child's name, they would still be able to benefit from this rule). The allocated houses were subject to a rent which was 4.5% (6% if furnished) of gross wages for police force members and 10% (15% if furnished) for all other civil servants. The houses that these individuals were allocated were the erstwhile homes of the recently displaced Greek Cypriot refugees, and the rule stated that those newly made tenants were to be responsible for the maintenance of the rented house. There was a special clause included in the Decision, that in the event of the original Greek Cypriot wishing to return and recover his or her house, then the tenant was required to quit immediately otherwise would be categorized as a trespasser.² Although this looked like a well-intentioned attempt to house vulnerable and displaced refugees, unofficial stories would reveal that most of these individuals did not pay any rent for many years, and they did not take good care of these houses because it did not belong to them. After borders were partially removed in 2003, some Greek Cypriots were surprised to find their old furniture still being used at their old homes. More privileges would be extended later to the civil servants.

Expanding public sector employment has been a norm rather than exception in northern Cyprus. After the establishment of TRNC, the new state needed many individuals to fill the positions required of the newly formed government institutions. The individuals who had been formerly employed by the Republic of Cyprus were a first choice as they had had the relevant experience working as civil servants. But there was a huge demand for many other positions at state hospitals, schools,

administrative units and municipalities. The government started hiring individuals as civil servants without really looking at their qualifications and experience. The number of civil servants increased rapidly immediately after the proclamation of the new republic. Most of the civil servants were employed as permanent workers ('blue collar' positions) and teachers. There were also a significant number of non-permanent employees working in 1982 and 1983. The police force was another favourite destination for employment in the civil services.

When the TRNC was established in 1983, the state already had some offices, but the related laws that dictate the workings of these offices, as introduced in the previous chapter, would be established several years later. Each state office was assigned a certain maximum number of permanently established positions (known as *kadro*) that were specified in their own establishment laws. The numbers for different posts within an office were specified explicitly. Each office had at least five posts: director, vice-director, secretary, driver, driver-messenger. The numbers were decided by the recommendations from the Personnel Office, but the *kadro* number could be increased by approval of the Council of Ministers. The list of all the state offices is provided in Table 2. Some of the offices (e.g., the Office of Societal Gender Equality [Toplumsal Cinsiyet Eşitliği Dairesi]) had no *kadro* filled, and almost all of the offices operated below legally required allocations. To fill an empty post, the Public Services Commission had to announce the opening of the position, and the candidates were supposed to first pass a general written exam required to get a job as civil servant and then satisfy the job-specific criteria. Of course, it is debatable if TRNC needed these many offices and furthermore whether each office needs that number of *kadro* appointments.

The appointment and promotion criteria of civil servants continue to be regulated in theory by dedicated laws. The Civil Servants Act (*Kamu Görevlileri Yasası*, 7/1979) and the Personnel Office Act (*Personel Dairesi Yasası*, 77/1989), the two main relevant laws, have both have been amended several times over the years. If there is an opening for a post in any government office, the Personnel Office is required to announce the requirements for the post and the Public Servants Commission is in charge of dealing with the applications and making sure the qualifications

are met. Once someone is hired in the civil services, he/she will be subject to the regulations set forth by the Civil Servants Act.

Article 72 of Civil Servants Act has been modified six times. The original article stated that ‘The promotion to higher rank [*kademe*] is determined by the office he/she is working for upon positive progress report.’ Over the years the number of years to be used in rank calculations has been modified to include time served elsewhere. The time served as *mucabit* ‘before appointment as a civil servant’ was initially extended in 1983 but then modified to include time ‘before or after appointment’, in 1984. In 1988 several other categories were included to be counted for rank calculations.³ Not only *mucabits* but all those who served in the Turkish Cypriot militia army and Turkish army and who were now working as civil servants would receive one rank increase for every year served. ‘Temporary’, that is, non-*kadro*, civil servants were also given rank increase for the time they worked under temporary status. The reasoning of the committee was simply ‘to cover forgotten groups’. Alpay Durduran who was on the subcommittee that drafted the bill in 1988 criticized these modifications, but he and his party voted positively for the bill with the hopes that ‘these modifications are the final ones and no such changes will be brought to the parliament again’.⁴

Durduran’s hope was confounded when, in 2002, an amendment was approved that ‘those who have been working for public services before October 1, 1999 regardless of their title who were later appointed to full time status by Public Services Commission’ will receive an increase in their rank for the time served before appointment. In 2003 they added another paragraph to this clause, thereby including all those who were working in the Provident Fund (pension fund), Tourism Promotion Fund, Lottery Department (under Sport Office) and disabled individuals who were employed under Protection, Rehabilitation and Employment of Disabled Act (*Engellileri Koruma, Rehabilitasyon ve İstihdam Yasası*, 64-1993) before 1 October 1999. Finally, in 2004, the time served as *mucabit* or military for all those working under ‘temporary’ and ‘full-time’ worker status would be included in the calculation of their ranks. The main reason behind these modifications was to include time served in public services anywhere as part of rank calculation and time at the military was regarded as a public service. An incrementalist politics had

been set in motion: each time a new set of employees was identified and added to the list of beneficiaries of back-dating years of service and, hence pay grade, a new set of people who had not been covered would complain and lobbied, usually with success, for inclusion in the next round of amendments.

The end-of-year bonus (known as the 13th salary) is one of the mostly criticized practices of the state regarding public service employment. Every civil servant is entitled to a bonus of one-month salary (exempt from income tax) at the end of each year regardless of their performance. This entitlement was extended to civil servants on 25 January 1984. The main reason given by the committee for this change was the high inflation during that time period; thus, the real wages of the civil servants needed an increase (TRNC Parliament Proceedings, 25 January 1984, pp. 54–55). There were long discussions in the parliament on that day, but the discussions were centred around the high inflation and not the practice of 13th salary. The opposition parties blamed the government for not being able to control the increase in prices and hence decrease in wages, and the incumbent government defended itself by listing the precautions they have taken to control inflation. In the end, all of the parties accepted this bill. After all, how can any political party afford to oppose anything that benefits a very large share of voters? Basically, in order to decrease the effect of 70% inflation on real wages in 1984, the TRNC Parliament unanimously decided to increase the nominal wages permanently by 8.3%. What happens if the economy recovered and inflation was under control? Once a change is made in the laws, it is protected by the constitution and it cannot be reversed.

Over the years people in northern Cyprus have preferred employment as civil servants because of their attractive working conditions. The work hours are rather low and not monitored, there are plenty of vacation days (not including the national and religious holidays), promotion is automatic, wages have been attractive and retirement packages were very generous. On top of the regular advantages, there were other benefits given from time to time, not least the enduring framework for allocation of housing and furniture to the staff of ATCA. For example, in March 1994, in celebration of the tenth anniversary of TRNC, the parliament passed a law called '10th Year Bonus Law' (4/1994) with one specific

article: one-time payment of half of minimum wages to anyone who has been receiving salaries, wages, or in-kind payments from the central budget as of 15 November 1993. Finally, in February 2000, the Council of Ministers decided that when a civil servant wished to import a car from Turkey, they can pay the fraction of the price collected by the Price Consistency Fund (Fiyat Istikrar Fonu) in three-year instalments as opposed to the rest of the people who had to pay the entire due amount upfront (BK #E-223-2000, 7 February 2000).⁵ Such exceptions for civil servants along with regular benefits have increased the burden of public sector on the central budget which had been around 75–80% of government revenues including payments to the civil servant retirees. In order to limit this burden, the state regulated some of the conditions in 2009, but the damage had been done much before that.

There was no such provision in these Acts that allow for unestablished positions, that is, non-*kadro* positions, to be held in the civil services. In 1982 and 1983, there were more than 3000 civil servants (about 30% of total civil servants) who were working under this category. In 1984 a law was passed that automatically upgraded most of these workers into permanent positions which were against the terms of the Acts. Because the newly formed state (TRNC) was getting ready for the first general elections that would be held in 1985, clientelistic interests motivated the upgrading of employee status. Thus, the incumbent government needed all the votes they could get, and providing guaranteed life time jobs to 3000 voters (and their beneficiaries) would be a significant step in this direction. Employment of individuals as temporary civil servants did not stop after this although their proportion has decreased and averaged around 15% during the 1984–1999 period.

As has been indicated, historically public sector employment has been favoured by Turkish Cypriots. On top of secured salaries with a bonus at the end of each year, and plenty of paid vacation days, civil servants work at 37.5 hours per week compared to 40–45 hours per week in typical private sector employment. The drivers and secretaries of the ministers were also entitled to some additional overtime payments. Above all, civil servants were rarely at their work places for more than few hours a day which raised the question if the administration of the state could be actually accomplished in fewer total hours, then why does the state need so

many workers in the first place? It is for such reasons that many individuals have opted to stay unemployed or work at family businesses while waiting for a job opportunity in the public sector. Even when people had a salaried job in the private sector, they would keep their ears open for a possible career move towards the public sector, albeit among only those who had the legal right to work in the public sector. More often than not such opportunities would arise especially during the period leading up to the general elections in the country.

Labour Supply in Civil Services

The numbers of civil servants employed over the years are shown in Tables 5 and 6. Whilst these tables do not include the number of public sector workers at municipalities and state economic enterprises (SEEs), civil service employment had fluctuated over the years, averaging at 1.6% growth per year. There was a relatively sharp decline in 1995 in the number of civil servants in all of the categories of employment (except state teachers). The largest shares of civil servants have been state teachers and police. On average, there has been a ratio of 1.7:1 currently working civil servant for every retiree from the civil services. In the next chapter, we will discuss the implications of this for sustainability of pension funds.

Unlike previously, there is some good statistical data for labour market in northern Cyprus after 2004 when household labour force surveys (HLFS) were conducted, and the data was used to estimate aggregate employment statistics. Just to give a snapshot of the most recent available data in 2011, around 23% of public employees had less than high school education and they have been working for about 12.5 years in the public sector. On the other hand, 45% of private sector employees had less than high school education and they have on average 7.5 years of tenure with the same employer. These differences could explain the 55% wage gap between public and private sector employees.⁶ The change in regulations in 2010 regarding the salaries in public sector could have lowered the popularity of labour supply to this sector, but 2011 data cannot capture the effects, if any, due to the limited after-policy time-span covered.

Two sets of civil service positions under TRNC law deserve special attention: teachers and medical doctors. State teachers (who made up around 23% of all civil servants in 2009) and physicians working at state hospitals have been very popular positions. State-employed teachers constituted on average 16.7% of all the civil servants during 1980–1995 period, but this ratio jumped to 20% and higher after 1995. This area has been a popular choice of occupation for many Turkish Cypriots as well as a tool for nepotism favoured by many politicians. State teachers are subject to additional retirement benefits compared to other civil servants. Furthermore, they have fewer working hour requirements than the rest of civil service whereby they only work 8 months a year but are paid 13 months a year, and only 5 hours a day (and have up to 25 sick days). The rest of the day they are not allowed to work in another job (a second job is prohibited by the Civil Servants Act, Article 41), but of course due to lack of monitoring by the authorized offices, many have used this option. Although the evolution of pupil/teacher ratios (which is used as a proxy for quality) in state schools show significant improvement over the years and are comparable to some of highly developed states, there have been many complaints regarding education in state schools over recent years.⁷ The ratios did not increase, but the distribution of teachers has changed where nobody wants to work at remote locations. The physicians working in the state hospitals have also enjoyed flexible working conditions since the establishment of the republic where they would work three to four hours a day and then continue practising at their private clinics. Once again, over the recent years with increasing population (hence higher number of patients) and fixed number of health workers, the quality of state-provided healthcare has decreased significantly.

One of the most recent complaints of the physicians is of the low salaries provided after 2010 when the entry salaries of all civil servants were reduced. The initial salary of a physician in 2010 would be around 4000 TL (around \$2700 at the time without overtime payments) which is rather low for someone who has gone through at least ten years of training and work in the health sector. On the other hand, this number is for a scheduled three-hour work per day which therefore also allows them to use resources of the state hospitals for their own private patients. Thus, on the one hand patients have complained that they cannot get good

quality public healthcare, while on the other hand physicians claim that they are understaffed and get paid severely low salaries, and then in turn governments complain that they don't have the necessary budget to fix this problem (whilst spending millions of TL by encouraging patients to go to domestic and foreign private hospitals). The physicians are treated separately from other 'health sector civil servants' by the related Public Health Workers Act (*Kamu Sağlık Çalışanları Yasası*, 6-2009) and are allowed to work in the private sector 'after regular working hours at the state hospitals' (Article 43, paragraph 3). This privilege was challenged at the Constitutional Court of TRNC by the 'Independent Working Physicians Association' in 2011, and it was found that the operation of private clinics in state hospitals was unconstitutional (Dossier 2./2011, TRNC Constitutional Court). This did not change anything and the governments did not act on it, and successive governments have been in violation of both the decision of the Constitutional Court and held the Constitutional Court in contempt with impunity. In fact, the Prime Minister Ömer Kalyoncu (CTP) said that the government 'will stop the investigation of those [physicians] who has a second job' because it will lead to 'chaos in health services' until they complete their discussions on amendment of five other related laws that will solve the problem all together (28 October 2015).⁸ What can you expect from a parliament with many physician MPs who would rather go to their clinics than attending the general assembly? Looking at the poor law enactment/amendment history of northern Cyprus politicians, they never actually modified the other related laws that were claimed by the prime minister having the ability to solve the root of the problem. Physicians working in the public hospitals still continue to have their aforementioned privileges.

Another issue of labour supply in public services is the second job. According to the Civil Servants Act (Article 41), those who are employed full-time in public services are not allowed to have a second job 'during or after the regular working hours'. For example, teachers (which make up 30% of total civil servants) would finish their duty by one o'clock in the afternoon which gives them ample time to do extra work. Most of them would give private tutoring, and others would go to working at their own establishments (which would probably be under a relative's name so as to abide the law). The teachers in rural areas would also be

involved in animal husbandry or agricultural activities after work hours. Some individuals will own small retail shops or restaurants established under a family member's name to circumvent the legal requirement, but they will commonly participate in the workings of the business during or after regular civil servant hours. The air-traffic controllers have a system where they work long hours, but then they get few days off as is common practice in the world due to the stress levels involved in the job. Given the relatively quiet air traffic in northern Cyprus airspace, the same people working in this profession have used the days allocated to relax as an opportunity to work as self-employed. Many similar practices would also be observed by other civil servants, and all this has been done with the full knowledge of the governments.

The past governments have done absolutely nothing to devise ways for more efficient working of the public services. All they have done is to engage in clientelism and employ their own circle of friends into civil services. In order to decrease the financial burden of this practice on central government, the politicians modified the Public Services Act in 2008 whereby making both the working salaries and retirement benefits less attractive. This of course was heavily criticized by the civil servants especially teachers and physicians, but at the end the law was passed. Thus, the people who are employed as civil servants after 2008 will not be as lucky as their parent's generation in terms of salary and retirement benefits, but the shirky behaviour at the workplace could still continue under the present conditions. The alternative option is to work in the private sector.

Private Sector Employment

The private sector in northern Cyprus had not been significantly developed until the beginning of the new millennium. As explained in the previous section, the public sector (civil service and SEEs) had been the first choice of employment for many Cypriots. However, given the early retirement laws and generous benefits, many people started their own business after retirement. According to 2008 TRNC Household Budget Survey (HBS), about 11% of those who are currently working in the

private sector are also receiving some kind of monthly payments from the state as well.⁹ Again as noted earlier, in some cases civil servants would undertake a second job (although illegal) while still employed by the state but under a family member's name or, indeed, totally unregistered. Most of the registered businesses were small- to medium-sized enterprises, and therefore the private sector continued to remain un-institutionalized and largely informal. However, the remaining large companies began to take a larger share of employment in the private sector. With the increase of population and increase of financial aid from Turkey in the new millennium, the private sector gradually became more professional and institutionalized.

Immediately after the division of the island, there was a huge potential for employment in private sector. There were around 1408 establishments in industry with a capacity of 7600 employees that were inherited after the war.¹⁰ But as shown in detail in later chapters, most of these establishments were controlled by the state and labour regulations were more in line with public sector employment rather than a typical private sector. The number of registered members at the Chamber of Commerce was 1520 by the end of 1977 in which 80–85% of Chamber members employed less than 5 employees.¹¹ Similarly, the Chamber of Industry established in 1977 had 120 registries where most of them also had small number of employees.¹² Although the number of firms in commerce and industry were rather large, the amount of private sector employment was limited. In fact, only 3500 people in 1977 were employed in the private sector, with plans to increase it to 4600 by 1982 (compared to 7859 employees in civil services in 1979 who received wages directly from the state).¹³ The education level of the working population had increased by the end of the first Five-Year Development Plan (FYDP). By 1982, there were 56,791 employed individuals, 25% of which had at least a high school diploma. There were plans in second FYDP to increase education level of the labour force and increase the employment on average by 2.2% over the 1983–1988 period. The official statistics only provide employment statistics by sector (or occupation) whereby, for example, 'industry' could include both public and private sector employment in that sector. Thus, we cannot identify what percentage of the employment was strictly in the private sector.

There is also only limited information on the number of foreign workers who were working legally in northern Cyprus. During the initial years of the division, the growth of official foreign workforce was slow. In 1978, 3112 foreigners were granted residence and work permit (2803 from Republic of Turkey and 309 other foreigners), and 119 Turkish citizens were given business permits.¹⁴ The number of permits increased from 1806 in 1980 to 2390 in 1985. The latter number made up about 13% of the active contributors to the Social Insurance Fund who can therefore be classified as registered in private sector employment. The registration and control process was more restrictive during those years, so it is doubtful that there was much unregistered employment. Data on the number of work permits between 1985 and 1995 cannot be ascertained, but work permits by 1997 had increased to more than 5000 (comprising 16% of registered workers at Social Security Fund). A large increase in foreign worker registration occurred in 2005 when the government extended an amnesty to unregistered foreign workers to register before the end of the year without penalty. The number of work permits therefore increased from around 12,000 to 53,000 in one year. This does not mean all of those were new workers; indeed, most of them were working unregistered before that date. Thus, the early numbers of work permits are likely to be unreliable; nevertheless, the total number of work permits extended to foreign workers since 1995 is accurately provided in Table 7.

A significant development in private sector employment was the business conducted by Asil Nadir in the late 1980s. This London-born Turkish Cypriot businessman had established a large international business (Polly Peck) that was listed in London stock exchange. Although later he was sentenced to jail and his business collapsed afterwards at the beginning of the 1990s, the contribution of his company in the northern Cyprus private sector was significant. In 1980 this company would buy Uni-Pac and Sunzest which exported citrus fruits. These two companies in northern Cyprus would enjoy eight-year tax-free business, and they would be the biggest competitors of Cypfruvex, a government-controlled enterprise operating in the same line of business. By 1985, his company would employ 10,000 Turkish Cypriots.¹⁵ Of course, some of these employees would include young retirees from the civil services including my father who decided to leave his civil service post (after having

accumulated enough years to be eligible for pension) because he thought he cannot get promoted any higher at his civil service post (he was not very close with political parties) and the compensation and nature of the job was more attractive at Asil Nadir's companies. Before the company was investigated in 1988, the company was investing in reconstruction of large hotels like Palm Beach, Jasmine Court and Zephiros.¹⁶ But after the bankruptcy, these hotels were sold to other parties in exchange for the debt Polly Peck had.

A key demographic change that affected the labour market was the outmigration of Turkish Cypriots. After 1974, many Turkish Cypriots migrated to England as it was simple to obtain a work permit and residence permit due to Cyprus being a commonwealth country. In parliament, the opposition MPs would continually blame the UBP governments for the migration of Turkish Cypriots out of Cyprus because of poor economic conditions. Although demographic information is not available on these early emigrants, the generally accepted view is that those who were less educated tended to emigrate (since more educated individuals were already finding employment in the civil services). Additionally, emigrants tended to be mainly those from the villages and suburbs who could not find jobs easily and chose to leave the country. In contrast, emigration in the 1990s was especially motivated by access to higher education in Turkey, the UK or the USA where also, after graduation, Turkish Cypriots would find job opportunities and remain in their new 'home'. Of course, this was not a problem for the TRNC governments as it was easy to replace these individuals by a cheaper workforce from Turkey.

Although there are many registered establishments in private sector, their contribution to overall employment has not been proportionate to their number. As of 2010, there were 2272 registered firms to the social security office with 43,694 registered employees. However, only 6% of these establishments employed more than 50 employees (by the standards of northern Cyprus, these can be classified as 'large employers'). In other words, most of the registered firms are small-sized establishments which operate in the service and retail sectors. On the other hand, a small number of large-sized establishments made up 44% of total registered employment in the private sector. These large firms include private higher

education institutions, hotels and financial institutions. Not only did the smaller firms employ fewer employees, they are also more likely to employ unregistered employees. On the other hand, such small self-employment establishments provided an alternative to public sector employment which governments might have wished to encourage, thereby decreasing the burden on the central budget.¹⁷

In earlier studies the segregation in northern Cyprus labour market was examined using 2004–2011 official Household Labour Force Surveys from State Planning Organization. It was found that in the private market there was about 25% wage gap between immigrants from Turkey and the local workers that cannot be explained by observable characteristics.¹⁸ This finding is in contrast to many traditional human capital theories that attribute wage differences between immigrants and natives to differences in culture, religion and language (all of those distinctions were also to be found in northern Cyprus). Current research has also shown that there has been a sex discrimination in the private sector where females earn on average 25% less than males across this same time period.¹⁹ There is also public-private wage gap which was shown in the previous section using 2011 data (although no formal analysis on this topic exists). This substantial, chronic and structural inequalities demand effective remedy.

After the first crossing point across the Green Line (the island-wide buffer zone between the north and south mediated and controlled by the United Nations) were opened in April 2003, there was a significant labour movement from north to the south. The wages in the south were of course higher than the northern part which gave an incentive to many people without a steady job to look for jobs in the south. This opportunity arose for Turkish Cypriots only (and other EU nationals) but not for other immigrants or nationals such as Turkish, Arab or central Asian workers. But these individuals could only find jobs in low-skilled positions such as construction and private security even though many had high education (mostly the diplomas were obtained from the northern universities thus not typically recognized and therefore not transferrable in the Republic of Cyprus). The working conditions could be difficult, not least travel-to-work time and costs with many labourers in the construction industry, for example, engaged in work from before sunrise to

after sunset. Although wage rates were comparatively very favourable for which also included healthcare benefits at state hospitals (where the services are better than the northern counterparts), the difficult working conditions in the private sector in the south, coupled with booming economy in the north in 2006 (thanks to boom in construction sector), encouraged many workers to quit and look for jobs again in the north. The number of registered Turkish Cypriots in the south peaked at 3772 in 2005 and decreased to 1971 workers in 2011.²⁰ The corresponding monthly average euro salaries at the respective dates were €762 and €1137 which were, correspondingly, 77% and 100% more than the minimum wages paid in the north at the time.

There was also the problem of unregistered employment in northern Cyprus. So-called shadow employment is a problem for many countries, including developed countries. Different definitions of shadow employment have been used in the literature,²¹ but we use unregistered employment to include all those who are not part of any social security coverage. Although some shadow employment is necessary and unavoidable for an economy, large numbers simply entail important tax revenue losses for the government. The percentage of unregistered employment in northern Cyprus was rather high compared to other countries. The unregistered labour force percentage was around 40% in 1996 and 33% in 2000.²² The numbers decreased later where in 2006 and 2011, the ratio of unregistered workers to registered workers were, respectively, 17.5% and 26.3% which created 15% and 22% loss in social security contributions for those years.²³ There is also the tax evasion of those who are self-employed or work in the private sector. Using 2008 HBS, estimations calculated showed that self-employed and privately employed individuals in northern Cyprus under-reported their incomes levels by 20% and 13%, respectively, which is equivalent to about 11% of total tax revenues in the country.²⁴ The government have taken some steps to fight for unregistered employment in the private sector over the last ten years which has decreased the problem a little bit, but it is not clear if the effects will be long term.²⁵

The Labour Unions

Union organization and membership is a constitutionally protected right in northern Cyprus (TRNC Constitution, Article 53). It confirms a strong tradition of trade unionism in Cyprus which goes back to at least the 1920s where membership of trade unions arose irrespective of so-called communal identity.²⁶ Thus, those later to be labelled Turkish Cypriots participated in union organization alongside those later to be labelled Greek Cypriot: That is, class identity counted much stronger than linguistic or religious identity.²⁷ Most union activities were carried out jointly by Cypriots against British colonial government exploitation of workers. Nevertheless after 1963 with the emergence of serious inter-communal conflict across Cyprus, the now-distinguishable Turkish Cypriots began to form their own communal labour union federations. The first federation was Federal Union of Turkish Cypriot Workers (*Kıbrıs Türk İşçi Sendikaları Federasyonu*, Türk-Sen) who had about 15,000 members after the division of the island.²⁸ This federation had more of a rightist and conservative political ideology, but this was to change later in the 1990s when the board of this union was replaced by people who had leftist ideologies. The second largest federation was Federation of Revolutionary Workers' Unions (*Devrimci İşçi Sendikaları Federasyonu*, DEV-IS) which was more aligned with political ideology of the CTP throughout that period.

The law that regulates the workings of the unions today was passed in 1971 (*Labour Unions Act*, 13/1971) and was modified only twice (1971 and 1974) during the Autonomous Turkish Cypriot Administration. This law has not been modified since 1974 although the government programmes since 1985 have included statements regarding the importance of the rights of workers in the workplace and have vowed to take necessary steps to ensure this in northern Cyprus.²⁹ In fact, in the coalition government (DP-CTP) programme of 1995, there was a promise for a 'new modern and democratic Trade Unions Act',³⁰ but it never materialized. Instead, a bill titled the Collective Bargaining, Strike and Referendum Law (*Toplu İş Sözleşmesi, Grev Ve Referandum Yasası*, 42/1996) was drafted, and sent to the parliament in July 1995 and was

accepted, after revisions required by the president, in July 1996. The same promise was later made by UBP-DP coalition in 1996 but to no avail. In other words, regardless of political ideology of the governing parties, the policymakers have recognized a need for a change in this important law, but somehow never acted on it because successive governments were afraid of the response of the unions.

The link between unions and political parties in northern Cyprus is important to record in part explanation of the particular development of the breakaway state, and it cannot be assumed that unions adopted an ideologically fixed leftist position. Thus, for example, Rauf Denktaş nominated three leaders of Türk-Sen, the largest union federation at the time, as parliamentary candidates for ATCA in exchange for their support in the 1976 elections, and two of these candidates were elected.

However, Turk-Sen became progressively disenchanted with the government's failure to deliver on labor issues. Faced with challenges to its supremacy in the labor field from newly formed, more leftist-oriented groups, Turk-Sen formally broke with the UBP in November 1977. Anomalously, its two elected deputies have so far remained in UBP. (US Cable, March 1978)

Nevertheless, the closeness between the government and the Türk-Sen can be illustrated by the career of Huseyin Curcioglu who was to become the president of Türk-Sen between 1983 and 1988, but who also served as a UBP MP from 1976 until 1993 (including as a member of the constituent assembly in 1983).³¹ After 1988, Önder Konuloğlu became the head of Türk-Sen albeit pursuing more leftist-oriented practices. Academic analysis has described Türk-Sen as both a leftist- and a right-wing union.³² Unions have not necessarily expressed a fixed and straight ideological view and have varied their approach and policies according to and affected by their leaders and the party of government. In other words, the early labour unions formed by Turkish Cypriots were expressly political in nature, not limiting their role as a labour union to protection of the labour rights of its members by pressuring the employers to provide appropriate working terms and conditions and pay rates. In their earlier incarnation during the 1960s and early 1970s, when the employers were

mainly Greek Cypriots and the workers were Turkish Cypriots, the unions also acted more akin to a political party. Indeed, one of the largest of the present unions is the Cyprus Turkish Teacher's Union (*Kıbrıs Türk Öğretmenler Sendikası*, KTOS) who has its roots in 1967–1968 when the bi-communal conflict was at a peak. Later in 1976, this union formed a political party (TKP) and became involved directly in the politics of northern Cyprus.

The Turkish Cypriot unions, like unions across the world, also competed with each other for membership and negotiating or bargaining rights. A worker could be a member of more than one union, but collective bargaining at a workplace could only be carried out by one union. Thus, different unions tried to sign up the members of the other unions to help become the designated collective bargain negotiator. One such early example of a conflict between the labour unions took place in 1976 at Sanayi Holding Ltd. This company employed a substantial number of employees, and whoever represented those would have significant economic as well as political power. The following excerpt from the US Cable (1978) talks about the extent of this conflict:

Other more important factors are also behind the current wave of activity. among them we note: a. competition between (icftu-affiliated) Turk-sen and the two other syndicates: dev-is (revolutionary/reformist) and isec (ile-rici sendikalar/federssyonu). The latter is apparently a paper organization uniting the two teachers' unions and the civil servants into a single unit. although the constituent unions act in concert, they have done so under their own names rather than that of the larger unit. The rivalry between Turk-Sen and Dev-Is for exclusive bargaining rights has been responsible for labor disputes and stoppages at Turkish Cypriot Sanayi (industrial) Holding company and more recently at the electric authority and state printing office.

Box 5.1 Court Case on *Sanayi Holding* Labour Union Dispute³³

As part of the struggle to become the representative union for negotiations at Sanayi Holding, DEV-IS members visited one of the subsidiaries of this company (Borsan) on 1 June 1977 with the intention of 'talking to the workers'. The manager of Borsan received a phone call from the general

management of Sanayi Holding letting her know that such a meeting is not allowed within the borders of the factory and the assistance of local police force has also been requested. When the representatives (Hasan Sarica, Mehmet Gültekin Nazim, Kenan Akin) went to the factory and they were not allowed to go in, that's when the struggle began and these representatives argued that it is their constitutional right to go and talk with the workers. At the end, the state's prosecutor took the matters to the district court and accused the three representatives on different counts. The lawyer of the defendants was Naci Talat and the state prosecutor was Akin Sait.

When the district court found the defendants not guilty, the prosecutor attested this in the High Court. The High Court did not reverse the district court's decision (not guilty) regarding the counts on 'intent to commit felony', 'intent to encourage others to commit felony' and 'prevent police from exercising their duties'. But the High Court found the defendants guilty from 'causing public inconvenience' because the defendants 'demonstrated in loud noise and honked their cars in a public location'.

In other words, the High Court did not reverse the decision on the counts related to labour union law and the rights of unions regarding right to strike. However, the court used this opportunity to make a comment/suggestion on the Labour Unions Act. The court suggested that when this Act was adopted from Fasil 177, some of the articles were left out which could potentially give rise to interpretations against the constitution. Thus, the High Court judges urge the policymakers to reconsider and redraft the current law on trade unions. Obviously, this wish went unnoticed.

Union membership has tended to increase since 1979 to the present although there was a significant drop in 1988 but which had recovered by 1992. The trade union federations of DEV-IS and Türk-Sen represented most of the unionized workers during the 1980s, but their popularity had decreased in the 1990s. In 1983 the Hur-Is Federation was also established and grew in popularity, but still by the year 2000, 55% of all unionized workers did not belong to any of these trade union federations. By 2008 this number had increased to 63%. In other words, even though union membership continued to increase, many more smaller unions emerged over the post-division period with which workers tended to register. Although there are many unions, most private sector employees are not members of any of these unions. Unionization has effectively been limited to public sector employees. This has caused the gap in working conditions and pay rates between private and public sector employees to widen over the years as public sector employees enjoyed the strong

bargaining power of the unions. But such a power was sometimes abused throughout the years. The right to strike is a legal right confirmed in TRNC law and exercised by the unions. Without doubt this right has been heavily used to oblige the state to concede to union demands. As outlined earlier, given the political connections of the union leaders and politicians, the activities of the unions have been largely governed by the relationship to the political party in government. Almost invariably strike action was rooted in pay disputes and working hours. Yet unions have never taken strike action for reasons of terms and conditions of employment, for example, maternity leave, gender equality of pay, or health and safety or continuing professional development. On the contrary, a retired director at a state office communicated to me that when he wanted to send his personnel to job-specific training in the early 1990s, he received a visit from the union representatives next day asking him to cancel this training.³⁴ The activities of the union at Sanayi Holding at the end of the 1970s were also condemned by some of the managers at the company.³⁵ Finally, in relation to the clientelistic and venal operation of public employment, no union has ever taken strike action because the government employed individuals in public sector without using the proper legal procedures: On the contrary, the unions had welcomed these new employees with open arms. Trade unions thus also secured their place in the ecology of the rentier state.

Because of such trade union practices over the years, there has been a decrease in trust levels in them. According to World Values Survey (Wave5) in 2009, 52% of the people in northern Cyprus have some or a lot of confidence in trade unions even though only 18% of the full-time employed individuals are a member of a union. When we look at the political affiliation of the participants (measured by the question who would you vote for if there is an election tomorrow), 61% of UBP voters, 50% DP voters and 40% of CTP voters expressed a lack of confidence in unions. In other words, supporters of right-wing political ideology were less likely to have confidence in trade unions in northern Cyprus.

The largest of the unions today is KTOES (Turkish Cypriot Secondary Education Teachers' Union) and KTAMS (Turkish Cypriot Public Servants' Union). These two have been involved in large-scale public protests regarding government practices in northern Cyprus. For example, in

2004 before the referendum on Annan Plan regarding the reunification of the island, they organized large pro-demonstrations. The other smaller unions also engaged in such demonstrations but mostly by providing written solidarity. The leaders of these larger unions have also spoken openly against involvement of Ankara in domestic politics, but more recently in 2015 when KTOS (Cyprus Turkish Teacher's Union) published a planner book which included some sensitive information on historic events, some of its members burned those books in protest against the leaders of the union claiming that the information was inaccurate and provocative. The leaders have also sometimes been criticized by their members for receiving teacher's salaries whilst not working (the general secretary and the president of the union are both teachers at state schools, but by law they do not have to teach as long as they serve on the board of the union). I have personally witnessed recently that leaders of the largest unions got together in a room and drafted a press release that 'represented' the views of all the members. Such examples indicate that there is lack of synergy between the administrators and the members of these unions.

The views of politicians towards unions are also interesting. When a teacher's union went on strike for a long time in 2000, Mehmet Altınay (TKP) the Minister of Education in the UBP-TKP coalition government criticized these strikes on the basis that it hurt the children and accused the unions of not thinking of the consequences of their actions. Hüseyin Özgürkün (an MP from DP at the time) attacked the minister for 'giving a message that promotes discontinuation of union activities' and went on explaining how union activities are protected by constitutional law.³⁶ He also added that such criticism should have come from 'the social democrat parties' in parliament instead of himself, but he was proud of mentioning it anyway.³⁷ Then in 2016, when UBP-DP was the coalition government, they proposed to change the law that allows the administrators of the two teachers' union receiving salaries from the central budget without any teaching requirement. This was done after the general secretaries of the said unions criticized these parties heavily in public. Hüseyin Özgürkün (now the prime minister from UBP) argued that 'the administrators of these unions have stepped out of line', and similar law modifications would be proposed in the future for all the unions.³⁸ This time,

serving as the opposition in the parliament, TDP and CTP fiercely objected to the comments of Özgürgün and reminded DP-UBP about the ‘constitutional rights’ of the unions and their members.

There were about 45 labour unions in TRNC as of 2013.³⁹ Except the larger two teachers’ unions and one civil servants’ union, the other unions have small number of members which means they are not very effective in terms of putting pressure on the governments. Thus, their activities usually go unnoticed. The unions however have historically managed to put pressure on governments to ‘protect’ their given rights. Most of the rights have been extended by the earlier governments in the north in line with clientelistic motives such as early retirement laws, generous working conditions and compensation packages, blind eye towards second-job regulation and the like. The unions made sure that these ‘rights’ were to be defended at all cost and the politicians could not change those although they were aware of the potential dangers to the overall economic well-being of the country. Although there have recently been some talks about unionization in the private sector, it is unlikely that governments will allow this given the historical abuse of union power in the public sector.

This chapter focused on development and structure of the northern Cyprus labour market. The public sector, including municipalities and SEEs, had been the first choice for employment for Turkish Cypriots after the division in 1974. The generous benefits of working in the public sector undoubtedly attracted many individuals. The private sector on the other hand was the principal employer of foreign workers albeit where Turkish Cypriots held managerial roles. This was at least the case until the start of the new millennium. After the year 2000, the private sector started to pick up and ‘larger’ employers began to shape the local economy. This increased the demand for labour and some Turkish Cypriots began to move to private sector employment, but with the hope of transferring to public sector at some time even after the starting salaries of the civil servants decreased significantly after 2008. With the shortage of labour supply in the private sector, firms began to bring in foreign workers but employing them illegally or unregistered in many cases which contributed to the size of informal employment in northern Cyprus. The unionization of workers in northern Cyprus is mainly limited to the public sector, amongst whose effects was to create a wage, terms and

conditions gap between private and public sector employees. Whilst the labour unions started as representatives of political parties in the 1970s, over subsequent years the connection waned although larger unions are still heavily involved in politics and civic engagement.

The experiences of labour in public and private sector in north Cyprus have been vastly different from each other. Public sector employees have enjoyed generous working conditions guaranteed by state laws. On the other hand, private sector in general did not even develop completely until the early 2000s, and before that, the sector was mainly composed of young civil service retirees who were self-employed. One exception was the middle of the 1990s when Asil Nadir's companies started to offer significant employment opportunities in the private sector. The locals tend to blame the lack of development of the private sector to prime minister of Turkey's visit in 1986 when he basically said that Turkish Cypriots need not produce anything because Turkey could take care of them. Subsequently, civil service employment increased and semi-state-owned enterprises began to fumble. Private sector businesses mainly were composed of small- to medium-sized enterprises managed by current and retired civil servant entrepreneurs who took the opportunity to generate extra income by taking advantage of relaxed regulations and cheap labour, mainly Turkish immigrants. In the next section, we discuss the evolution of another key wheel of an economy, namely, the social security system.

Notes

1. SPO (1977), p. 31.
2. Republic of Cyprus, Official Gazette, #27, #27, Addendum IV, 19 Sep 1974.
3. The term *mucabit* refers to those TMT personnel or others securing Turkish Cypriot rights/protection prior to July 1974.
4. TRNC Parliament Proceedings (30 June 1988), p. 7288.
5. The same decision also allowed MPs to import a car for personal usage (not necessarily from Turkey), but allowed payments to be extended until the term of the MP is up.

6. Actually, the gap is even wider because private sector employees work although private sector employees work on average nine hours more than public sector employees. Of course, we need more rigorous statistical approach to determine the exact wage gap between private and public sector employees.
7. The pupil/teacher ratios in state schools are available at SPO (2016), Table 26.
8. <https://www.kibrissondakika.com/doktorlarin-ikinci-is-yasagi-bakanlar-kurulu-gundeminde/>.
9. Author's own calculations using 2008 HBS raw data. Some of the payments are from retirement fund, social insurance fund, veteran payment and even unemployment payments.
10. SPO (1977), p. 68.
11. According to the regulations, all the firms who are involved in import/export were required to register with the Chamber of Commerce. Since the rest were not subject to this regulation, the numbers presented are only a lower limit for potential private sector labour supply.
12. SPO (1977), pp. 99–104.
13. *Ibid.*, p. 104.
14. TFSC, General Secretariat of Ministry of Interior and Settlement, 1978 Activities Report, p. 20.
15. Nevzat and Fraser (1999), p. 80.
16. *Ibid.*, p. 135.
17. PGlobal (2014).
18. Besim et al. (2015).
19. Ekici and Guven-Lisaniler (2015).
20. Social Insurance Service, Republic of Cyprus. HLFS of TRNC also reports the same numbers based on their sample of households surveyed which is highly unlikely to be obtained based on such a sample.
21. See Besim et al. (2015) for a review of the literature.
22. Besim and Jenkins (2006).
23. Besim et al. (2015).
24. Ekici and Besim (2016).
25. The state extended amnesty in 2005 to those (only Turkish Republic nationals) who work as unregistered in order to help them come out of shadows, and many people took this opportunity, but ten years later the problem still persists. We show in Ekici and Besim (2018) that those

- who work as unregistered earn salaries 66% less than their counterparts who work as registered.
26. See Ioannou and Sonan (2016) for treatment of historical analysis of trade unions on both sides of Cyprus.
 27. Saygili et al. (2013).
 28. Ibid.
 29. Diler (2015), pp. 364–368.
 30. Ibid.
 31. <http://www.haberkktc.com/haber/-huseyin-curcioglu-31128.html>.
 32. Ioannou and Sonan (2016) refer to this union ‘leftist’, whereas Saygili et al. (2013) refer to it as ‘rightist’.
 33. TFSC High Court, Case no: 2859/77, Nicosia (Yargitay/Ceza: 6/78).
 34. Personal communication, Summer 2017.
 35. Erdim (2014).
 36. TRNC Parliament Proceedings (28 April 2000), p. 4316.
 37. Ibid., p. 4308.
 38. TRNC Parliament Proceedings (16 January 2017), p. 10.
 39. Saygili et al. (2013), p. 292.

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6

Social Security System

The strength of a social security system in a country is a key measure of the importance placed on the quality of lives of its citizens whether shown by affordable healthcare provision, social transfers to disadvantaged groups, unemployment and disability benefits or pensions. Affordable healthcare, whether it is directly provided by the state or subsidized, is probably the single most important dimension of social security. Post-retirement benefits in the form of pensions or lump-sum payments are also key indicators for the quality of a labour market in a society. In some countries, both of these are provided by private sector, but still in many countries around the world, these services are provided by the state.

Social security system in northern Cyprus is progressive, at least in principle. All who are employed are required to register with the Social Insurance Office and all those who are registered and their dependents are subsequently eligible for free healthcare at state hospitals. In cases where an individual has an illness that cannot be treated in northern Cyprus, the state could send them to Turkey (or in some cases to the UK) and pay for the medical expenses. There are also other smaller benefits such as financial assistance to all those who are getting married, a 'milk subsidy' to mother for every child born and maternity pay, pre- and

post-delivery. My main focus here, however, is on state pensions provided by this office.

The social security system in northern Cyprus has had an interesting development. The administrators of the breakaway state were in urgent need of establishing key institutions for social and economic development of Turkish Cypriots. The first step was providing employment at state institutions with favourable working conditions as we have discussed in the previous chapter. The social security benefits were the second area that could have given the illusion of strong independent state to the citizens, and the policymakers were very quick in realizing this opportunity. As a 'reward' for fighting in the bi-communal conflict and defending the 'national cause', early retirement options and several years of non-earned contributions were extended to the masses. The state also crippled its own social security by not paying their own financial dues to these institutions. Furthermore, successive governments modified laws that allowed themselves to meddle in the administration of these institutions and engage in nepotism. The 'left' parties and unions did not object to the modifications in social security because the changes usually benefited the workers, but they also did not question the financial sustainability of the system. When Turkey finally forced the governments to change the system in the mid-2000s, the unions became very vocal and protested against the loss of worker benefits, whilst still ignoring the overall picture.

Retirement pensions have a distinctive history in northern Cyprus. Before 2008 there was a separate pension fund for civil servants (although they had the option to join the regular Insurance Fund if desired). The so-called Retirement Fund provided both a regular pension and a lump-sum gratuity to its contributors. Non-civil service employees had a different fund, the Provident Fund, to which they contributed while working in order to receive a lump-sum payment at the time of their retirement. These two funds had completely different structures where the former was fully controlled (and funded) by the state, whilst the latter was semi-independent and was not supposed to receive any funding from the central budget. The Provident Fund has been financially well managed and has even been extending loans to the social security office and the state budget. Of course, given the incompetent practices of the previous governments, such loans

could be considered as bad loans and unlikely to be paid back in which case this Fund could also be in serious financial trouble.

The flexible retirement rules and generous pension benefits of the Retirement Fund have proven to be financially unstable and a huge burden for the state which led to its integration with the general social security scheme in 2008. For example, immediately after the 1974 division, the veterans of war and their families were immediately granted pensions (although there were no contributions from these people nor anyone else). Although there were proposals in the government programmes and development plans to merge these into a single system since the establishment of TRNC, the joint system was only finally formed in 2008, with the ‘political push’ of Turkey. The large number of government pensioners as well as missing contributions from private sector employees has resulted in a broken system.

This chapter will show the historical development of both types of pension systems and assess their significance to the development of northern Cyprus. Over the years the governments had modified the relevant laws to serve their own purposes without considering any financial impact for future generations. The unions, being representatives of the public sector employees, did not object to these very much as they hugely favoured their own interests. The result has been a failed social security and financial burden on future taxpayers.

Social Insurance for Non-civil Service Employees: The Self-Employed and Probationary Civil Servants

One of the priorities of the breakaway state in 1975 was to establish social insurance for Turkish Cypriots. The Cyprus Turkish Social Insurance Law (*Kıbrıs Türk Sosyal Sigortalar Yasası*, 16/1976) was passed on 4 May 1976. The law covered all the public service workers, private sector workers, self-employed and employers (Article 4). According to this law, insurance coverage starts as soon as one began employment, and it was the employer’s responsibility to notify the related office about the start and end dates

of employment. The insurance covers the beneficiaries for workplace accidents, illness, unemployment, maternity pay, veteran and old age. In case of death, the immediate family of the beneficiary were to receive the payments. Civil servants had the option to opt out of this scheme for old-age payments since they had a separate Fund (discussed below) where they could receive pensions, but other types of insurance for civil servants are also covered by this Fund.¹ The contributions were collected into the Social Insurance Fund (SIF).

The premiums for different types of coverage were determined by the Council of Ministers. For example, the most recent premiums for workplace accidents and occupation-related health issues are covered completely by the employer, but other general health coverage are divided equally between the employee, employer and the state (6% of gross wages). Then the premiums for veteran, death and old-age pension payments are 16% of gross wages with 6%, 7% and 3% contributed by, respectively, the three above-listed. There are other premium requirements for maternity and unemployment premiums. These different premiums have created cumbersome calculations, and it is unclear whether the premiums had been collected correctly over the years.

Section 14 of the related law discusses the formation and responsibilities of the SIF. The wages and salaries of the Social Insurance Office,² whose allocated posts at the time of establishment were 225, were paid directly from this Fund,³ and personnel were subject to the regulations under Public Servants Law. The Fund's annual budget should be submitted to the Council of Ministers, and the Court of Accounts was supposed to audit the Fund and publish auditing reports in the Official Gazette. In other words, the regulations lay a good foundation for accountability and transparency for the management of this Fund. The Fund operated on the basis of capitalization where contributions are made by the employer, employee and the state, and is managed by a seven-person board of directors with representatives from the state (four), workers (two) and the employers (one). The state representatives were appointed by the Council of Ministers, which once again shows the lack of independence of this Fund from government.

The historic number of pensioners from, as well as contributors to, the Fund for selected years is shown in Table 9. The pensions of the

beneficiaries are paid by the current contributors; therefore the ratio of contributors to beneficiaries is an important indicator for the financial sustainability of this Fund. Although there is no simple rule for a sustainable contributor/beneficiary ratio, a generally acceptable ratio is 3:1. From the table we can see that during the early years, this ratio was satisfied, but after the middle of the 1990s, this ratio decreased to 2.5 and below.

There are 20 different levels of pension payments from this Fund. Table 10 reports the lowest, medium and the highest pension amounts for different years as well as the legal minimum wages. Those who receive the lowest pension levels have been receiving less than the minimum wages until 1993 when the minimum limit was exceeded but only for two years, when it dropped below the minimum wage again in 1995 and did not come back up until 1999. Since 2000 (with the exception of 2007) the minimum pension payments from this Fund have been slightly above (at most 9.1%) the minimum wages. The highest payments on the other hand have always been above the minimum wage levels. In the 1980s, the difference has been as much as twice the minimum wages. However, the gap has widened enormously as much as four to five times the minimum wages. As of 2009, the maximum pension payment from this Fund was seven times as much as the minimum wages.

Instead of comparing minimum wages to the pension payments, we can also look at the difference between the various pension levels. Different levels are decided according to years of service and rank of the public servant at the time of retirement. The ratio of the lowest to the highest limits also shows a widening gap. In the early 1990s, the ratio was around 3 to 3.5, but after the mid-1990s, the ratio increased to 5 and in 2009 it was 7. So, those who were receiving at the high end of the pension system have been awarded greatly compared to those at the lower end. The data for the number of pensioners at each level is not available.

There has been an even bigger problem for the Fund. The gap between the upper limit of pensioners and the minimum wage has increased towards the end of the 1990s. In other words, not only were there fewer contributors per beneficiary but also the pensioner from this Fund (beneficiaries) started receiving higher pensions, whereas the contributors were working for worse (lower wages) conditions. Finally, given how

there were many unregistered employees in the private sector or the contributions of the registered were under-reported (wages were usually reported at the minimum wage level), the full revenue potential of the Fund could hardly be realized. These crude facts are simply a recipe for a financial disaster.

Part of the benefit of social security can be found in the payment of health expenses at state hospitals. Naturally this scheme also covers the dependents of the contributors. After 2004, with the economic boom triggered by the Annan Plan, there was a significant increase in the number of contributors which was simply due to the increase in the number of employees coming from Turkey during the boom and the amnesty extended to them in 2005. But another agreement signed between TRNC and Turkey allowed the families of these registered individuals to come and live in TRNC. Since the boom mainly affected the construction sector, the families of the workers in this industry benefited the most. And the immigrant workers in this sector were mainly of low education and had large families (i.e., often more than five dependents). This resulted in a significant increase in the number of patients to state hospitals which not only increased the burden on hospital staff but also increased the cost of healthcare that was expected to be paid by the SSF.

One of the strange aspects of this system was its coverage for those who were employed before the system was established. Some of the Turkish Cypriots were working for the Republic of Cyprus before 1963, and some even before that under British colonial rule. Thus, they had made their social security contribution to the relevant systems under those authorities. When the new office was established, KTFD decided to count all the years of contributions of the individuals since 21 December 1963 (the start date of the ethnic conflict according to the Turkish leaders) in the new system. The expectation was that these individuals would probably not be able to receive their pension ever from the Republic of Cyprus as they now lived in another state. As of 2005, there were still 402 individuals who were receiving pensions from the SSF who never contributed to it and 7262 (32.3%) people who had some of their premiums paid to the Republic of Cyprus fund. Although this is a very humane idea, its financial rationality is questionable. All those people who had zero contributions in the new system as of 1977 now suddenly had

10–15 years of contributions from previous times transferred and now were able to receive pension at the establishment of the Fund when there was actually no money reserves to begin with. Furthermore, there were some individuals who received pensions from both the Republic of Cyprus and TRNC. In other words, some individuals have abused this rule and applied to both social security schemes over the years.

One of the modifications of this law in 1985 addressed this issue. Thus, if the pensioner started receiving any pension from the Republic of Cyprus which was higher than the pension received from TRNC system, the latter pension would be stopped immediately. However, if the amount received from the Republic of Cyprus is smaller than the TRNC pension (which should be verified through deposits at TRNC Central Bank), then that amount would just be added to the TRNC accounts. This change in the law was deeply suspicious. It was highly likely that the pension from the south would be less than that given in the north and, even if not, then it was possible to show at the central bank that the amount transferred was less even by one cent. Then the pensioner could actually cheat the system under its own legal control.

Another change in the same year regarded the ‘veteran status-old age-death’ (Malullük-yaşlılık-ölüm, MYO) pension amount calculations (Article 61). The original law required ‘70% of the average of the highest of 7 of the last 10 years’ annual income used in premium calculations’ to be used as the basis for pension calculations. The modifications made it more complicated: ‘the ratio of the contributor’s income to the highest income scale for the last 7 years is calculated, and the average of the highest 4 of these ratios are then multiplied by 750 and then multiplied by 70%’ to decide the pension income. The subcommittee in charge of drafting the changes in Social Security Law consisted of Dr. Ali Atun, Numan Ali Levent, Huseyin Curcioglu, Alpay Durduran, Orhan Kahya, Ahmet Ötüken and Naci Talat Usar. Most of the changes were accepted unanimously at the committee, but some (mentioned below) were opposed by Durduran, Ötüken and Usar. The parliament discussed this law on 23 May 1985.

Another financial obstacle for social security came from the very same entity supposed to protect it the most. The state was supposed to contribute 3% of the wages to this Fund. As of 1995, the government’s total

Box 6.1 Parliament Discussions on Modifications to Social Security Law

Let's look at the discussions that revolved around modifications on Article 61. Original article required that the pensions could be received after contributing for 25 years (20 years for women) and having completed 60 years of age.⁴ The new proposed modification reduced the age requirement to 55 years. Durduran objected to this whereby he requested that the age requirement should completely be eliminated (just have 25 years of contributions), and thus he and his party would vote 'indecisive' (*cekimser*) on this article (TRNC Parliament Proceedings, 23 May 1985, p. 16). Of the same change, Usar also said that his party did not approve it, requesting no age limit, but since the age limit was reduced from 60 to 55, it was an 'improvement'; thus they would approve this change (*ibid.*, pp. 16–17). So, someone who starts working at the age of 18 (right after high school) could potentially 'retire' at the age of 43 and start receiving pension if the age regulation was not applied. Keeping in mind that the life expectancy for males at the time was 70, that would mean around 30 years of pension for the individuals.

The next set of arguments started on the discussion of modifications for Article 83, paragraph 4, that regulates the premium percentages for the MYO payments. Original article required 9% contribution distributed equally between the employee, employer and the state. The new proposal would change the total to 11% for 1985, 13% for 1986 and 15% for after 1 January 1987. The rate was not to be changed for the earlier periods. The opposition (Usar and Durduran) had no objections to the increase in rates for employer and the state but opposed to increase in employee contribution rates. Mehmet Bayram (the Minister of Labour and social security) defended the increases on the basis that the other changes in this law have brought increased benefits to the contributors which needed to be compensated by higher earnings for the Fund. Upon this explanation, the discussions revolved around the state's financial responsibilities regarding the social security (that, according to the opposition, the state should pick up any increase in the financial burden of the Fund, and that the state should find alternate means of increasing the Fund's revenues and not rely only on premiums) and how the past governments have failed in the past.

Further minor points on that day could give the readers a better picture of the parliament proceedings. When Lutfi Ozter summarized the social security receipts and pension payments of the Fund since 1977, Mehmet Bayram and Taşkent Atasayan objected to him by yelling out 'Don't be ridiculous', but Ozter insisted that these numbers had been provided by the government to the subcommittee. Ozter also claimed that the government had used this extra money for their own supporters and basically let it erode against inflation. After these allegations, the UBP MPs had started

yelling to Ozter from their seats upon which the president of the assembly had asked for a recess; upon return the proposed modification was accepted by 21 votes against 18. This kind of exchange was typical of how lawmakers debated and scrutinized the contents of parliamentary bills. All the pro-worker improvements were accepted unanimously, but no one objected to its financial sustainability. This has been the general behaviour in the north. How can anyone object to the fact that workers can retire at an earlier age? But did anyone actually calculate the number of people who would be eligible and the corresponding burden on the Fund and hence the active contributors? Parliamentary records show no such concern, with clientelistic behaviour displayed over and over again.

contribution to this Fund (without interest) should have been 730,274,358,217 TL, but not having paid any money until that time, the state instead gave real estate in exchange for some of this debt (*mah-suplasma*) which was only worth 61,819,952,705 TL leaving substantial amount of unpaid accumulated debt.⁵ The accumulation of state's social insurance debt between 1977 and 1995 is shown in Table 11. Although we don't have access to information after this date, it is publicly known that the state hasn't paid its contribution to this Fund (although annual budgets include items for this purpose) and instead transferred some arbitrary amount at the end of each year to the fund. By 2004, the accumulated debt was expected to have been 102,268 billion TL (about \$76 million).⁶ But this Fund was supposed to be managed independently; thus the administrators of this Fund should have taken the matters to the court, but instead they did nothing because they were also appointed by the governments who were the perpetrators of this scheme.

The operation of the social security office has been a key item of discussion for many years. The opposition parties would blame the governments for taking it to bankruptcy and the governments would blame the existing regulations and the existing system for its unsustainability upon which always include 'wishes' in their programmes to improve the social security system. Insofar as the three major parties have alternated power since 1975 and nothing has been done to fix the system, they themselves (UBP, CTP and DP) are responsible for the system as it emerged to the present. In 2010 social security was merged under a single structure, under pressure to do so from Turkey, but it is questionable whether the

change in the system will help save the social security whilst political mismanagement continues unabated. However, before examining the merged system, the pension system that was designed separately for the civil servants needs to be described.

Pension System for Civil Servants: The Retirement Fund (*Emekli Sandığı*)

The Fund is managed by a board that includes four state representatives and one trade union representative.⁷ An SPO document claims that ‘the lack of organized work by this committee to this date (2005) could be problematic’.⁸ The retirement pensions were regulated by a law from the British period. Turkish Cypriots struck out this law and drafted their own in 1977. The Retirement Law (*Emeklilik Yasası*, 26/1977) covers only civil servants. At first there were no age criteria for eligibility of pension receipt. Instead there was just ‘number of work years’ regardless of when those years were completed. For those who were appointed before 2 April 1985, a minimum of 10 years was required, and for those after this date (but before 1 July 1987), a minimum of 15 years. The years served in the military (multiplied by two) during the bi-communal conflict (1963–1976) were also counted as part of the time-serve requirement. Thus, someone who was in the military for three years (which was very common during that time) and then started working in the civil service before 1985 could retire after working for four years. This in fact has resulted in many young retirees who would draw pension from the central government for a very long time.

The 1982 changes for this law are also interesting (26/1982). For example, the original Article 3, paragraph 4, included only those civil servants who were approved by Public Services Commission, but the new changes would add those who ‘have worked at Bekir Pasa Water Works (Bekir Pasa su isleri)’, which is obviously added to target a small group of individuals.⁹ The original article covering the military personnel who served under Turkish Cypriot Army required adding three months for each year of service, but the new modifications required doubling of the years served (between 1963 and 1976) and not requiring any proof of discharge (*terhis belgesi*). Article 6 which outlined the conditions for those

who were only eligible for retirement lump-sum bonus was also modified. The original article required those whose total service years at public sector were less than ten years would receive only a lump-sum payment. But the modifications changed this to exclude the time served in the military as part of the ten years for the eligibility, but then include it in the calculation of the retirement salary. And the changes continue to favour the workers, but it looks like the modifications were made to favour the past and not the future.

There was some objection to the increase in premium payments from 2.5% to 5%. Erdal Süreç (TKP) believed that 'social security should be paid by the state to its workers gratuitous'.¹⁰ Thus, they were against any kind of premium payment. On behalf of CTP, Ergün Vehbi explained that these modifications were only intended to benefit some forgotten group of people but does not cover all eligible equally, and thus CTP would vote against these unless the entire law changes simultaneously with the Social Security Law. The new modifications gave certain rights to some of the veterans (*mucabid*) who had served before 1974, but did not include the military personnel after this date which Vehbi declared as unacceptable. For example, the modification required time served by the *mucabid* commanders who were discharged before 1 April 1977 to be included in the retirement calculations, but CTP proposed that this article be extended to all *mucabids* not only the commanders upon which the subcommittee required further time to discuss these suggestions, and the meeting was postponed to 28 June. The final version of this article would not include all the *mucabids* but only the commanders. As always the opposition's views were not enough, and the modifications were accepted by majority of votes, but of course this was not the end of changes to this law.

The 1982 modifications were also criticized by the labour unions.¹¹ KTAMS criticized the changes on the basis that the premium payments were increased from 2.25% to 5% without increasing the pensions or lump-sum payments at the time of retirement. Türk-Sen sent a letter to President Denктаş and asked him not to approve the modifications because their proposal to include 'the time served by 100 civil servants who were working at the foreign bases' in the new law was not accepted although other workers with similar conditions were included.

The regulation regarding the payment of pensions of the civil servant retirees was changed in July 1987. Before that, the entire pension would be paid through the central budget. For those who started working after July 1987, the new law (39/1987) required the establishment of a Retirement Fund that would collect deductions from paychecks that will be used to pay the pensioners later. For males who started working before July 1987, 0% (5.5% if married) from their net salaries, and for those who started working after this date, 4% (8% if married) of their gross salaries were to be deducted to be deposited into this fund. In other words, single civil servants who started working before July 1987 contributed nothing to this fund. Furthermore, those who started working in civil services after July 1987 would be required to work for at least 25 years and be at least 55 years old in order to be eligible for the pension. In other words, for the years 1977–1987, the Fund offered early retirement possibility and required little in contributions.

It is no wonder then that Turkish Cypriots have preferred working in the civil services. The early entrants to this sector (1975–1987) have benefited greatly. Some would argue that those individuals have experienced long years of conflict/war; thus they deserved to be rewarded. This kind of reasoning has dictated the clientelistic policies in the post-1974 era. By the time the state had realized the financial instability of these benefits, the rent opportunities (rentierism) were so high that they were not willing to trade the possibility of getting elected to financial sustainability of social security. After all, short-term solutions were available by securing finances from the ‘motherland’. Attempts to fix the system have increased over the last decade with pressure from the only financial donor, Turkey, but the unfairness it has caused over the years and the clientelistic tradition it created will always be remembered.

Provident Fund (*İhtiyat Sandığı*)

On top of the pensions received from the Social Insurance Fund, the non-civil service employees were also entitled to a lump-sum payment at the time of retirement through another fund called Provident Fund. The law regarding the management of this fund was first enacted in 1977. But

it was completely abandoned and replaced by a new law (*İhtiyat Sandığı Yasası*, 34/1993) in 1993, accepted in the parliament on 25 June 1993 by a majority vote. The aim in the original law was listed as ‘to protect the social benefits of all those who are employed in TRNC but are not covered by any other retirement benefits’. In 2007 they modified the list to only include employees, employers and self-employed and specified retirement benefits as a ‘lump-sum bonus’. And finally, in 2009, they excluded non-citizens from being eligible.¹² The payments were to be made from a Fund that receives employee and employer contributions plus earnings from other activities. The law also made it unlawful for those eligible not to willingly join the Fund without proper reason.

All TRNC residents who are working for pay and are not covered by another retirement fund, all those foreigners who are working and have permanent residence status and the working foreigners who are exempt from work permit are required to be covered by this Fund. The self-employed and employers can also be included in the Fund upon written request. Those who were retired or were already receiving a pension from Social Insurance Fund were not covered. However, if they continue to be employed after retiring, they can also be included in this Fund. Given that there were many young retirees at the end of the 1990s that continued to work (self-employed mostly), they also joined this Fund. The contribution is 4% of employee’s gross wages (premium) that is matched by the employer (deposit), and it is the employer’s responsibility to directly pay in these amounts every month. The self-employed and employees can deposit between 4% and 8% of their own wages. The total premiums and deposits received by this Fund are shown on Table 12 along with the payments made. The fund did quite well in the sense that they received more money than they paid out, at least until the end of the twentieth century. However, the data for 2001 shows the opposite to be the case, and we do not have access to the data for the remaining period to comment any further. This is another example of the pattern of the lack of state accountability where the access to data is limited.

The employee can recover the accumulated amounts when employment is terminated, subject to certain conditions. If the employment is terminated within two years of the start date, the employee can receive all the premiums with interest but not the deposits. Those who complete

three years will receive premiums and 30% of the deposits, and the percentage increases by 10% for each year afterwards where all the premiums and deposits (with interest) can be obtained after having worked for ten years. If the employment terminates early due to illness, getting married, maternity, becoming full-time student, entering military service or not being able to find a job within six months after termination, the employee is eligible for full benefits. The beneficiaries are also allowed for advance withdrawal up to half of the total accumulated amounts. In case of death, all the accumulated value is paid to the next of kin.

The board that manages this fund consists of nine members all of whom are appointed by the Council of Ministers upon recommendation of various sources for the duration of two years. However, the council can dismiss any member as they wish without any reason before the term is complete. The recommendations for candidates for appointment come from the Minister of Labour (two persons), Minister of Finance, SPO, the employer trade union with the most members (two persons) and the employee Federation of Trade Union with the most members (two persons) and the second most members (one person). The board is mainly in charge of the management of the Fund and the office. However, the Minister of Labour's approval is an essential requirement before the decisions of the board can be finalized (Article 12, paragraph 5). The decisions regarding the management of capital in this Fund have to be approved by the Council of Ministers, and the Fund can be audited by State's Court of Accounts. Article 42 clearly states that 'the money in the Fund (Providence Fund) can only be used to make payments to those who are eligible for retirement benefits'. But before that under Article 4-3, the Fund's (Provident Fund) activities are defined more extensively such as buying/partnering with other enterprises, buying bonds and treasury bills, and operating in the insurance sector. But it does not say anything about loaning money to other enterprises which past governments had continuously done.

Although this office is supposed to act independently from the government, the employees are also considered civil servants. They are subject to all the regulations of Public Servants Law, but also have some extra privileges. For example, employees have their own retirement fund called Providence Fund Retirement Fund which only covers the employees of

this office.¹³ The capital accumulated for the former Fund are kept at Vakıflar Bank. Table 9 also shows the number of contributors and beneficiaries to and from this Fund for available years. The contributor to beneficiary ratio has decreased over the years as the number of early retirees has increased and the number of active contributors in the later years has decreased. Table 12 shows the total payments made to and from this fund over the years.

Table 12 also shows the budget for the Fund for selected years. At the beginning the Fund had most of the money as demand deposits at local banks. However, after the 1990s, the amount of loans given from the Fund increased and now makes up almost 70% of all the wealth. Most of this money are loans to the SEEs under state guarantee (*devlet kefalet senedi*), but given how the state is currently bankrupt, it is unlikely that most of that money will be returned. As of the end of 1995, out of 911 billion TL credit given to various entities, 62% was for the Ministry of Finance, 18% to the Consolidated Fund and another 18% for the Social Housing Fund. The state exchanged the Mimoza Hotel for the money they owed for government contributions to the Social Insurance Fund, and the Fund then sold this hotel to Provident Fund for GB£926,000 on 20 March 1995. But these developments were criticized by the Court of Accounts and state prosecutor, and the president (Rauf Denktaş) wondered if it was possible to cancel this sale.¹⁴ In fact, the Fund sold this hotel to Gossip Ltd. on 26 September 1995 for GB£1,260,000, but the sale could not be completed because the Attorney General's Office found that the Fund was legally not allowed to engage in sale of real estate. Subsequently, in 2000, the law (18/2000) regulating this Fund was modified to allow such sales, but the amount owed by the purchaser at this time was not paid and the Fund took the matters to the court.¹⁵

The fund also bought Sunzest Trading Ltd. on 13 July 1995 for 288 billion TL. Sunzest Ltd. was a subsidiary of the Polly Peck company that went bankrupt in 1991. This company specialized in citrus fruit packaging and producing concentrated juice. Ömer Kalyoncu (CTP) said that the government purchased this company because 'Cypruvex's capacity was not enough' and 'the company [Sunzest] had unpaid tax debt to the state and unpaid social security contributions of the workers'.¹⁶ But the

state then wanted to sell the company at the end of 1995. The CTP-DP government saw this as a good move since ‘workers received their unpaid earnings and the company operated during 1994–95 which also allowed workers to receive income during this period’. And they also tried to sell the company at higher than purchase price. If the state purchased this thinking it was a good investment, then why did they want to sell it within six months of purchase? If this company could be used by Cypfruvex, then why didn’t they transfer/sell it to this company? The Fund was managed as a financial intermediary of the governments. Whenever the state wanted to borrow money to bail out the SEEs or Social Insurance Fund, they borrowed money from the Provident Fund. But the state has never paid back these loans.

Single Social Security System (SSS) (After 2007)

The idea of a ‘single social security system’ for all types of employment had been floating around since the establishment of TRNC. The second FYDP had included this idea, but it wasn’t until 1994 that this was listed in a government programme (DP-CTP). Of course, no action was taken for a long time, and it was finally in 2007 that the law was finally enacted. The parliamentary subcommittee met five times in seven days and brought the bill for approval of the general assembly on 9 July 2007.¹⁷ The bill was approved unanimously. However, the opposition parties were not present in the assembly on that day. UBP and DP had been boycotting the assembly, and their representatives were also not present at the subcommittee meetings. The subcommittee claimed that they have also taken the views of the members of three Federation of Unions (DEV-IS, HUR-IS, Türk-Sen) at the meetings. However, many other unions opposed this bill and demonstrated against it heavily. Thus, either the subcommittee did not take the unions’ views into consideration or that the members who attended the meetings did not really represent the views of the larger group of workers. By not participating at the general assembly on that day, the opposition parties did not present their views

regarding this piece of legislation and basically avoided any future clash with the public.

The government at the time (CTP-ORP¹⁸) was very enthusiastic about this bill, and they declared themselves as the ‘savior of the social security’ on that day. At the same time, they were attacking the labour unions for their opposition to this bill. Some of the unions prepared leaflets to inform the public regarding the contents of this bill. The prime minister (Ferdi Sabit Soyer, CTP) blamed these unions for preparing such leaflets containing information that is ‘below the intellectual knowledge level of the unionism and political activism of Turkish Cypriots’ and claimed that their requests were ‘irrational’.¹⁹ The rest of the CTP members also attacked the union members for discord and deceptiveness as well as ‘not being leftist’.

There were several changes in the new law. Disability/old age/death (MYO) categories are now separated, and rules pertaining to each of them are detailed individually. The old-age pension eligibility age increased to 60 years conditional on at least 9000 days of premium payments (Article 53-1). In case the individuals had less than 9000 days (but more than 5400 days) of premium payments, they could receive discounted pensions after 63 years of age. The pension of the retiree is calculated by multiplying ‘average monthly earnings’ with ‘monthly replacement rate’. The average monthly earning of a pensioner is calculated by average of all the years of service (except the first and the last year). The calculation of the latter ratio is non-linear. The ratio for each of 360 days of the first 5400 days is 2.5%, and for each of the remainder 360 days the ratio is 2%. Any duration less than 360 days is prorated. So, for someone who worked for 9000 days, this ratio is equal to 57.5%. There are other special rules in this calculation, but overall the new pension system increased the eligibility age as well as decreased the base salary. Of course, this new law would only affect individuals who registered and started paying premiums after January 2008. The lump-sum bonus for the civil servants that was paid through the Retirement Fund became unavailable for those who started working after 1 January 2008. The new law required 10% (equally by the employer and the employee) contribution of gross wages to the Provident Fund for everybody which made a significant loss of retirement bonus payments for the civil servants.²⁰

A properly designed social security system is essential in any country to ensure the well-being of its citizens. Although under different economic ideologies, the details of such a system will be different, a state without one is bound to receive a lot of opposition from its labour force. Northern Cyprus did have a good social security system at the beginning, at least on the paper. Consistent with other clientelistic practices of the governments, civil servants had more benefits under their own social security system compared to private sector counterparts. That wouldn't have been such a bad thing if the state had done its duty and actually contributed the necessary amounts to the related Funds. As if that wasn't enough, the state had also used the money in these funds to cover up other affairs (financial assistance to some state-owned enterprises). The policymakers have been aware of the fragility of the social security and made promises in their government programmes to fix it, but their political motives did not allow that. As long as Turkey was sending money to cover up the deficit in the budget, there was no immediate need for making changes and risking loss of political power. Finally, there was little pressure from the public since civil servants and private sector employers (who were the majority of voters) were themselves venal beneficiaries of this system.

Since local politicians and the citizens would not act against the corrupt system on their own account, they had to have some kind of external incentive in order to change the fragile social security system. Such an 'incentive' came from Turkey after 2005 when they insisted that the social insurance system had to be merged into a single system. One reason for this pressure was AKP government who was not happy with the funds being wasted by the local governments in northern Cyprus. Another aspect of this insistence was that after 2000, more and more Turkish citizens began to live and work in northern Cyprus permanently who were now eligible for the benefits of social security system which made Turkey to be more interested in the sustainability of the system. Obviously, since the change was requested by Turkey, it created a lot of public opposition especially from labour unions, but the local political parties were keen to blame this on Turkey and once again pleaded not guilty of their past crimes on abusing the system. Past governments have used the Social Insurance Fund and Provident Fund as their local bank and used the accumulated money to extend credit to other semi-state-controlled enter-

prises that was another area of exploitation by the policymakers. Time will show if the combined social security system is going to improve financial conditions and how much burden will fall on the current contributors, but in my mind the previous generations have benefited greatly but undeservedly from this system.

Notes

1. The civil servants who are on probationary status (for two years) are also required to contribute to this Fund. Once they become full-time (permanent), then their contributions will be continued at the Retirement Fund. All other types of employees and self-employed contribute to Social Insurance Fund.
2. Law 58/1989 regulates the workings of Social Insurance Office that was established in 1989.
3. Until 1981 the employees of the Fund were getting paid from the central budget.
4. The age limit was 55 for those who have been working in mining industry or other jobs that required working underground.
5. TRNC Ministry of Labour and Social Security Bulletin (1995), No. 3, p. 12.
6. TRNC Ministry of Labour and Social Security, Activities Report, 2004, p. 22.
7. The representatives from the state are one representative from Ministry of Finance, State Planning Organization, Treasury and Accounting Office and Personnel Office. The trade union representative should be from the union that has the most members working in the public sector.
8. SPO (2005), p. 203.
9. Actually, Ergün Vehbi (CTP) claims that there are only two people working at this place (owned by Evkaf), and one of them already is eligible for retirement benefits, but the other one is not. Thus this clause is added just for one person (TFSC Parliament Proceedings (25 June 1982), p. 58).
10. KTFD Parliament Proceedings, 25 June 1982, p. 53.
11. Bozkurt Newspaper, 30 June 1982, “Emeklilik Yasasının Degistirilmesi Sert Tepkilerle Karsilandi” [Modifications to the Retirement Law have received strong opposition].

12. There are still 5% employee contributions required by the law, but no premium is deducted from the foreign workers. The contributions from these deposits are accumulated in 'Incentive Premium Fund' used to promote domestic labour employment. Foreigners who are exempt from this article (who still contribute 5% and are eligible to receive payments) are university lecturers, pilots and plane technicians, and civil servants.
13. TRNC Ministry of Labour (1996), p. 18.
14. TRNC Ministry of Labour and Social Security, Report of the Minister (Ömer Kalyoncu) at the Parliament regarding 1996 Budget of the Ministry on 31 January 1996.
15. TRNC Ministry of Labour, Settlement and Social Security, 2000 Activities Report and Targets, 19 December 2000, p. 29.
16. Ibid., p. 32.
17. TRNC Parliament Proceedings (9 July 2007), p. 3378.
18. ORP refers to Özgürlük ve Reform Partisi (Freedom and Reform Party) that was established by a group of people who left UBP. This party participated in the coalition government after 2006 elections, but in 2010 the party was dissolved and its members went back to UBP.
19. TRNC Parliament Proceedings (9 July 2007), p. 3413.
20. <http://www.kktckamusen.org/site/sayfa.aspx?pkkey=44>.

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7

State Economic Enterprises and Revolving-Capital Enterprises

After the division of the island, the demand for labour in the north was met primarily through the creation of state administrative positions albeit at the same time there was a shortage of qualified labour. As we have seen in the previous chapters, whilst the number of civil servants had indeed increased, as much as 42% of that Turkish Cypriot cohort had previously been workers in agricultural sector. Furthermore, alternative means of employment that did not need government funding had to be designed. To this end the state formed nine enterprises mainly in agriculture, energy and financial sectors where there was shared ownership (with state-owned enterprises in Turkey) but ‘independent’ governance and five other enterprises that would sustain themselves through a revolving-capital fund and partly managed by state elected officials. These enterprises were intended as alternatives to civil service posts and in which significant employment was provided by using minimal resources from the central budget while allowing these enterprises to contribute to domestic production. However, over the years these enterprises proved to be a huge burden on central government, and some of them went bankrupt or were sold to the private sector. In this section, we analyse the evolution of these enterprises and discuss the involvement of the governments in decision-making. In some

cases, we will also show the impact of these enterprises on the overall economy in terms of the value of product sold and employment opportunities.

The law that to this day continues to regulate the working of the first type of enterprises was called the State Economic Enterprise (SEE) Law (*Kamu İktisadi Tesebbusleri Yönetim, Denetim ve Gözetim Yasası*, 37/1975), passed in 1975 (Box 7.1). The law has gone through only very minor modifications since then. Article 2 of that law defined a state economic enterprise as:

“the entities which are autonomous in their activities and their responsibilities are limited by their capital stock and at least 51% of their capital stock are owned either (i) solely by the state,¹ or (ii) one or more than one SEE, or (iii) an SEE and the state.” The economic activities of the enterprises are subject to the Companies Law. (Fasil 113, 1951²)

Box 7.1 Parliament Discussions on SEE Law (21 November 1975)

The parliamentary debate on the SEE law took place on 21 November 1975. Özker Özgür (CTP) had recommended a new article to be inserted after Article 25 which stated that ‘anybody who is a member of the parliament of a political party or central governing board cannot be nominated or elected to the Common Board of Governors of the SEEs’.³ He proposed this article so as to ensure that political parties would not be involved in the governance of the SEEs. The parliament took a break at that time so that the subcommittee could consider this proposal. After one hour, the parliament reconvened where the subcommittee rejected this proposal. After this, Özker Özgür retracted his proposal on the basis that ‘the members of the subcommittee have convinced me that such an article would limit the political freedom of a citizen’.⁴ No change was therefore made on this article, but clientelism and rent-seeking thereby became permanently institutionalized.

Nejat Konuk (UBP) had also suggested a modification on this law which led to serious discussions. Article 26 requires that ‘51% of the shares of the SEEs should be owned by the state, the state and another SEEs, or multiple SEEs’ which was inconsistent with the definition of a SEE outlined in Article 2. Konuk suggested to add a follow-up temporary article which proposed that ‘this rule is not required for the SEEs that were established prior to the acceptance of this law’.⁵ He also explained that the members from his party involved in the subcommittee acted on their own and thus the draft bill did

not reflect UBPs' views. Fuat Veziroğlu, Naci Talat, Alpay Durduran and others opposed this suggestion fiercely. After long discussions, finally the article was put to a vote (Fuat Veziroğlu suggested that this voting be held by calling out each name, but this proposition was rejected by 18 against 13 votes). The final tally was 20 for and 11 against which led to the acceptance of Article 26 as it was, but the requested follow-up was added at the end under 'temporary articles'. In the end, the law was accepted in its entirety by 20 votes against 11 votes.

That this article and law does not make sense has had enduring significance for the northern Cyprus economy and society. There were some SEEs such as Cyprus Turkish Airlines and Industrial Holding (both discussed below in great detail) that were established before this law, but 51% of the shares were not owned by the KTFD. When the SEEs were originally formed right after the separation in 1974, enterprises from Turkey were made partners because Turkish Cypriots lacked the management skills of the newly formed enterprises and needed experiences of Turkey. If the article was changed, then the Turkish partners would have had to give up some of their shares in order to comply with the law, but Rauf Denктаş and UBP militants could not contemplate such a disgrace against the 'motherland', hence the modification.

Over the years this law was only modified three times. Article 24 of the original law required 'at least 10% of net profits to be distributed to the workers'. Turgut Mustafa (TKP) suggested in 1975 that this amount was too low,⁶ but then this article was accepted unanimously. This article which has rent-generating possibilities for the politicians was amended in 2005 down to '... at most 10% ...'. Hasan Bozer (UBP) objected not to the maximum limit but to the fact that the new change excluded 'board of directors, director, secretary, vice-director, accountants, external consultants, advisors (*musavirs*)' on the grounds that these people were the brains of any enterprise and if there was any profit it was attributable to these individuals and thus they should also receive their share.⁷ Given that the salaries of these positions were substantial, their proportional transfers from profits would also have been substantial. Ferdi Sabit Soyer (president at the time, CTP) responded to this by saying that over the years there had been applied a bylaw that allowed the individuals in this list to

receive an 'incentive premium' which basically substituted the dividends.⁸ At the end the changes were accepted by the majority of votes on 6 June 2000. Once again revenue resources were redistributed to the controlling rent-seeking class and away from the labouring producers of wealth.

The SEE definition has a built-in loophole where a SEE can be owned by another SEE which could be owned by another SEE and so on. This has caused some inconsistent practices over the years. For example, in the same law (37/1975) the Religious Affairs Office (Din Isleri Dairesi) was also defined to be a SEE, but this office does not conduct any economic activity. On the other hand, the now defunct Cyprus Turkish Airlines had been managed as a SEE for many years until 1998 when the Constitutional Court declared that it was against the constitution.⁹ We will see in this chapter that several of these enterprises were not governed according to the relevant law.

The law also provided that the enterprises were to be governed by the 'common' board of directors where capital and labour were to be equally represented. However, the representatives of the state or other SEEs (since they should have had at least 51% of the shares) were actually appointed on the nomination of the relevant Minister and by a decision of the Council of Ministers. Once again the 'captured' rentier state exercised continuous political influence on these enterprises. The labour representatives were selected from among the Labour Council itself formed from among the workers of the enterprise, and financial auditing of the enterprises was to be carried out by the finance inspectors from the relevant ministry. Finally, Article 16 was interesting because it held that the enterprise (hence the board of the directors) was to be responsible for dictating the price of the own products and services according to the market conditions. However, it also allowed for the Council of Ministers to intervene and set their own prices as long as the financial losses that might result from the price difference could be covered by the state's budget. However, we will see in this chapter that output prices have usually been determined by the related ministries without any provisions to cover the losses, and rentier interests came to trump market prices. Having introduced the foundational law and surveyed the broad interests in the state economic enterprises, we now turn to an analysis of their historical development including the histories of individual enterprises.

After the introduction of the SEE law, the management and auditing of these enterprises were subject to a new law. But instead of using the opportunity to contribute to the economic development of northern Cyprus, the SEEs have become the major base for clientelism not only for the domestic government but also for Turkish governments as well, since state enterprises from Turkey were shareholders of the enterprises in northern Cyprus. Each time a government changed in Turkey during 1974–1980 period, the executive boards of SEEs were filled with the people from political parties in the coalition government in Turkey.¹⁰ The secondary executive positions and other permanent posts would then be filled by the KTFD government. Under these conditions the management of these enterprises placed a burden on, rather than alleviating, the central budget.

The enterprises were established under Fasil 113 law. This law was from the British period (1951) and it was adopted in 1974. This law basically outlines the procedures regarding establishment of limited liability companies in northern Cyprus. Since then it has been modified eight times. The first modification in 1977 extended the minimum criteria for appointment of an auditor (*denetçi*) for a company established under this law by allowing ‘people with business, finance, accounting, or economics degree from a university with five years of work experience’ or ‘graduates from a high school or middle school with at least 20 years of experience in income tax applications’. Another modification in 2003 increased the responsibilities of the liquidating agent (*tasfiye memuru*). Such an agent would be able to notify the debtor in case of liquidation 30 days in advance to pay off the debt on immovable property, and if the debt was not paid by this time, the agent could sell the property by auction or private agreement.

Back in 1961, following the founding of the Republic of Cyprus and the first state economic enterprises, the Cash Development of the Consolidated Fund of the Assembly of the Turkish Cypriot Community (*Türk Cemaat Meclisi Konsolide Fonu İnkişaf Sandığı*, henceforth Consolidated Fund) had been established. This Fund was to be the shareholder in these subsequent SEEs. The Fund’s initial financial capital came from the British government (half a million lira in August 1960 from the agreement to support the Turkish community) and other sources (e.g.,

the Turkish government and from central state budget). The Fund was formed to act as the reserve to support the Turkish community by giving loans for economic development, becoming especially significant during the bi-communal conflicts between 1963 and 1974. The Fund had six board members who were representatives from different ministries. The management of the Fund was transferred to TRNC Office in charge of 'Money Exchange and Economic Growth Matters' (*Para Kambiyo ve Inkisaf Sandigi Isleri Dairesi*) that was established in 1987, and so the Fund effectively became part of the TRNC's 'sovereign' wealth, including its liabilities.

As early as 1976, there was a request in parliament (by Alpay Durduran) for a Parliament Research Committee to be established to research 'the workings of SEEs'. When asked by Nejat Konuk about what 'workings' were intended, Durduran responded with several examples.¹¹ He claimed that, in addition to financial mismanagement and problems at other SEEs, Cyprus Turkish Petroleum (*Kıbrıs Türk Petrolleri*, KTP) had been operational for 11 months, but there was still no personnel handbook: for example, workers were not insured even though they worked with dangerous materials, and there were no written rules about personnel vacation days. In the end, with 17 votes against 16, that a committee of enquiry be established was rejected thereby confirming a history of refusing due diligence, accountability and further easing *torpil*.

Table 7.1 shows the number of employees and percentage of share owned by the KTFD as of 1982. The endowment quantities reported are expressed in current monetary terms (to allow some comparison), and more endowments were promised at the time of establishment. Compared to the total roll of 11,000 civil servants in 1982, these 9 enterprises provided 3443 jobs. The largest share was in Sanayi Holding which was the main industry producing several different goods with high value added such as textiles, cleaning supplies, furniture, flour, construction materials and several others. Unfortunately, this enterprise was shut down in 1998, and some of the employees were transferred to other civil servant positions and the rest were forced to retire. ETI, KTHY (Cyprus Turkish Airlines), Tobacco Industry would also share the same fate in later years. Cyprus Turkish Petroleum (*Kıbrıs Türk Petrolleri*, KTP) was only recently privatized in 2011. The management of these enterprises have proved costly for the state and over time drastic measures had to be taken.

Table 7.1 List of state economic enterprises

	Actual endowment (in million TL)	Share of KTFD as of 1982 (%)	Employment in		
			1977	1982	2010
Turkish Cypriot Industrial Holding Company (Sanayi Holding)	412	50	1397	1258	Bankrupt
Turkish Cypriot Tourism Establishments (Kıbrıs Türk Turizm İşletmeleri)	60	50	362	212	Bankrupt
Cypfruvex	9	100	1139	940	92
Turkish Cypriot Tobacco Industry (Kıbrıs Türk Tütün Endustrisi)	5	49	49	90	34
ETI	6.5	100	303	428	73
Cyprus Turkish Petroleum (Kıbrıs Türk Petrolleri)	147	49	53	92	50
Cyprus Turkish Maritime (Kıbrıs Türk Denizcilik Sti. Ltd)	70	50	29	33	33
Vakıflar	116	100	310	255	NA

Source: SPO (1982), p. 65

There are several reasons for these outcomes. According to the second Five-Year Development Plan, the main reasons for difficulty in running these enterprises were lack of finances, lack of management experiences, inability to sell the products in international markets and the management difficulties due to shared ownership with Turkish-based enterprises. During the 1977–1982 period, the total contribution of SEEs to GNP was about 5.5%. Fixed capital investments of SEEs had decreased (as a ratio of total fixed capital investments in KTFD) from 9.8% in 1977 to 3.1% in 1982. Are these reasons enough to explain the failure in these organizations? The enterprises constantly borrowed money from the central bank or other commercial banks to manage their operations, and the state was the guarantor of the debt. Senior-level managers at these enterprises were appointed directly by government and were given extra privileges.¹² Once again, the politicians had direct influence on the management of these enterprises and they used it for their nepotistic purposes. We will discuss in more detail the histories of some of these enterprises in the following subsections.

Another set of semi-state-owned organizations were the so-called revolving-capital enterprises (*Doner Sermayeli Kuruluslar*). There were five such organizations but they also provided significant employment opportunities and economic activity potential (see Table 7.2). Four of these were related to the agricultural activities, with the fifth concerning the energy sector. These organizations had their own establishment laws and regulations regarding their management and operations. Although these enterprises had high potential, inappropriate policies have forced these to totter on the brink of bankruptcy or, indeed, fall.

Another reason for the abandonment of these SEEs could simply be the change in global economic conditions and overall political-economic views on such enterprises. A Privatization Committee was formed in the parliament in 1987, subsequent to the visit by Turgut Özal (prime minister of Turkey) to the island. This also coincided with the privatization and broader neo-liberalization attempts initiated in Turkey. After the ‘24 January 1980 decisions’ in Turkey, economic policies were directed at privatization and lowering the burden on the state budget and introduction of ‘free market’ economy. The Turkish government enacted a law in 1986 (#3291) that gave power to the Council of Ministers to privatize the SEEs.¹³ Özal’s visit to Cyprus ensured that TRNC policymakers adopted his ‘suggestions’. Thus, the start of privatization in the TRNC echoed changing political-economic ideology, that is, the advent of neo-liberalism, around the world and in Turkey especially. Whatever else, this

Table 7.2 List of revolving-capital enterprises

Revolving-capital enterprise	Number of full-time employment in		
	1977	1982	2010
Cyprus Turkish Electricity Board (Kıbrıs Türk Elektrik Kurumu, KIBTEK)	327	435	654
Agricultural Supply Board (Tarımsal Donatım Kurumu, TDK)	93	102	NA
Milk Industry Board (Süt Endüstrisi Kurumu, SUTEK)	8	23	29
Agricultural Products Board (Toprak Ürünleri Kurumu, TUK)	78	81	153
State Hatchery (Devlet Üretim Çiftlikleri)	101	226	NA

Source: Numbers for 1978 and 1982 are obtained from SPO, First FYDP, p. 67.

The numbers for 2010 are obtained from Güven (2013)

gave opportunity for local policymakers to break decades of poor policies. Examination, next, of the individual histories of some SEEs will show the response not for public benefit of these ‘opportunities’ but to increase and concentrate private benefits at public expense.

Individual Histories of Some of the SEES

By examining in some detail the histories of some of the biggest SEEs in northern Cyprus, we shall show how rentierism, rent-seeking behaviour and endemic clientelistic politics continued to dominate the political economy of the TRNC. These characteristics were further complicated and compounded both by the continued dependent relationship with Turkey on the one hand and the enduring isolation of the de facto state on the other hand. We begin with the SEE which sought to break the TRNC out from isolation and assert an identity independent of Turkey, namely, the ultimately ill-fated Cyprus Turkish Airlines (KTHY).

Kıbrıs Türk Hava Yolları (KTHY): Cyprus Turkish Airlines

Cyprus Turkish Airlines (CTA) was registered immediately after the division on 4 December 1974 under equal ownership with Turkish Airlines. This was a great necessity as the fastest means of travelling to northern Cyprus was by air, and since the new state was not recognized officially by the international community, there could be no flights except from Turkey. Thus CTA was established to continue providing air transport services between northern Cyprus and the rest of the world through Turkey. The planes had to touch down in Turkey before they could continue to northern Cyprus or another country which added to the consumer cost of air travel. The company started providing services to Ankara and Adana in February 1975. As with other enterprises, the input of Turkish partners was very important as Turkish Cypriots lacked the know-how of air travel. The first step was to rent Turkish Airlines planes and operate under KTHY. By 1988 the company purchased six planes (four Boeing 727 and two Airbus 310) of its own. Although the company

had equal share with Turkish Airlines, the executive board had two members from KTFD and three members from Turkey which would cause some resentment over the years. Table 13 shows annual total supply of seats and the corresponding actual number of passengers for 1975–1993.

Successive governments of the north have requested assistance from Turkey regarding air travel, including at the 1978 Second Joint Economic Commission of the two governments.¹⁴ First, the northern Cyprus government asked for routes beyond the Turkey and northern Cyprus line, and that Turkish Airlines (Türk Hava Yolları, THY) could use airspace at Ercan (northern Cyprus airport) as a way out. Secondly, KTFD also requested extension of the contract between THY and KTHY regarding Ercan-Istanbul-London route. Both of these requests were duly noted by the Turkish side. Finally, KTFD requested that if KTHY leases an airplane from another country, they should be allowed to fly to European countries with this plane under THY name and logo. The Turkish side responded that they would be willing to consider this ‘as long as this did not interfere with THY flight schedule’. None of these requests were mentioned in the third meeting in May 1979. In the third Joint Economic Meeting, there was a new decision. Both parties decided that whenever THY was bidding for airplane purchases, they should consider including in the project purchase of a plane to be paid and owned by KTHY. But then, in the fourth meeting in December 1979, this proposal was rejected because ‘THY and KTHY have different carrier status’ and KTHY was thus required to purchase on its own. In other words, the requests from northern Cyprus were not satisfied, and KTHY was left to struggle in asserting its presence. Thus, despite THY holding a 50% share interest in KTHY, no ‘infant industry’ protection or subsidy was forthcoming from the ‘motherland’.

Members of the CTP party brought a motion for investigation of KTHY (M.A. No: 3/3/96) by a Parliament Research Committee on 21 June 1996. The basis for the investigation was mainly allegations regarding mismanagement of KTHY, thereby causing financial losses to the company in the previous two years.¹⁵ The motion was accepted unanimously at a parliamentary session on a Sunday 20 June 1996 albeit without the presence of the UBP. An investigatory committee was formed but a report was never produced. Tellingly, in those previous two years the

CTP had been in government (with DP since 1 January 1994) and thus, if there was any mismanagement, shared responsibility lay with the CTP. In fact, during the first six months of that coalition government, 37 temporary personnel were employed at KTHY.¹⁶ This is just another example of many examples where the coalition members placed the blame of any wrongdoing on their partners even though they were also serving in the government at the same time. Two months after this motion, the government failed and DP joined forces with UBP.

The government began the privatization process for this company in 2005.¹⁷ According to Lisaniler et al. (2013), the ground crew operations were initially given to a private-public company. Then in 2010 the company was liquidated and 418 full-time personnel were let go. In March 2012, the TRNC Parliament passed a law providing for the re-employment of SEE employees who had lost their jobs due to privatization of the companies that they had worked for, resulting in 303 employees being assigned to civil service positions. Not only did this cause extra financial burden on the government budget, but also it created more inefficiency in the civil services since the reallocation of the people was done at random without any attempt trying to match their skills to the new positions. For example, I have met a woman who had been working at ground services with KTHY but who was transferred to the office of National Archives. The only aim of the government, with pressure from the unions, was to provide permanent employment to potential voters without giving much thought on long-run consequences.

KTHY enjoyed a significant market power for airline travel between northern Cyprus and Turkey for a long time. In the early years, there was virtually no competitor other than THY itself, even when towards the end of the 1990s some private operators took a small fraction of the market. However, the demand for airline services between north Cyprus and London in particular was very high mainly due to Turkish Cypriot diaspora living in the UK. When the financial troubles became visible in the 2000s, the number of competitors also increased and the market share of KTHY decreased. Turkish Airlines withdrew from the company and sold its shares to a private company in Turkey (Ada Havacilik ve Tasimacilik AS) in 2005 before, with long-sensed inevitability, the KTHY declare bankruptcy on 21 June 2010.

The TRNC Parliament has established a committee to research the ‘reasons behind discontinuance of KTHY flights’ on October 2015 that ultimately prepared and shared the report on February 2017. The committee was formed of five members, and two CTP members chose not to cast their vote on the report instead of voting against it. However, CTP had prepared its own report on this issue.¹⁸ The details of both reports are obviously important, but I will give a very brief summary here. The Parliament Report (only prepared by UBP members) basically points to the competition faced by low-cost carriers from Turkey after 2005 as putting extreme pressure on the company’s financial sustainability as the sole reason for failure (which raises the question of why this company could not achieve economies of scale in the past 35 years). On the other hand, CTP report blamed the government of Turkey and in particular President Erdogan’s negative attitude towards the issue, and claimed that Turkey started a price war on purpose and put pressure on KTHY to pay off debt owed to Turkey which brought the company to the brink of bankruptcy. A common point of both reports is that they don’t talk about the practices of the company from the twentieth century and give the illusion that the company’s troubles had only began in the last decade. But I think the following extract from CTP’s own report summarizes the main problem (although not the point intended by this report): ‘Since the establishment of KTHY on December 4, 1974 and since the beginning of its first flight on February 1975 until 2005, there had been no serious attempts to reorganize the company to make it competitive.’¹⁹

If this statement is correct, then how is it possible that this airline survived for 30 years without any problems? If the increased competition is to blame for the bankruptcy as claimed by the UBP report, then why didn’t the government use protectionary policies (tariffs, quotas) to circumvent the problem? If the problem was the pressure from Turkish governments, then why couldn’t the northern Cyprus governments stand up to protect their nation’s interest? Insofar as this airline was formed in cooperation with Turkish Airlines and they were the only airlines providing services between an undeveloped and isolated northern Cyprus and the rest of the world, it was no wonder that such a state monopoly could not survive. First of all, THY did not see KTHY as a partner but instead as a competitor. THY operated flights on the exact same routes as KTHY

to a relatively fixed market. As KTHY could not jointly purchase aircraft (as we saw in the Joint Economic Meetings) combined with reckless spending of the airlines on personnel and unproductive activities, this ensured that KTHY only survived as long as it did for non-commercial reasons driven by clientelistic rent distribution. Finally, we can see the inability of local governments to protect local interests when it clashes with that of Turkey's.

Kıbrıs Türk Sanayi İşletmeleri Holding Ltd. (Sanayi Holding) (Cyprus Turkish Industrial Enterprises Holding)

Before 1974, Turkish Cypriots were not very active in the industrial sector of the Republic of Cyprus. Amongst all firms, the total shares of employment of Turkish Cypriots were 8.7% (in firms employing less than five persons) and 10.3% (in firms employing more than five). In terms of the total employment in this sector, Turkish Cypriots made up 7.2%, but in terms of contribution to GNP, by the firms solely owned by Turkish Cypriot entrepreneurs, it was around 2%. After the division, a substantial portion of the fixed capital wealth in industry, 30% of total fixed investments, 26% of GNP potential and 32% of total employment potential, remained on the northern part of the island.²⁰ Before 1974, there were 2549 Turkish Cypriots employed in industry at 686 factories (80% of which employed less than 5 employees). By 1976 the total number of factories under TC control was 1441, with a total employment of 4579 (6596 in 1977, with maximum potential of 7764). Another source puts the total employment in this sector at 4500 (with max capacity of 6500) as of 1979.²¹ By 1980, there were 266 factories with 6107 total employment, strongly suggesting an increase in employment together with a concentration of industry.

After the separation, around 40 of such factories began to be managed by Sanayi Holding Ltd, upon which I now focus, that was established in February 1975. As of 1976, 50% share belonged to the Consolidated Fund, and the other half was controlled by six different companies from Turkey. The company had 43 factories under its control and six other that

were rented out in 1976 where the tenants could not pay the rent and the cost of the raw materials. In 1991, the company increased its capital, and the shareholders from Turkey withdrew from this company²² which resulted in 51% of shares owned by the Consolidated Fund, 29% by the state Provident Fund and 20% by the state Social Insurance Fund. In other words, all the shares now were owned by the domestic and public participants.

Already by 1976 the value of production was a lot lower than had been planned.²³ The main reasons cited were the lack of skilled labour, lack of raw materials, high excise duties for exports and issues that arose as a result of maintenance. About 87.7% of all Sanayi Holding sales were to domestic consumers, and the rest were exports to Turkey (2.3%) and to other countries (10%). Nevertheless, the total gross sale amounts (in TL) did increase substantially compared to 1975. The total share of labour costs (direct and indirect) was around 40% of all costs.

This company also provided good employment opportunities. When it started operations in February 1975, there were 241 hourly paid employees (workers) and 73 full-time permanent employees. By the end of the year, the numbers increased to, respectively, 813 and 176. By the end of 1976, there were a total of 1115 people (898 workers, 217 permanent employees) working at more than 40 factories. As we can see there was a rapid increase in the employment numbers although the same report concludes that 'even though personnel expenditures have been 53% of total expenditures, given the duty of this company to provide employment within KTFD, we [the company] should at least keep the numbers constant until we can reach a more efficient production capacity'.²⁴ But the number of employment within the company decreased substantially in the later years. By the end of 1977, this number had decreased to 1058.

As early as 1976, collective bargaining agreements had not been honoured by the management. Workers went on strike in January 1976, whilst the ruling UBP concurred that the items in the bargaining agreements had not been honoured, yet the management prohibited workers from joining a labour union (although against the constitution). Furthermore, 20% was being deducted from the wages of probationary status workers when the upper-level management were receiving high

salaries, a practice eventually abandoned. Labour representative Ozel Tahsin from Türk-Sen at the parliament called the government into action to fix the problems between workers and management and reminded them that the state controlled 50% of this enterprise.²⁵

At the beginning of 1982, the company saw a significant clash between two unions. DEV-IS and Türk-Sen were struggling to become the representative union for collective bargaining at this company. In fact, when members of DEV-IS went to one of the factories to talk to the workers, they were not allowed to enter, upon which there was disorder.²⁶ In the end, the ballot to determine the representative union was held in June 1982, and DEV-IS received 59% of the total votes (976 votes).²⁷ This was a huge victory for CTP and the left political parties as DEV-IS was mainly under their control.

The 1976 Report cited above noted the lack of potential development of the company, and the managers of the company provided certain recommendations in order to reach full production capacity. Unfortunately, development faltered, and by March 1983, the Parliament Research Committee prepared a report on Sanayi Holding and KTTI²⁸ which revealed mismanagement and financial difficulties of both enterprises. Some of the findings of the report on Sanayi Holding are summarized below:

1. Many of the factories were not actually operating, and even those that were had been producing on-demand.
2. The company was in serious financial difficulty and needed immediate re-capitalization.
3. Due to fire and loss of production at a paint-producing factory (destroyed by suspected arson although the investigating committee did not find any such evidence), most of the paint needs of the public sector were met by private sector producers controlled by very close friends (or relatives) of administrators of Sanayi Holding.
4. Even though there are reports by Court of Accounts regarding 'abuse of power' by some administrators at Sanayi Holding, the government, the Holding or the Court did not take any legal actions. Instead these individuals were removed from their positions.

İsmet Kotak (the Minister of Industry and Cooperatives) mentioned, in one of his visits to Ankara in 1982, that Sanayi Holding was operating at only 20% capacity but if Turkey provided financial capital to the company, it could provide for an additional 5000 jobs in northern Cyprus.²⁹ He also mentioned that although the asset value of Sanayi Holding had increased to 800 million TL, Turkish shareholders had not done what they were supposed to and that an increase of capital ‘on paper’ meant nothing. Such a description was coming from the highest authority showing the condition of the company in 1982. Between 1983 and 1986, the company was able to produce far below its production capacity. Even by 1986, only 28% of its total productive capacity was utilized, and the number of employees decreased to 481 although the maximum capacity under those circumstances could have been 1200.³⁰ The problems with marketing, human resources, technology and finance were still cited as the causes of underproduction. Yet the Council of Ministers continued appointing general managers without relevant experience but with generous salary packages,³¹ thereby reinforcing clientelistic politics on the one hand and rent distribution on the other hand (Table 7.3).

The company had become very difficult to manage for the government and they decided to reduce the operations.³² The Council of Ministers decided in 1987 to leave only 11 factories under the Holding’s management and rent out the rest.³³ The *Ece* Flour Factory was given to Agricultural Products Board, and *Narpak* was given to Eastern Mediterranean University, EMU.³⁴ Another factory, Thermal Plastic, was being managed as a partnership with another private company (Council of Ministers, Decision #E(K-2) 1388-87). There were two other factories that were auctioned off to the highest bidders in February 1988. One of them was rented for five years at a monthly rent of 400,000 TL in the first year which was to increase to 976,000 in the fifth year. The other one was leased for 33 years at 900,000 TL per month in the first year, and then

Table 7.3 Production values for Sanayi Holding, 1983–1986

Year	1983	1984	1985	1986	Max capacity
Actual production (tons)	8872	11,906	10,028	8000	28,700

Source: TFSC Parliament Proceedings, 11 March 1983, p. 65

increasing to 1,860,000 in year five at which time it would be renegotiated. These rental fees were massively under-rated for a factory, signalling an effective hidden subsidy and/or *torpil*.

The employment within the factory continued to decrease from 481 in 1987 to 270 in 1991.³⁵ By 1991, there were only 24 factories under the control of this company. A combination of liberal competition with imports from Turkey and the impact of the Gulf War and the Poly Peck crisis had reduced the total volume of sales by 1991. The company was also in financial crisis as they had used a lot of their earnings to pay off previous debt, and they couldn't invest in new equipment or raw materials. The nominal personnel expenses had increased by 13% between 1990 and 1991 although total employment had decreased by about hundred employees to 270, again suggesting a concentration in the redistribution of rent. By this time the share of labour expenditure was 71.5%. The workers were being paid on average about three times as much as the national minimum wage requirement and the other permanent staff five times as much.

In order to decrease company costs and to become competitive in foreign markets, the management first wanted to reduce labour costs by decreasing employment (see Table 7.4). Out of 270 staff in 1991, 99 of them were full-time staff and the rest were hourly paid workers. The number of employees increased to 312 by 1995 but then decreased again to 283 in 1997 right before the company closed its doors.³⁶ The total debt of the company at the central bank that was backed by the state guarantee increased from 1.4 billion TL in 1988 to 2.3 billion TL in 1990.³⁷ In other words, the cost-cutting strategies did not really help the financial

Table 7.4 Employment and average salaries at Sanayi Holding, 1987–1991

Year	1987	1988	1989	1990	1991
Total staff	481	392	422	372	270
Average monthly salary (TL)—worker status	266,907	358,126	571,794	1,153,757	1,806,081
Average monthly salary (TL)—permanent staff status	372,068	574,191	928,642	1,766,416	2,593,719
National minimum wage (TL)	90,000	121,000	205,000	340,500	520,000

Source: Cyprus Turkish Industrial Holding (1991)

situation of the company, but it did secure rents to the top management and ruling strata.

Although this company increased its capital in 1991 and got rid of foreign shareholders, the company was no longer able to sustain itself. The Council of Ministers decided in 1997 (#E-275-97, 19 February) to establish a 'Privatization Committee' (*özelleştirme birimi*) that consisted of six members from different ministries that would prepare a report on the privatization of SEEs. The council asked the committee to prepare the report on Sanayi Holding on 26 March 1997 (# E-515-97).³⁸ The committee's report that was completed on 7 May 1997 was forwarded to the Council of Ministers by Erdal Onurhan (Minister of Economics at the time, and who had worked at the Holding in the 1980s) on 16 May 1997. The report basically suggested that the Holding could not sustain itself financially anymore and thus should be privatized. They forecast per month averages of 23 billion TL personnel expenditure and 25 billion TL interest fees in 1997 compared to 61 billion TL per month sale revenues (based on the sales obtained in 1996 and adjusted for inflation in 1997). The committee criticized the state for irrational borrowing on behalf of the company, for example, when in the past loans at 180% interest rate were contracted when alternative loans at 55% were available. The Report advised that the whole company could not be sold in one piece and thus the smaller and non-profitable factories of the Holding should be given a priority for their sale or liquidation and immediately prepare the technical specification for this purpose. Similarly, the staff of the company who would be laid-off had to be compensated though should employees wish to bid for the sale of the factories, they were to be given priority in case of a highest or close to highest bid. On 28 October 1998 the company had the last executive board meeting opting for voluntary liquidation. In December 1998, the liquidation board convened and the Holding was permanently shut down.

What could have been an economic success story for Turkish Cypriots after the division ended in disaster? The Holding that had enough factories to sustain the economy of northern Cyprus turned out to be a burden rather than a saviour. Non-recognition of TRNC and other economic embargos definitely contributed to this failure but cannot be the only reasons. Apart from the high politics and economic data which has

described the collapse of Sanayi Holding, personal testimony reveals much more of its significance to the economic life of northern Cyprus. Halil Erdim's (2014) collection of interviews provides important testimony, which I offer in Box 7.2 with my translation from the original Turkish.³⁹ Limiting my own commentary (only brief clarifications [in italics in square parentheses]), nevertheless these typical testimonies show clientelism in business practices, mismanagement of the company and the unrest between the managers and the labour unions. It was under such experiences that a central pillar of the northern Cyprus economy lurched from crisis to crisis, eventually collapsing having functioned for so long in serving private, personal interests and political positioning at public expense and the livelihoods of ordinary Turkish Cypriots. Another huge opportunity in contributing to the economic development of the north could have come from the use of tourism establishments. We discuss other related enterprises next.

Box 7.2 Personal Testimonies of Sanayi Holding Employees

Erdal Onurhan (p. 93): 'The shareholders from Turkey always helped with the management but the effect of domestic governments was always felt and the Board of Governors of the Holding was never independent [*he left Sanayi Holding in January 1981 and then served as a minister between 1985–1988, 1992, 1996–1998. He was the Minister of Economics when Sanayi Holding was shutdown*]. Due to ABAD decision [*this is the decision of European Court to prohibit sale of goods produced in northern Cyprus. We will discuss this in detail in the next chapter*], we were paying 28% extra tax, but the company would have still been in a difficult position even without this decision.'

Mustafa Ali Sefik (p. 233): 'I bought DO-RE-MI [*one of the companies*] for \$33K on Feb 6, 1998. The second highest bid was \$7000.' [*The machines at this factory was valued at \$68K as of 1.4.1997, p. 370.*]

Mustafa Altuner (p. 236): 'I received a call directly from [Rauf] Denктаş who asked me to hire a woman who lost her husband in the bi-communal conflict and I did. But that was the only political request that I have granted. They fired three directors after the fire at the painting factory.'

Mustafa Esatoglu (p. 252): 'The Elektrod factory was bought by an investor from Turkey who took the factory apart, bit by bit to Turkey. The general management was in charge of everything about the 40 factories which made the process very slow and added negatively to the feasibility and efficiency of production. During one period, colonels from Turkey were in the general management who had no business experience. DEV-IS [*the*

labour union] who was supported by the directors of the factories in the early stages have contributed to the loss of Holding because of financial demands that were not possible to be met by the Holding.'

Mustafa Gunduz (p. 264): 'There was some suspicion at the Ozmen Textile factory regarding insider thieves. One day the buses were kept waiting while security searched the workers. They found that some of the workers had small amounts of products stolen from the factory. These individuals were fired by the disciplinary committees but until that time, the managers received many phone calls including from Ministers regarding cancelling firing of these individuals.'

Namik Comunoglu (p. 266): 'The educated young leftist generation who couldn't find jobs as civil servants or other young adults who were not leftist but did not have any brothers in the government would seek employment at Sanayi Holding and this will ease the development of a labour union called DEV-IS who would act as a political party at the Holding.'

Nermin Olgac (p. 271): 'Berkmen was given to Irfan Nadir [*father of Asil Nadir*] and the Dikmen factory was given to Haci Ali in 1997–1998.'

Ozgun Faruk (p. 272): 'We borrowed money to buy raw materials for the Turbine Factory without the help of the general management. We promised that we will pay back the loan once we made sales. And we had very good sales but the revenues were collected by the general management and thus we couldn't pay off our debt.'

Ozkan Barisel (p. 276): 'When we fired a technician after several warnings for engaging in shirky behavior in the workplace, the regional manager called us into his office and asked us to rehire the technician. After I refused, I asked them I need written request to do that. Never received such a request in writing.'

Seval Bayramoglu (p. 304): 'The average salaries of factory directors were around 2500 TL, I asked for 6300 TL. The general manager of the Holding Orhan Alicli offered me 5500 TL and I accepted with the condition that we will renegotiate in 6 months. Nejat Konuk would tell my director to fire me because I forwarded his message regarding prohibiting DEV-IS members to enter the factory in 1977. But then he changed his mind. Orhan Alicli's [*the general manager*] contract was up at the end of 1977 who was earning 16-18,000 TL. He was given 2000 TL increase but he refused and resigned. His replacement was Yucel Dolmaci. I was treated as the one responsible for the fire at the paint factory and then I was fired "because of lack of work".'

Ulvan Polili (p. 325): 'I went to Sinasi Tekman's house. The general management of Holding was right in front of his house and we went to visit the person in charge of marketing who was a cousin of Mr. Tekman. I was immediately hired. The managers did not want to hire women at high level positions. Assistant General Manager invited me to his room and told me either to quit DEV-IS or I would be fired. I chose to quit. Those who were on union's side were later fired [e.g., *Zeki Erkut who wrote columns at Yeni Duzen*].'

Yılmaz Yigit (p. 355): 'The factory lost 40 billion TL in 1985 with the deal they made with Borusan. This was because the contract did not include 18% production loss for the pipes. When I insisted that an investigation should be held, I was fired.'

Kıbrıs Türk Turizm İşletmeleri Ltd. (KTTI, Cyprus Turkish Tourism Businesses Ltd.)

The Cyprus Turkish Tourism Businesses was founded on 8 November 1974 with shareholders from Cyprus and Turkey. The Consolidated Fund held 30%, and Vakıflar İdaresi (Vakıflar Management) held 20% of the shares, whereas the remaining 50% were held by five public enterprises in Turkey. Shareholding was redistributed in 1990 when the Consolidated Fund took 51% of the company and Turban Tourism AS from Turkey had the rest. The KTTI had the control of most of the touristic accommodation that were inherited from the Greek Cypriots (excluding the Varosha area). However, again, due to mismanagement and political meddling, the company did not survive into the twenty-first century. At first the company was downsized as part of the privatization of the SEEs, as discussed earlier, and only Mare Monte Hotel remained under the control of the firm. Then, the Council of Ministers decided on 12 January 1998 (BK# E-90-98) to liquidate the firm, appointing liquidators who terminated the company in November of the same year. The liquidators hived off Mare Monte to Vakıflar İdaresi, and that was the end of the company.⁴⁰ How did the key tourism company in the north, on a Mediterranean island increasingly dependent on tourism revenues, fail so dramatically? Politicians in the north will blame the Cyprus problem.

According to the 1980 budget report of company (16 June 1980), total capitalization for 1979, all paid, was 20,000,000 TL. However, a general board decision to increase capitalization threefold to 60,000,000 for 1979 was not accomplished. According to Article 7 of the company's articles of incorporation, the company would be managed by a group of five representatives, three from foreign shareholders and two from KTFD although both sets held an equal number of shares. This put the KTFD management at a disadvantage.

The Autonomous Turkish Cypriot Administration and KTTI signed an agreement on 8 November 1974 regarding the management of touristic establishments. The protocol was signed for 11 years and could be cancelled with two years of advance notice on either side. The company was responsible for management, outsourcing the management or renting of all the properties under its control. In exchange, the state would receive 15% of net profits as corporation tax, and pay 20% of the remainder of the net profits as rents. The company had not produced any profits since 1974 but anticipated coming into profit by 1979; thus until that time rents still had to be paid. There were also other properties leased by the state to this company. In 1979 there were plans to invest in new establishments (Philecia Court Hotel and Salamis Bay Apartment Hotel) as well as to increase the capacity of an existing hotel (Mare Monte), but these fixed investments could not be realized because of the inability to obtain the necessary funding due to bureaucratic problems. The list of immovable properties under the control of this company that were rented is available in Table 14. There were 8 hotels, 12 bar/restaurant/beach facilities, 20 office space and more than 70 flats/apartments that were rented out.⁴¹ Yet by 1983, this company was also in trouble just like many other SEEs. The policymakers continued their historically consistent practice of ‘discussing’ these issues in the parliament without reaching any substantive conclusions. Box 7.3 shows an example pertaining to KTTI.

Box 7.3 Parliament Discussions on KTTI-Related Parliamentary Investigation Report

A February 1983 parliamentary investigation reported, as summarized below, that⁴²:

1. KTFD held 50% of the initial share capital. This should be increased to at least 51%.
2. In the previous nine years, there had been 12 directors appointed, most of whom were not qualified.
3. The company had successfully marketed its facilities but had been very good at providing free or at very low cost accommodation and other services to many individuals.
4. The company had been providing completely free room and board to Turkish and KTFD state ministers and their families (current and past), the board of directors of the company, and their guests. Fifty per cent discounts

were given to the Turkish ambassador in Nicosia, the commander of local Armed Forces (*Güvenlik Kuvvetleri Komutanı*), KTFD head of the parliament, Military Division commanders, the Council of Ministers and their families; the Supreme Court judge, the chief prosecutor, head of Court of Accounts and their families, members of the board of director, secretaries (reporter), accountants (past and present) and their families (sibling, partner, children); and all the past and present MPs and their families; and 35% discounts were given to others.

5. The rental prices of hotels and apartments were too low in any case.

6. The transportation of tourists was the real problem according to the report and Gozel Halim (a TKP representative member of the committee who prepared the report) criticized THY for not finding a solution to this since they were partners of this company.

The minister responsible for tourism (Nazif Borman) responded to the allegations made in the report as follows:

1. The vice-director who authorized advance payments to individuals and who never paid these back had left the company in 1981, and had been fully compensated by the company (p. 32); therefore, there was no way to file any charges against this person at this time. The minister also claimed that the Court of Auditors should have notified the head prosecutor's office if this finding required any further investigation.

2. The payments to two individuals (15K and 6K per month in 1980) who were appointed at KTTI temporarily while holding other civil servant positions had been illegal under the Civil Servants Law. But it was claimed that this was done under alternative bylaws which was legal. The minister asked the prosecutor's office for further clarification.

3. He also claimed that 8 of the 11 (previously it was 12) general managers appointed to this company were only replacement directors who were appointed when the incumbent directors left. He claimed that it is very difficult to find qualified personnel to fill these positions in northern Cyprus.

4. There had also been attempts to increase the share of KTFD to 51% as required by the law.

5. The apartments and guesthouses were rented to the people in need, refugees, and due to increase in inflation, the current rent prices are low. [Yet, if we look at the tenants of the apartments in 1980, they were other SEEs or large companies.]

6. Regarding the discounts extended to some groups, the minister claimed that the regulations are still not approved by the Ministry and the practice would be stopped immediately. However, he added that it might be reasonable to provide these discounts to attract more tourists since the current occupancy rates were around 20% (p. 38).

Such nominal concern did not prevent at all the accumulated debts of the hotels and the general management of KTTI reaching alarming levels by the mid-1990s. Most of the debt owed was to the Social Security and Provident Funds. As of February 1996, the total debt of Salamis Bay, Mare Monte and Dorana Hotels was, respectively, 105.6 billion, 15.1 billion and 9.9 billion Turkish lira. The general management of this enterprise also had 12.8 billion TL public debt. On top of all this, the company owed 139.9 billion TL to the banks.⁴³ Eventually the establishments under the control of this company were handed over to various public and private organizations. Rebecca Hotel was taken away from this enterprise by the Council of Minister decision (#A-254-96) and leased to EMU for 49 years in 1996. Dorana Hotel was given to Social Insurance Fund to compensate for state's debt to this fund in 1996 (7.2.1996, #A-200-96), but then the council decided to sell it to Yakin Dogu Universitesi (Near East University) for 711,000 pound sterling (18 December 1996, #E-566-96). The accumulated rental fees and corresponding late penalties of Salamis Bay Hotel unpaid by the KTTI from January 1995 to July 1996 were pardoned or postponed (#A-930-96). This hotel was later leased for 49 years to Istanbul Airlines (#E-1381-97). As it can be seen, privatization sales or transfers had been decided by the Council of Ministers and not by the parliament or specific legislation. Without any public resistance to these decisions, governments have continued for many years in discretionary manner.

Cypfruvex (Cyprus Fruit and Vegetable Exports)

This company, established on 21 November 1974 with promised share capitalization of 10,000,000 TL specialized in the export of citrus fruit products. The shareholders were the Consolidated Fund (80%), Vakiflar Idaresi (10%) and Cooperative Central Bank (10%), and yet by 1979 Vakiflar Idaresi had still not paid the promised capital. The state allocated some of the workshops/factories that were inherited after the bi-communal conflict to Cypfruvex. The finance capital was assigned to Cypfruvex by the nascent de facto state with the condition that the company should lease or expand the immovable capital. In addition the citrus fruit lands

of 11,794 dönüms in Famagusta and 11,345 dönüms in Morphou were placed under the control of the company (Council of Ministers decision, #6158/January 1975) but later were taken away without any compensation despite monies having been spent on the maintenance of these lands. However, the company paid neither rent nor compensation for the immoveable properties and real estate allocated to them. However, the estimated value of the physical capital (3,604,483 TL) was counted as the part of the contribution made by Consolidated Fund (around 8,000,000 TL). Thus, the initial real financial capitalization of the company was actually less than 10,000,000 TL.

The 1976 Activities Report of the company realized potential problems and made the following suggestions⁴⁴: Export and trade issues aside, more financial capital should be secured and ways to utilize the second grade products should be found. The report also emphasized the importance of deficiencies in the Equivalent Property Law (*Esdeger Mal Yasası*, 41/1977) where the deeds of the establishments given to the firm were still not legalized and thus ownership is ambiguous. Finally, it was suggested that the management of citrus fields should be controlled and if necessary should be reallocated to the people who can manage efficiently, and the new juice company should be managed by Cypfruvex and its products should be sold to foreign countries (to get more foreign currency), and financial capital should be increased to 50,000,000 TL. Obviously, these steps could only be taken by the governance at the time, but the suggestions went unheard. The company did not have a profitable business in the initial years. In the three full years that the firm operated between 1976 and 1978, there were considerable losses. There was a project to establish a citrus fruit juice company whose investments would cost around 63,000,000 TL of which 30,000,000 TL has already been paid by Cypfruvex despite continuing uncertainty as to who would manage this company once in operation (as of 1979) (Table 7.5).

There had been an immediately pressing problem that the company faced in 1976.⁴⁵ Some of the citrus fruit cooperatives that were operating in the south of the island took the importing firms, which were buying Cypfruvex products exported from KTFD ports, to the courts in Holland and the UK. The complainants basically claimed that their members were

forced to flee their lands in the north after 1974 without being paid any compensation and the management of those lands were now under the control of an unrecognized entity (Autonomous Turkish State and TSK) and, crucially, that they were unlawfully selling the products to the defendants. Thus, the complainants asked for an injunction from the courts which, if given, would prohibit the purchase of citrus fruits from some parts of the northern territories by Dutch and British importing firms. The litigation was withdrawn when six of the seven firms made an out of court commitment not to buy these products from Cypfruvex. The remaining seventh firm, Rodolfo, worked closely with Cypfruvex (Zaim Necatigil acted as lead counsel in this matter), and the court in Rotterdam rejected the application for an injunction on 6 January 1976. The actual court hearing still continued. Although at this stage it was a victory for the Turkish side which enabled them to continue selling citrus fruits produced in the north, Ziya Necatigil warned parliament that if the UK Foreign Office were to produce any document for the courts that showed its *de facto* or *de jure* non-recognition of the KTFD, then the court could ban the sale of citrus fruit products produced in KTFD.⁴⁶ The saga of trade isolation which started with Cypfruvex continues to the present day as we shall see later.

Table 7.5 Cypfruvex's net profits, 1975–1986

Year	Net profits (TL)	Net profits (\$)
1975	43,336	
1976	-57,401,353	
1977	34,042,303	1,870,456
1978	19,352,334	786,680
1980	329,000,000	4,380,826
1981	219,000,000	1,938,053
1982	356,000,000	2,174,046
1983	-570,000,000	-2,458,698
1984	-1,997,000,000	-5,441,417
1985	-426,000,000	-806,360
1986	742,000,000	1,087,052

Source: The values for 1980–1986 are obtained from TRNC Parliament Proceedings of 2 October 1989. Other years are obtained from Cypfruvex's own reports. \$ amounts are calculated by using the exchange rate provided by SPO which is not available prior to 1977

Although the company was supposed to be managed by its own board of governors, some of the key decisions were made by politicians. For example, the Council of Ministers had declared the price of Yafa, Valencia and Fusa orange varieties as 1500, 1750 and 1550 TL/ton, respectively, for 1977–1978 season (Council of Ministers, Decision #1256-77). Then in May 1978, the same council approved 10,000,000 TL borrowing of the company for ten years at 8.5% APR (Council of Minister, Decision #O-156-78). Subsequently government treasury bills were used as collateral when the company sought to borrow money from commercial banks. In other words, the Council of Ministers had been involved in the decision process of this company since the beginning. The following table shows the sale of citrus fruits overseas as well as the employment numbers of this firm during the initial years.

By the beginning of the 1980s, the firm began at least to report accounting profits. This was probably because of the experience the managers had gained over the past five years and learned from their mistakes, but this fairytale did not continue long. The firm experienced significant losses between 1983 and 1985 before returning to profitability in 1986. The interesting thing is that since 1975, the yield of citrus fruit lands and the resulting export of citrus fruits (which were handled only by Cypfruvex till then) have increased continually, but the profits did not.⁴⁷ The reason for this was that the costs (operating and human capital) of this company increased more. Even though the company was supposedly independently managed, it used to buy the products from the local producers at the prices announced by the Council of Ministers. However, once the company exported the products and sold them at competitive world market prices, they did not get the prices they had promised to local producers. This was simply bad management arising from political interference.

There was another danger for the company in the second half of the decade. When a private firm (Sunzest) owned by businessman Asil Nadir entered into fruit market, the share of Cypfruvex decreased substantially. Sunzest offered the producers higher prices and paid them in advance (rather than Cypfruvex which paid producers a portion in advance and the rest after exporting the products). Sunzest's practices increased their market power from 30% of all citrus fruit exports in 1986 to 72% in

1990 (whereas Cypfruvex's share of exports in this market decreased from 37% to 18.7%).⁴⁸

The minister in charge of agriculture (Taşkent Atasayan) explained the situation of the company in 1989 as follows.⁴⁹ The minister claimed that the loss of profits of the company was not because of lack of financial capital (which he claimed that there are plans to increase it to 10 billion TL), or the entry of a private firm (Sunzest) into the market, or the mismanagement of the firm, rather, he claimed that the reason was simply there was an increase in the supply of products in the world market which led to a decrease in prices and hence lower profits.⁵⁰ Later, the minister said that the losses would have been much smaller if 'Valencia and grapefruit products were squeezed in Cyprus as concentrated juice instead of being sent to the UK for sale as fruits'.⁵¹ In other words, the minister was admitting that the loss in profits due to lower prices that resulted from increase in world supply of citrus fruits could have been averted if the company had made better decisions and utilized the products in another way. A lesson the company and the government should have learned for the future. In the same speech, the minister was also proud to announce that his government (UBP) had just extended 2.5 billion TL loan (which was more than the existing financial capital (1.2 billion) of the firm at the time) to the company at zero interest rate in order to pay off the money owed to the producers as well as the debt owed to TRNC Central Bank and Cooperative Central Bank. As of 1990, the company's accumulated debt at the Central Bank was 5.3 billion TL which was about 2 billion more than the debt in 1988.⁵² Thus, it is fair to say that the money extended by the government was not used to pay off debt at the Central Bank. By this time the company was showing signs of insolvency and already acting under government directives rather than as an independent entity. The opposition parties blamed the government for intentionally weakening the company to give advantage to Sunzest in order to make them a monopoly by turning the producers against Cypfruvex.⁵³ However, Sunzest went bankrupt even before Cypfruvex had chance to do so, in 1991, yet the problems of Cypfruvex persisted.

The financial hardship of the Cypfruvex continued into the 1990s. The total accumulated debt at the central bank increased to 106 billion TL by the end of 1994.⁵⁴ The Council of Ministers approved \$7,280,250 from

Cooperative Central Bank to be under state guarantee (Council of Minister, Decision #A-1651-95, 27.2.95). The Council of Ministers also authorized Cypfruvex to borrow 200 billion TL (Council of Minister, Decision #E-737-97) and 400 billion TL (Council of Minister, Decision #E-879-97) from the Provident Fund in May 1997 which were backed by state guarantees. With the company borrowing more money to pay off their debts, the government chose to reduce the size of the company and then finally considered its privatization, sharing the fate of other important SEEs in this decade. The Privatization Committee was asked to prepare a report on privatization of Cypfruvex (Council of Minister, #Decision E-931-97) in June 1997.

In the end, Cypfruvex has not been privatized, but the significance of the company has been reduced substantially.⁵⁵ This company had been the major exporter of citrus fruits in the north between 1975 and 1985. When Sunzest entered the market, the share of Cypfruvex averaged 34% between the years 1986 and 1994. Although the company regained 52% of export market in 1995, the shares have declined afterwards. Between 1996 and 2003, the company had on average a little less than 15% of the citrus fruit exports from northern Cyprus. The market is now dominated by 'Other' firms which are basically private firms coming from Turkey. The size of the company has been reduced with almost zero economic impact and now remains only as a reminiscence of a time where north Cyprus was productive.

Revolving-Capital Establishments (*Doner Sermayeli Kuruluslar*)

Distinct from the classic SEEs discussed so far were so-called revolving-capital enterprises. They were established under the Fasil 113 law and they were subject to the laws of Company Registration. Although these firms—focusing here on the Milk Industry Board, the Electricity Board and the Agricultural Products Board—did not have any shareholders including the state, their executive boards were not free from interference from the government. Parliament had passed separate laws for each of

these establishments that dictated the operating principles. Each of these companies was responsible for their own finances, but they could also receive transfers from the state's budget.

Süt Endüstrisi Kurumu (SUTEK, Milk Industry Board)

The law that regulates the workings of SUTEK (*SUTEK Yasası*, 01-1977) was passed in January 1977 and has been amended only three times since then (1986, 2011 and 2016). The main goal of this board, amongst its eight responsibilities, was to regulate the domestic milk market as effectively as possible. The president and vice-president of the board were appointed, yet again, by the Council of Ministers, but they were required to have no 'conflict of interest in the milk industry'. In 1980, the proposed annual salary for the general manager was 239,781 TL, and the lowest skilled worker scale was 66,040 (31 TL/hour). Originally, there were a total of ten other members of this board, but this number was reduced to seven in 1986 changes. Four of these members were required to be civil servants appointed by three different ministries, and the other two were to be representatives from the industry (animal husbandry and milk, and who were required to be registered members of the related associations) and another one from Cooperative Central Bank. All of these members were to be appointed by the Council of Ministers except the two representatives from the sector although they would also be appointed in the same manner if their associations do not appoint them within one month of the deadline. The amendments in 2016 have eliminated the requirement of the appointed four members to be civil servants. So now, in principle, anybody could be appointed by the related ministry irrespective of conflict of interests. Each of these members is paid fees for their services on the board although these amounts are not very large. Finally, before 2011, the minimum quorate requirement was participation of six members to the meetings, changed in that year to decisions of a simple majority.

The trends of registered cow milk production and corresponding animal wealth have been moving simultaneously over the years (Table 15). There was a constant increase in the numbers until the establishment of

TRNC, and there was some decline which later picked up again until 1997. After 1998, the increase was much steeper where the number of cattle doubled between 1997 and 2007 period. This trend seemed contrary to the economic development of northern Cyprus. During the early years of the breakaway state, the percentage of people who were working in the agricultural sector was more than 40% which in later years was replaced by service sector. And there was also a European Court of Justice (ECJ, now Court of Justice of the European Union, CJEU) decision that prohibited sale of TRNC products to European Economic Countries (EEC) which would have crippled the export of milk and milk products (halloumi especially), but we see in the same table the amount of hellim (halloumi) exports continuously increasing since 1975. Despite a banking crisis and economic slowdown at the end of the 1990s lasting until 2005, the dairy industry seemed to develop unaffected.

In a rare example of good governance practices of TRNC officials, all milk produced was sold to SUTEK—effectively as a milk marketing board—which in turn would sell the milk to dairy product producers. Although the number of people working in this sector officially decreased over the years, due to old traditions, those who owned animals in the past continued to do so as they could earn extra income from milk production by selling the products to SUTEK with zero risk. SUTEK, provided with public subsidy, would then sell on the milk for less than its original purchase price. In principle, it was possible for a farmer to sell milk to SUTEK and then go back and buy the same milk at a cheaper price and produce cheese or other milk products. Since the rules required registry by SUTEK in order to be paid for the milk purchased, many individuals (civil servants) would register their relatives as the owners of the animals since it was prohibited for civil servants to be working in a second job.

As is the case for many countries, agriculture industry is also subsidized and protected against international competition in northern Cyprus. Traditionally, farmers would pressure the politicians for more subsidies on exports or tariffs on imports, obviously the only imports being from Turkey. Some of the subsidy amounts for 1998 are shown in Table 7.6. As can be seen, there is 13% price difference for cow milk and 7% for sheep milk per kg between the price paid to the farmers and price received from the producers. In other words, SUTEK would lose money

Table 7.6 Exports and employment at Cypfruvex, 1975–1980

	Export (tons)	Employment
1974–1975	23,129	1518
1975–1976	36,936	1534
1976–1977	60,498	1139
1977–1978	76,208	1430
1978–1979	71,958	1028
1979–1980	98,762	928

Source: Cypfruvex Activities Report (1980)

from the sale of milk to the producers if they were in charge of this exchange. If the government is actually paying the premium shown on the tables, there still would be losses but to a lesser extent. How could a company be expected to survive if they sell a product less than its cost? The answer is that a state should subsidize vulnerable industries despite losing money, but SUTEK is not state owned. Of course, the alternative use for milk was an intermediate product to produce something else— notably hellim and yoghurts, to be sold at a profit. The government also provided an export subsidy for hellim (1998 (BK:E-1234-98), 250,000 TL/kg destined for Turkey and 400,000 TL/kg for other countries). The ultimate measure of the competitiveness of this industry, if data can be found, would be to compare the total amount of annual subsidies to total revenues or profits of the firms. I doubt that the Council of Ministers who have taken decisions to interfere in this market ever did any such calculation (Table 7.7).

Any international trade textbook will show that when a small country that cannot influence the world price imposes a tariff, the price of the product will increase by the amount of tariff for the domestic consumers. Similar outcomes are predicted for subsidies. Nevertheless, countries continue engaging in these protectionist policies purely because of political reasons, to receive campaign donations during elections. It is hard to imagine significant donations from farmers in the case of TRNC. Regardless, the Farmer's Association has been very organized to put pressure on the governments for protectionist policies on this sector since 1975. Once again, the burden of subsidies on the government budget or the increased prices on the country's welfare has not been accounted for; instead the policies were only motivated by clientelistic principles made possible with uncontrolled funding from Turkey.

Table 7.7 Milk subsidies by the Council of Ministers, 1998

	Cow milk (TL/kg)	Sheep milk (TL/kg)
Farmer's price	98.3	177
SUTEK premium	7.2	7.2
Subsidy	20	20
Sale price to producer	85.5	164.2

Source: Council of Minister, Decision E-1079-98, 17.6.1998

Kıbrıs Türk Elektrik Kurumu (KIBTEK, Cyprus Turkish Electricity Board)

The management of electricity systems in northern Cyprus has been carried out by Cyprus Turkish Electricity Board (KIBTEK) since 1975. Right after the division, the management was carried out by the Electricity Office which was converted into a non-profit organization on 1 March 1975 by the Council of Minister decisions (#6216). The first Five-Year Development Plan predicted total investments of 114.8 million TL for the improvement and maintenance of the electricity services in northern Cyprus. There were also initiatives to establish a 60 Mw power fuel oil thermal power plant. The early borrowings were transferred from the state Price Stabilization Fund (*Fiyat İstikrar Fonu*) to buy diesel oil, but then KIBTEK also began to borrow from commercial banks such as the Central Bank, Vakıflar Bank, Cooperative Bank, and Akdeniz Garanti Bank. As shown in other examples, the Cyprus Turkish Electricity Board was to be managed independently of the state albeit accountable and monitored by government. Again, the regulations seemed innocent but the executions were not.

Insofar as the main KIBTEK responsibility from its foundation was to 'efficiently manage the production, transmission and distribution of electricity', it is odd that electricity production in northern Cyprus did not begin until 1994. Until that day KIBTEK produced some electricity from old gas turbines, but mostly used electricity from the Republic of Cyprus until the first power plant was built in the north (Tekneçik, east of Kyrenia). In fact, the Electricity Authority of Cyprus (EAC, the state-owned monopoly electricity company in the south) claims that they had provided northern Cyprus with electricity without any reimbursement

between 1974 and 1994, now worth two billion euros with interest.⁵⁶ However, every individual living in the north could confirm that they had to pay KIBTEK monthly for domestic electricity, as well as electricity fees for construction permits to KIBTEK since 1975. This raises the question as to what happened to all the revenues collected during this time.⁵⁷ Interestingly, an independent audit report of the company in 2010 claims that 'there are no provisions for repayment of the debt for the electricity received from South Cyprus and billed to the consumers'.⁵⁸ Furthermore, central government departments (including all the affiliated offices) and the armed forces were legally not required to pay for electricity consumption until 2006 and the armed forces until 2002, although combined they consumed about 10% of total electricity produced by KIBTEK. About 19% of the electricity produced was lost in the system in 2006, but this number went down to around 10% in 2015. In order to increase the revenues, the company started collecting fixed fees for the street lamps from the registered users but which had previously been collected by the local municipalities.

There are various rates for electricity users in northern Cyprus where the number of users within each group is shown on Table 16. In the early years (1975–1987), there were only residential and commercial tariffs. Then, other tariffs for industrial, irrigation, street lighting and off-peak usage were subsequently added; a separate tariff was added after 1995 covering touristic establishments, with different rates emerging within each sector. Using the tariff rates and number of users in various groups for 1995, I calculated the potential billed revenue for KIBTEK to be \$25.8 million.⁵⁹ This amount (it is not clear if it was all collected) would not have been enough for the survival of this company. In February 1997, the Council of Ministers authorized KIBTEK to borrow money from Cyprus Credit Bank to the amount of UK£600,000 (#E-283-97, 19.2.97) to be used to pay off 2 million US dollars (#E-284-97) borrowed earlier from Cyprus Vakiflar Bank that will be under the state guarantee. Over the years, similar decisions made this firm to borrow money under state guarantee in order to be able to continue its operations.

Two power plants were built in 1994 and 1996. But they could not keep up with the increasing electricity demand. Thus, the government signed a protocol for establishment of a private electric company to

complement KIBTEK. The government signed a contract in 2003 with a Turkish company, AKSA, and gave them 15 years long exclusive rights which would then be extended until 2024. One of the interesting features of the protocol was the ‘guaranteed buying agreement’ between the firm and the government. TRNC Court of Accounts (2012) has found that this will cause \$1,085,663,651 financial burden between 2010 and 2024 on the central government.⁶⁰ The same report also outlines many other extra financial liabilities of this agreement. However, to date the protocol has still been honoured by the state.

The historical number of employees at KIBTEK is shown in Table 17. Before 1994 when electricity was still supplied from the south (which should have obviated the need for production personnel), the staff numbers were increasing. In the first year of DP-CTP coalition government in 1994, 48 new people were employed at KIBTEK.⁶¹ Furthermore, the Council of Ministers have added in the same year two new upper-level management positions to the available positions of the company (Decision #A-148-94). These were the “head consultant” position who would assist the director of the company, and two “consultant” positions who would consult the head consultant. These positions were basically designed to generate more *musavirs*. There were a total of 611 KIBTEK employees as of 2014 and 344 retirees.⁶²

The KIBTEK board of directors comprises seven members, all of whom were appointed by the Council of Ministers. The members can serve on the committee up to five years but of course the Council can remove these members before their term is up without any excuse. The Council also decides the wages and salaries of these appointed members. The board is in charge of hiring employees to work at the company, but these employees are considered public servant although they have different rights than civil servants (see below). The board of this company is also in charge of electricity production and sales across the north. Once again, an ostensibly independent specialist enterprise has its key personnel appointed as a ‘grace and favour’ of the political Council of Ministers.

The labour regulations in this company are not regulated by standard civil service laws. Hiring and promotion criteria are decided within KIBTEK. The salaries and retirement benefits are very generous with personnel salaries which were 11% of the total expenditures of the company

in 2014.⁶³ The workers at KIBTEK also receive 26 additional payments on top of their normal salaries. Some of these include 18% of extra payment, 715 TL per month subsidy for electricity usage (equivalent to 1000 KwH), family subsidy (500 TL/month), clothing subsidy, incentive payment to those who use less than 5 sick days per month (519 TL/month), job risk payment (11.65 TL/day for first-degree risk and 5.81 TL/day for second-degree risk) and many others.⁶⁴ Yucel (2015) also reported that the average cost of a worker at KIBTEK is 12,635 TL per month as of 2014. Given that only around 30% of the company are employed under worker status,⁶⁵ this average is rather large compared to other civil servant salaries.

KIBTEK's financial position is shaky, having received significant funding over the years from the central government and outside sources. Loans from Turkey to KIBTEK have been substantial wherein 2006, 2007 and 2008, the Turkish government has transferred, respectively, 30,000,000, 20,000,000 and 57,000,000 TL to KIBTEK⁶⁶ (TR Aid Office, 2014). KIBTEK has also borrowed funds from local banks by using government collateral. Most of this money goes to purchase of fuel oil (that is paid in the next six months) needed for the electricity plants whose price is of course in US dollars. The company board and the related labour union defended high borrowings pointing to the fact that Turkish lira depreciates constantly and even if they could bill and collect the price of electricity completely (which is unlikely), they will still have difficulty in paying debts because of currency depreciation. Table 7.8 shows the extent of total debt of this company under government guarantee.

Table 7.8 KIBTEK's total debt under state guarantee

	Million TL	Million \$
2010	124.6	53.9
2011	120	126.4
2012	104.7	84.9
2013	206.5	69.3
2014	213.8	50.2

Source: Turkish Republic Aid Office (2014), p. 55

It can easily be said that KIBTEK has been a major SEE in northern Cyprus that has been very badly managed. For example, the State Court of Accounts found that some KIBTEK directors continued to participate in board meetings even though their membership has expired, and thus an important bid for 'smart electric meters' had to be cancelled.⁶⁷ Furthermore, the revenues collected from the public for so long were not used to improve the company, and uncollected revenues from the central government and armed forces caused significant financial losses. There are also claims that large hotels and some universities do not pay their electricity bills. Finally, overemployment with very high compensation packages also deteriorated public's attitude towards this company. The politicians have only started talking about improvements in the management and business activities of this company as late as 2006 in their government programmes.⁶⁸

It is not uncommon to have energy firms in a country to operate as a natural monopoly, especially with a small size such as northern Cyprus. Despite its importance in the economic and social lives of people living in northern Cyprus, this firm has been mismanaged by the previous governments. One of the key faults on this falls on the related labour union—EL-SEN. This union has been very strong against the governments, and given the significance of energy in everyday lives, they have threatened the policymakers by going on strike and cutting the power in the country. However, when new governments appointed new members to the company, the union remained quiet. The firm increased the electricity prices when price of fuel oil in the world has increased, but they neglected to decrease the prices when oil prices plummeted. If you ask the leaders of the union, they will talk about how they raised these issues on several occasions, but just like numerous other occasions, they never took it far enough to pressure the politicians.

The situation of this firm is different from the other examples we have in this chapter. The country can survive without citrus fruit firm or milk product firm as the goods produced by those can be imported. But import of electricity is not as easy. However, in the last five years, there has been talk of combining the electricity grid of northern Cyprus with Turkey's grid (and hence join the interconnected system of Europe). Since these talks have begun, EL-SEN had been very outspoken and criticizing of the

governments. They even started collecting revenues from users whom they were not 'able to do so' before. They have also produced 'expert reports' to show that the price of electricity supplied by a cable from Turkey will not be cheaper.⁶⁹ This is very symptomatic among Turkish Cypriots in general that they will not act on something until the last moment, and I am not convinced that the union or the policymakers are thinking about the future energy supply in northern Cyprus. In the end, they will be bullied to take action dictated by Turkish governments, and there will not be much public support for the local actors due to history of KIBTEK filled with nepotism and insincerity.

Toprak Urunleri Kurumu (TUK, the Agricultural Products Board)

Another significant but distinctive SEE-type board has been that of the Agricultural Products Board (*Toprak Urunleri Kurumu*, TUK). There has been media attention on this enterprise in the last couple of years as the financial sustainability of the company has been questioned. The most recent government of UBP-DP has taken 'initiatives' to improve the financial condition of this enterprise and prevent it from going bankrupt. However, there have been Court of Accounts reports as early as 2008 that shows mismanagement within the board of directors. Why governments have waited this long to take precautions is unknown.

The TUK was first established in 1976 but the relevant law was not passed until 1992. On its own website, it says that 'since the Board is a state economic enterprise attached to the Ministry of Agriculture and Natural Resources, it is under the protection and supervision of the central government'.⁷⁰ However, this contradicts its actual status as a 'revolving-capital enterprise' which is supposed to be operationally independent from central government. The regulating law defines the main objective of this board as 'to control and evaluate the purchase, sale, export, import and usage in production of any agricultural product in the interest of benefit and necessity of the general public'. One of the key responsibilities of this board was to set up a fund called the Agricultural Products Stability Fund

that was to maintain the price stability of the agricultural products regulated by this board, but no such separate fund exists.

The budget of this company has to be approved by the parliamentary assembly. The 1993 budget was submitted for approval to parliament in January 1993 which was after the end-of-year deadline for budget discussions. Regardless, the budget was approved by ‘majority vote’. During parliamentary discussions on the budget, it came to light that the scales of the company had been problematic for many years. Apparently, the mechanical scales used to measure the weight of the trucks would measure 150 okkas (1 okka = 1.25 kg) less than the actual weight. The Minister of Agriculture and Forestry admitted the existence of such a problem and promised that in the next couple of months, all of the scales would be converted to electronic scales.⁷¹ But he also added that this had been an issue for some time now. In other words, this company had been stealing from the producers for many years.

The monthly salaries of the permanent staff (42) and workers (72) for 1993 can also be calculated based on this document. The average staff salary for 1993 was proposed to be 4.7 million TL, and the average for workers was around 4 million TL. The averages are calculated by total budget divided by the number of staff in each category. Of course, the permanent staff had different scales; thus the average is misleading. Regardless, these averages were a lot higher than the minimum wages in 1993 (1.37 million TL), and keep in mind that these amounts did not include overtime payments.

Finally, the financial condition of the Board was not very promising according to the budget proposal. The company had borrowed twice as much as their own revenues from the government budget and *Toprak Mahsulleri Ofisi* in Turkey. Surprisingly no MP discussed these issues during these gatherings with the exception of İsmet Kotak (DP) who would suggest that it was time for this Board to be dissolved.⁷² The 1993 budget of APB would be approved by 26 votes against 9 votes (15 in absentia including 4 ministers of the cabinet). The 1988–1994 overall budget of this organization is shown in Table 7.9.

The board of directors of TUK was also not free of political influence. There are five members on the board, three of whom are appointed by the ministries of agriculture and finance. The other two are representatives

Table 7.9 Total budget of TUK, 1988–1994

	1988	1989	1990	1991	1992	1993	1994
Total wages and compensation	684.5	1160	1868	3137	4227.6	7401.3	12,414.6
Total expenditure	941.285	1525.6	3142.6	3574.2	4700.6	27,849.4	35,229.2
TRNC budget subsidy	380.88	498.47	1468.38	5131.87	12,065.78	8332.37	43,407.38

from the Chamber of Agricultural Engineering and Cyprus Turkish Farmers Union. Furthermore, the board of ministers have the power to identify any agricultural product to be under the control of TUK. In other words, the TUK cannot freely execute its main objective. There is a legal requirement to have a Consulting Panel within the TUK with ten members from different sector representatives. But it is not sure if this panel has ever been established. Although this company is supposed to operate on a revolving-capital basis with the board responsible for its operations, the state stepped in many occasions to pay off its debt. In 1996, the Council of Ministers decided that the state would pay the interest fees of the loans TUK borrowed in 1995 from various sources to pay off the cereal producers (BK# A-157-96). Similarly, the Council decided that the 136 billion TL loss from potato marketing due to 'ECJ decision' shall be compensated by the state (BK# A-159-96). This amount is three times more than total revenues of the firm in 1994. Total accumulated debt of this company at the Central Bank that was backed by the state at the end of 1996 was 311 billion TL.⁷³ The main income of the board is supposed to be from the sale of the agricultural products. However, over the years, the central government also allocated certain funds to this enterprise although the total amounts were small percentage of enterprise's budget. In 2014, 2015 and 2016, the government allocated a budget of, respectively, 5,500,000 TL, 5,000,000 TL and 1,500,000 million TL. The board also owns 66.6 million kg capacity (11 different depots) of storage facility as well as seed preparation and potato packing plants.

There are 42 permanent positions legally allocated at TUK. According to Guven (2013), there were around 250 personnel working at TUK in 2007–2008 period and 153 during 2009–2010. The 100 people difference is due to steps taken by the government to reduce the financial burden of the board and relocation of these employees as civil servants in central government. However, the number went back up to 222 as of 2014.⁷⁴ The financial burden of these individuals on central budget in 2015 (2016) was 4.7 million TL (7.6 million TL). This is one of the most criticized practices of the central government where they transfer employees from troubled SEEs to central government as public servants and increase the taxpayers' burden. As noted earlier, similar transfers were made when Cyprus Turkish Airlines (CTA) went bankrupt.

As has been shown with the examples in this section, these SEEs have been badly managed since their very establishment. Politicians have used these places as employment providers and the governments did not invest in business development of these enterprises in order to survive against outside competition or even just float in the domestic market. On the contrary, the governments have meddled with the administration of these enterprises directly (by deciding the prices, outputs and other key business decisions) and turning a blind eye to administrative abuses, and constantly resorting to emergency rescue measures by direct transfers from the central budget or borrowing money from banks with state guarantee. The result has been the bankruptcy of some of these economically significant industries, while others remain in financial difficulty. The data provided here has all been from official sources, and in that respect is already unreliable, contributing to the strong suspicion that matters are actually worse than reported.

The end of SEEs could very well be due to global transformations into neo-liberal economic ideologies from the 1980s. The discussion on free market versus state-controlled monopolies notwithstanding the economic power of these SEEs after the separation cannot be denied. Of course, any burden on the central budget should be carefully analysed, especially on a very fragile and foreign aid-dependent budget of the TRNC. However, the reasons behind the burden created also are important. Was it a consequence of a structural economic weakness or of systemic mismanagement? After a careful analysis, if policymakers had decided that the burden on the state had to be reduced, then privatizations could have been carried out in a way to provide advantage to the state.

I don't think that the export-oriented enterprises would have survived in the twenty-first century against the global markets, but they were not even allowed to fully develop to be given a chance prior to the neo-liberal turn. Even if Cypfruvex could not export products to European countries after 1994, they could still utilize the products in the domestic market. Alternatively, instead of offering advanced payments to the producers at prices that could not be realized in the world market, they could have worked some arrangements with the related associations regarding payments. Similarly, Sanayi Holding could have continued to produce prod-

ucts for the domestic market if the governments had protected them from foreign competition. And, at some point, if it had been necessary to privatize some of these enterprises as they could very well end up being unprofitable and difficult to manage, then these enterprises could have been managed better free, from the beginning, from political influence, and their privatization (or bankruptcy) could have been avoided or delayed. The state had more than 20 years to prepare these companies for their own survival. How did the private sector perform during this period especially since the state-manipulated enterprises were weakened and collapsed? The response of the private sector in key economic sectors in northern Cyprus forms the next chapter.

Notes

1. The state refers to KTFD before 1983 and TRNC after that.
2. The word 'Fasil' indicates that the related law was first passed during the colonial period.
3. TFSC, Parliament Proceedings, 21 November 1975, pp. 27–28.
4. Ibid., p. 30.
5. Ibid., p. 34.
6. Ibid., p. 24.
7. TRNC Parliament Proceedings, 6 June 2005, p. 1003.
8. Ibid., p. 1006.
9. The relevant decision is AM.5/98–D.4/98 dated 26 November 1998.
10. Sonan (2014), p. 95.
11. TFSC Parliament Proceedings, 6 February 1976, pp. 88–90.
12. For example, the director of the executive board will be paid at least 10,000 TL/month, and other members of the board and the accountants will receive at least 8000 TL/month as part of *Hakkı Huzur Tahsisati* (honorarium allocation, Council of Minister decision #C-720-81, 2/9/81) which was on top of salaries they obtained at their own employment. (The minimum wage at this time was 13,000 TL.).
13. Aksoy (1994), p. 20.
14. Information on Second Joint Economic Commission obtained from TFSC Parliament Reports (10 November 1981), pp. 73–74.
15. TRNC Parliament Proceedings (30 June 1996), pp. 8226–8250.

16. TRNC Parliament Proceedings (6 January 1995), p. 4174.
17. The information in this paragraph is obtained from Lisaniler et al. (2013).
18. Available in Turkish at <https://www.cumhuriyetcitirkipartisi.org/8-subat-2017-iste-gercek-KTHY-Raporu.html>.
19. Ibid. Original text is 'KTHY'nin kurulduğu 4 Aralık 1974 ve uçmaya başladığı Şubat 1975'ten, 2005 yılına gelene kadar geçen 30 yıllık süreçte şirketin yeniden yapılandırılarak rekabet edilebilir hale getirilebilmesi için hiçbir ciddi adım atılmamış, mevcut yapı sürdürüle gelmişti'.
20. Annual Report of Industry-Commerce and Tourism Ministry, 1977.
21. TR Commerce Ministry, 1979.
22. Mungan (1999), p. 130.
23. Cyprus Turkish Industrial Holding (1976).
24. Ibid., p. 43.
25. TFSC Parliament Proceedings, 6 February 1976, pp. 3–6.
26. We have introduced the details of the court's decision in Box 4. Kenan Akin (one of the defendants) later became part of UBP and then DP and he came at crossroads many times with CTP. Hasan Sarica announced publicly (on Facebook) that he resigned from CTP membership in 2017 when CTP nominated the head of Chamber of Commerce as an MP candidate for 2018 elections.
27. İşçi Postası [Worker Post] Newspaper, 30/6/1982, front page.
28. TFSC Parliament Proceedings (11 March 1983).
29. İşçi Postası, 30/6/1982.
30. SPO (1987), p. 65.
31. On June 1983, the Council of Ministers approved appointment of an individual as a general manager (BK #:C(K-I)565-83) with gross monthly salary of 150,000 TL (six times more than the minimum wages), 5000 TL budget for guest expenditures, free boarding and a company car.
32. The information in this paragraph was obtained from the answer of the commerce and industry minister to the written question of Salih Usar (#175/4/88) on 5 December 1988.
33. TRNC Council of Minister decision number E(K-2) 1203-87.
34. TRNC Council of Minister decisions number, respectively, E(K-2) 1203-87 and E(K-2) 238-88.
35. Cyprus Turkish Industrial Holding (1991), p. 20.
36. Erdim (2014), p. 376.

37. TRNC Central Bank Bulletin, No. 14, December 1990, Table 2, p. 11.
38. Mungan (1999), p. 135.
39. Erdim (2014).
40. All of the information in this paragraph are taken from Mungan (1999), p. 128.
41. KTTI, 1980 Activities Report.
42. TFSC Parliament Proceedings (11 March 1983).
43. These numbers are obtained from TRNC Parliament Proceedings (5 April 1996), pp. 6147–6168.
44. Cyprus Turkish Industrial Holding (1976).
45. The information on this are obtained from Ziyec Necatigil's speech at the parliament which is available at TFSC Parliament Proceedings (10 March 1976), pp. 10–17.
46. Ibid., p. 17.
47. For amounts of citrus fruit exports/imports, please refer to TRNC Ministry of Agriculture (2003).
48. There is also "other" category for exporters who had less than 10% market share between 1988 and 1990 but increased their share after Sunzest went bankrupt and Cypfruvex continued to be managed poorly.
49. TRNC Parliament Proceedings (2 October 1989), p. 416.
50. Ibid., p. 417.
51. Ibid.
52. TRNC Central Bank Bulletin, No. 23, May 1995, Table 2, p. 9.
53. Mehmet Civa (CTP) would make this accusation in the parliament on that day, but other MPs would blame the high-level government officials including the president for having close personal relationships with Asil Nadir (the owner of Sunzest) and providing him with unfair advantages in the markets his firms were operating.
54. TRNC Central Bank Bulletin, No. 23, May 1995, Table 2, p. 9.
55. The market shares for 1986–2003 are taken from TRNC Ministry of Agriculture and Natural Resources, 75-2003 Agricultural Statistics Almanac, Table 36 available at <http://www.tarim.gov.ct.tr/tr-tr/istatistik.aspx>.
56. Andreou (2015).
57. We don't know the electricity rates before 2000; hence we cannot calculate the total potential revenues prior to this date.
58. Erdal & CO (2012), Independent Audit Report of KIBTEK covering 1 January 2010 to 31 December 2010, page 4, Nicosia.

59. I don't have the tariff rates before 1995 and I also don't have the amount of electricity usage between 1995 and 2004. Thus, the potential revenues cannot be calculated before 2004 except for 1995.
60. TRNC SAC (2012), p. 20.
61. TRNC Parliament Proceedings (6 January 1995), p. 4172.
62. TR Aid Office (2014).
63. Ibid., Table 25. The same source reveals that the permanent personnel salaries make up 68% of total employee expenditures and worker salaries are 27% of the total. The remaining 5% is for 'other' personnel.
64. Yucel (2015).
65. 'Worker' status is given to full-time employees who work at technical positions in the government, and their salary scale is significantly less than full-time civil servant's scale.
66. TR Aid Office (2014).
67. TRNC SCA (2014).
68. Diler (2015), p. 233.
69. I have contacted the producer of this report and asked for full manuscript and methodology of how the price is calculated, but despite my numerous attempts, I was not able to obtain such details.
70. <http://www.toprakkurumu.org/site/sayfa.aspx?pk=2>.
71. TRNC Parliament Proceedings, 29 January 1993, p. 5004.
72. Ibid., p. 4998.
73. TRNC Central Bank Bulletin, No. 25, May 1997, Table 2, p. 8.
74. Turkish Republic Aid Office (2014).

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8

Private Sector Development

We have seen in the previous sections how the public sector had flourished, if in a distorted fashion, after the division. However, we have also seen that the development of the civil services became a financial burden for the governments instead of contributing to economic growth. This is not to say that it is expected for public sector to be the key sector in economic development of a country. On the contrary, there should be less financial burden on the state if economic growth is to be achieved especially in a small closed economy with no natural resources. So how did private sector in northern Cyprus develop in the meantime?

In this section we shall focus on some of the selected economic sectors and discuss their development and importance for economic history of northern Cyprus. Politicians have used over the years a decision by the European Court of Justice (ECJ) as an excuse to justify the stalled economy. We will talk about this decision and response of the policymakers in this section. The key sectors of agriculture, tourism and education will also be analysed with limited available data. Finally, histories of the two key institutions that are supposed to be the key financial institutions that could dictate development of private sector and overall economic development of an economy will be discussed. Although the central bank and

the development bank are not part of private sector, their performance could have direct influence on private sector.

European Court of Justice (ECJ) Decision

The policymakers have blamed the stalled economy of northern Cyprus on the embargoes imposed by the international community. One of the heavily cited causes of poor economic development was the 5 July 1994 decision of the European Court of Justice (ECJ; now the Court of Justice of the European Union Justice Court, CJEU). This decision basically prohibited the import of products into the European Economic Community (EEC) of commodities produced in northern Cyprus. The decision was condemned by all the political parties in TRNC at the time, and the members of the parliament joined in a quest to 'analyse' this decision (Council of Ministers, 40/1/94). Besides the Council of Ministers decision to form a Parliament Research Committee to analyse the 'likely consequences of the ECJ decision on TRNC economy', the same council also formed another committee to analyse 'whether the TRNC administrators had any negligence in the outcome of this decision'. Although the members of the incumbent government at the time (July 1994) had accused the past government heavily, the members of the past government (UBP) defended themselves and agreed to the formation of such a committee. The MPs who proposed the establishment of such a committee were Mustafa Akıncı, Hüseyin Angolemlı and Mehmet Emin Karagil (all from TKP).¹ The following section summarizes some of the discussions that were held in parliament on 13 July 1994. I present these discussions to show what the governments at the time did or did not do to prevent this negative decision from being taken. Also, the discussions and the following events could give the readers an idea about the candour of all members on an issue that is still considered as a major cause of the lack of economic development in northern Cyprus.

In his speech Kenan Atakol (UBP) claimed that 'the UBP government decided to become involved with the process on 28th July, 1993 (Council of Ministers, #E/875/93) and the government was ready to give necessary orders to the attorney's office in London but on January 1, 1994 there

was a government change in North Cyprus'.² He went further to say that the attorneys of Cypfruvex UK Ltd and Cypfruvex Ltd were present at the court on 2 March 1994; hence the TRNC was officially represented.³ The Prime Minister Hakkı Atun (DP) claimed that the first time TRNC government was made aware of this threat was on 10 July 1992 which was later communicated with Derviş Eroğlu (then prime minister) and Kenan Atakol.⁴ Atun claimed that no steps were undertaken until 5 April 1993 when Kenan Atakol proposed to the Council of Ministers that 'this topic will probably be on the agenda of Justice Court [*Adalet Divanı*] towards the end of the year, and thus due to high likelihood of very serious consequences this might have, I recommend that the Ministry of Foreign Affairs will communicate with a good foreign attorney's office before it is too late that would defend our interests'.⁵ This request was upheld by the Council of Ministers on 28 July 1993 as Atakol also explained before.

Atun then claimed that the past government did not hire any attorney for this purpose until the new coalition government was formed in January 1994 and started involving in this process (by paying GB£30,000 late fees). In other words, Atun suggested that if the involvement was carried out earlier, the negative outcome could have possibly been prevented. Salih Coşar (UBP) claimed that the reason why they did not get involved earlier was because of the state prosecutor's otherwise suggestion.⁶ Ferdi S. Soyer (CTP), the Minister of Agriculture, Natural Resources and Energy under the DP-CTP coalition government formed in January 1994, summarized the chronology of events as in Box 8.1⁷ whereby he basically claimed that by the time Turkish Cypriots had been involved in this process, it was too late because the decision was already made during September–November 1992 meetings.

Box 8.1 Chronology of Events Alleged by Ferdi S. Soyer That Lead Up to ECJ Decision

1. Fourteen Greek Cypriot exporting firms took the Ministry of Agriculture in England to British courts (9 July 1992).
2. The prosecutors have contacted Cypfruvex London office and had a meeting (10 July 1992).

3. Cypfruvex notified the ministries in TRNC regarding the law suit (13 July 1992).
4. Firm's lawyer (Umit Ozdil) notified TRNC officials that the suit covers all the products of TRNC not just the agricultural products (17 July 1992).
5. The defendant British Ministry of Agriculture presented the case whereby declares that although they don't recognize TRNC, they will not treat the two communities (Turkish and Greek Cypriots) differently (29 September 1992).
6. The Greek Cypriot administration presents their case as the plaintiff (November 1992).
7. The British court sends the case to the ECJ (November 1992).
8. A committee from the UK (including representatives from British Foreign Affairs South Europe Office and British High Commission) comes to Cyprus and talks with TRNC officials. They said that TRNC should have been involved with the case at the British courts because it will be difficult to get involved at ECJ (27 January 1993).
9. Kenan Atakol's request to the Council of Ministers as described above (April 1993).

Basically, the DP-CTP blamed the UBP government for not getting involved at the early stages of the court process (in September 1992), and UBP claimed that there was already representation at that time (by the British Ministry of Agriculture) and there was no need for further representation until further time. The research committee of seven members was finally formed which consisted of representatives from all the political parties represented at the parliament at the time. However, this committee was granted at least six extensions (which was against the parliament bylaws) to complete their report and the report was not finalized until as late as 1997. The final report, if it exists, is unfortunately not publicly available. Thus, on possibly the most significant matter in the economic history of northern Cyprus, we still do not know if there was any wrongdoing or negligence on behalf of TRNC governments. Unaccountable government has ensured public ignorance.

The other committee responsible for analysing the likely effects of the ECJ decision on TRNC economy also did not complete their report until 1997 and continually asked for extensions. Given the seriousness of these issues and the unanimous support in formation of these committees, the fact that they did not complete their report within three years is hard to

explain. Or maybe it just shows that the incumbent government was using this as an internal politics (as suggested by Kenan Atakol in his speech) and did not really care about the consequences. Or, again, maybe this just shows the incompetence of the politicians in northern Cyprus.

The ECJ decision was upheld in 1994 which was 20 years after the division. The decision basically concluded that the products coming from northern territories cannot be confirmed to meet the EEC quality criteria. Although the products from northern Cyprus have been successfully exported to the European countries under the stamps of 'Cyprus Customs Authorities' in the past 20 years, ECJ's decision of 1994 unambiguously did affect the economy of northern Cyprus. However, the policymakers at the time either did not do all they can do to even have a possibility to stop this from happening or did not even think about alternative means of recovering from this decision. They could have, for example, focused on other markets (Middle East and Turkey). Instead, they just kept on blaming each other, and Greek Cypriots, and became even more dependent on Turkey for exports. One of the key sectors that was heavily affected by this decision was agriculture and animal husbandry as those were the key export sectors. But other economic sectors evolved as alternatives. In this section, we will cover some of these economic sectors.

Agriculture and Animal Husbandry

Immediately after the 1974 division, about 41% of the labour force in the north were working in agriculture sector. This number decreased to 21% in 1996 and 4.1% in 2015 according to the State Planning Organization (SPO) of TRNC. Given lack of controls and registration, the number of households receiving additional income from this sector is probably higher. Employment in farming or animal husbandry has declined in northern Cyprus over the years as we have seen in the previous chapters where many locals in the 1980s and 1990s found jobs in the public sector and enjoyed early retirement but continued working as self-employed. However, given the flexible working hours, many people continued to take care of their lands (or pay someone else to look after their agricultural lands) and enjoy additional incomes.

One of the problems in this sector is the lack of professionalism. Although there were many people who received earnings from this sector, they were not necessarily professional farmers. Most people conducted farming as a second job or hobby where they managed small areas of land or a small number of animals. Although this provided a significant amount of extra earnings for the households, the work was not conducted professionally, and thus the output may not be efficiently produced and investments were not done in the most efficient manner. However, given the structure of the subsidies from the government, all people who owned farmland or any number of animals would receive such amounts and thereby increase the burden on the central budget.

The first Five-Year Development Plan (FYDP) anticipated that the agricultural sector would contribute 36% of gross domestic product (GDP), but by the end of the planning period in 1982, the actual amount was around 15% of GDP. The State Planning Organization (SPO) attributed this failure to achieve the plan to 'scarce water resources, climate factors, general transportation and marketing problems and lack of financing'.⁸ The stock of water resources was known at the beginning of the programme thus cannot explain the failure. Furthermore, the first FYDP did address the possible problems with water usage and included steps to resolve the problem. Although the first programme recommended 'the extension of agricultural loans from a centralized source for increasing the productivity and sustainability of the businesses in this sector',⁹ the shares of total credits to this sector were somewhere between 11% and 15% of the total credits because 'the bank loans were mainly directed to the SEEs to cover their budget deficits'.¹⁰ The state had different priorities than supporting the primary economic sector during that time. For whatever reasons, the last two factors above were simply the responsibilities of the governments; thus, if those are the real reasons, then it was the policymakers to blame for the failure to achieve the goals, or the programme was designed very poorly or overly ambitious.

Another problem was the amount of fixed capital investments in agriculture. During the period of the first Five-Year Plan, the state only invested 25% of what had been planned and private investments were even less at 17%. Without the proper planned investments, it is hardly surprising why this sector did not grow as expected. Furthermore, the

1977–1982 period saw a significant increase in the number of agricultural machines with the number of tractors increasing by 20% and planting machines by 39%.¹¹ This should have also increased the output rapidly, but it only increased the total output by about 4% annually. On the other hand, the number of cattle and sheep and goats surpassed the goals in the plan by 1982. For 1988 (and the end of the second FYDP), the plan proposed a 4% annual increase in the number of cattle but a decrease in the number of goats. But the plan proposed an increase in milk products from all of these animals. Milk production and export of animal products would be motivated according to the second FYDP.

However, the agricultural sector became the top priority in the second FYDP. The key problems identified in this ‘plan’ were the monopolization of the private sector retailers, weakness of TL that increased the cost of inputs in the sector, misallocation of agricultural land due to the ITEM law (discussed in Chap. 3), the inefficiency of agricultural activities on small scale lands (which became even smaller when parcellized on inheritance) and lack of education and experience in the sector.¹² And the goals to improve these deficiencies concentrated on ‘increasing the efficiency of land usage and increase its impact on GDP’, ‘rational usage of water resources in the region’, ‘priority will be given to meet the domestic demand and then subsidize the export products’ and ‘education of the people in this sector’. Unfortunately, the details of these policies were not presented at the plan document, with aspiration crowding out action planning. For example, one of the ‘plans’ was to ‘increase the total agriculture land usage to optimum levels’; however, there was no mentioning of the policies that will be used to achieve this goal.

This second FYDP was prepared in September 1983 on the eve of the declaration of the new Turkish Republic of Northern Cyprus in November 1983, and most of the planned developments were forgotten in the light of this new order. The governments subsequently prepared inadequate annual development plans for each year between 1988 and 1992 until again the last Five-Year Development Plan for TRNC was prepared for 1993–1997. When the ‘third’ annualized FYDP was being prepared, 64.7% of all the land was being used for agricultural purposes (and of this only 8.6% of agriculture was watered), and by 1991 providing 26% of total employment and contributing just 8.9% to GDP value. The plan

included many other examples of such ‘unplanned plans’ to improve this sector which sounded more like ‘wishes’ than ‘plans’ (third FYDP, p. 213). The contribution of the agricultural sector to the overall economy had thus been decreasing over the years, and policymakers decided to substitute this sector with civil services as we have seen in the previous chapters.

The agriculture wealth of Turkish Cypriots was affected in opposite directions after the division. The citrus fruit plantation areas were one of the most important inheritances for this sector. In 1970, only 5925 dönüm (6.3% of all) of all the citrus fruit lands were owned by Turkish Cypriots.¹³ This number went up to 66,924 dönüm in 1977.¹⁴ On the other hand, vineyards ownership was significantly lost from higher than 36,000 dönüm (under control of 2788 individuals) to only 1540 dönüm since most of the vineyards were located in the Paphos and Limassol areas. But in the end, the total number of families working in agriculture/ animal husbandry sector increased from 10,000 to 15,000 by 1977.¹⁵ In other words, the state was successful in allocating land to the individuals and giving them an opportunity to work in these sectors. But were they able to produce efficiently? Table 8.1 provides a crude measure of efficiency where total output is divided by total area for selected agricultural products and selected years.

The latest agriculture census was completed by SPO in 2011.¹⁶ The results were released to the public in 2015 (the delay in publication being another example of the ineffectiveness and inefficiency of TRNC state planning). The report reveals that there were about 12,500 agricultural and/or animal husbandry businesses in TRNC where 98% of these are

Table 8.1 Efficiency of production for different agricultural products, 1970, 1977 and 2003

	1970	1977	2003	77-03 Average
Wheat	94.3	166	292	170
Barley	73.7	170	260	169
Potatoes	2118.3	2000	5930	3644
Citrus fruit (orange, lemon, tangerines)	8776	1712	3258	3032

Source: The numbers are calculated by using total area and yield numbers from TRNC Ministry of Agriculture (2003)

Notes: The measures are kg/dönüm, except citrus fruit number in 1970 is fruit/dönüm

owned by single individuals or families. Given that the same organization estimated that there were 3614 individuals working in agriculture sector in the same year, this means that most of the people conducting business in this sector are either retired (or unpaid family workers thus do not show up in the labour force) or they are conducting this as a second job. The same report showed that 62% of the establishments were engaged in agriculture only, 10.7% in animal husbandry only, and the remaining 27.3% engaged in both areas.

The agricultural census includes some other interesting findings regarding the market structure in these two areas. In agriculture, about 60% of the businesses held less than 50 dönüm of land, but their total share of land only amounted to 10% of the total area farmed. About 55% of the total land are owned by 8.4% of agricultural business owners. And a similar picture exists in animal husbandry where 22.4% of cattle are owned by only 2.4% of the farmers, and 17% of goat and sheep are owned by 1.9% of the animal owners. The unequal distribution of land and animal holdings, and emerging concentration of holdings, indicates that although there are many individuals in northern Cyprus still receiving some income from agriculture and animal husbandry, these are simply the small businesses who are not conducting this professionally and for most of them this is a hobby or source of extra income. The government subsidies that are extended to all the people who own agricultural land or animals will only benefit the very few big businesses in this sector.

Tourism

This sector had been identified as a sector of key importance for economic development. After the division, the new state appropriated substantial amounts of tourist accommodation and tourist attractions. Although technically most of these belonged to the Greek Cypriots who were forced to the south, the state did not spare any effort to use these facilities (except the area called Varosha located in Famagusta). The sector had been classified by policymakers as of high priority and government programmes included optimistic targets. Table 8.2 shows the targets specified in the last FYDP in 1992 and the corresponding actual numbers

Table 8.2 Various information on tourism industry, 1992 and 1997

	1992	1997 (target)	1997 (actual)
Employment	1863	2606	2757
Turkish tourists	186,647	280,800	326,364
Foreign tourists	55,859	151,200	73,000
Tourists' stay at hotels	91,757	268,920	205,248
Average duration of stay	5	6	4.7
Number of beds	7000	10,000	8940
Net tourism income	\$160.8 million	\$236.3 million	\$183.2 million

Source: Ekici and Caner (2016), Table 2.11

in selected industry indicators, confirming that the success rate was questionable. Regardless, in this section historical developments of the sector will be shown with key indicators of the sector such as supply and demand for touristic accommodations, government subsidies, employment in this sector and contribution of casinos.

After the separation, northern Cyprus appropriated 70% of total bed capacity of tourist establishments in all of Cyprus. However, 70–75% of these were in the Varosha area—often described as a ‘closed city’ if not ‘ghost town’—which was never opened for civilian usage, and it is still being used as a bargaining tool at the Cyprus negotiations. Most of the rest of the establishments were taken under control of the Cyprus Turkish Tourism Establishments (Kıbrıs Türk Turizm İşletmeleri, KTTI) as discussed in Chap. 7. Some hotels were directly managed by this SEE, and the other hotels as well as apartments were rented to individuals or other entities at rather low prices. Table 8.3 shows the distribution of tourist accommodation in Cyprus before and after the separation.¹⁷

Official tourist statistics showed increasing trends over the years, and the policymakers in the north have been very proud of these numbers. There is however a very serious misinterpretation. The tourist numbers include all the non-Cypriots who enter the country and do not have a work permit. But during the early years of the new state, some people entered the north as Turkish citizens, later to gain Turkish Cypriot citizenship. Also, there have been many unregistered labourers in the north (moreover the families of those who are registered could end up working) which would bias the number of ‘tourists’ upwards. Finally, 90% of the ‘tourists’ are from Turkey which includes the families of registered workers

Table 8.3 Bed capacity of touristic accommodations in Cyprus, 1974–1975

Districts and mountain areas	1974		1975		No. outside RoC
	No. of beds	% share	No. of beds	% share	
Nicosia	2274	11.8	1699	29.9	575
Kyrenia	2964	15.4	–	–	2964
Limassol	1565	8.2	1526	26.8	
Larnaca	304	1.6	70	1.2	
Famagusta	9709	50.6	126	2.2	9583
Paphos	379	2	400	7	
Mountain resorts	1997	10.4	1864	32.8	
Total	19,192	100.0	5685	100.0	13,507

Source: Ekici and Caner (2016), Table 2.4

and students on the island who could potentially visit the island more than one time during a year. The failure or inability to disaggregate the category of arrivals to the north has been a significant cause of poor economic planning as well as providing a rich field of political conflict.

The official numbers also show that average duration of stays are different between Turkish and foreign tourists. Turkish tourists would stay on average three to four days, whereas foreign tourists would be on the island on average a week and higher proportions of the latter would visit museums and other historical sites. Finally, foreign tourists were more likely to stay in tourist accommodation, whereas Turkish tourists would tend to stay at relatives and friends' houses. All these imply that although the number of tourists has increased, their contribution to the overall economy is questionable.

Of course, the aggregate data on net tourism income tells that there has been an increase over the years, but there are two issues with these numbers. First, the calculation is problematic. The way SPO estimates this data is by conducting surveys at Ercan airport—the only airport in the north of the island—and ask about expenditure of tourists during their stay, and then use those averages to multiply with the total number of tourists. We have discussed above that the spending patterns of Turkish and foreign tourists are vastly different; thus, such an estimate will be unreliable. Also, the type of tourists who use air travel will be different than the tourists who come by sea (the only regular sea crossing is from

Taşucu/Mersin in Turkey); thus, the sample selected for survey is not representative of all the tourists.

Even if these estimates were correct, the second issue is the effect of tourist spending on the overall economy. The hotels are now offering full room and board packages to tourists which gives no incentive for tourists to go out and explore beyond the hotel complexes. Especially the tourists who come for 'sun and sea' activities or are repeat visitors from Turkey will not spend much outside the hotel. They typically use the hotel's taxi, eat at the hotel, use hotel's facilities and then go back without even spending any time outside hotel's perimeter. This is particularly so in the major hotel casino complexes, especially patronized by tourists from Turkey.

Nevertheless, the tourism industry does provide significant employment opportunities. According to the SPO data in 2016, there were 11,614 people working in 'restaurants and hotels' compared to 13,644 in public services.¹⁸ However, another data from the same source shows the total number of personnel at touristic accommodation and casinos as 15,021.¹⁹ The latter data which directly comes from Hotels Association is probably more accurate. Regardless of the inconsistencies between the data sources, this industry is a good source of employment in northern Cyprus. A possible issue with these is how much of these are registered labour and what percentage are from local labour force?

One might also think that these hotels would need food for their customers which they could buy from the local suppliers. As valid as that assumption is, in reality almost all foodstuffs, materials required in hotels—from linen to furniture, from cleaning products to drinks—are imported from Turkey rather than supplied from domestic producers. In fact, the state allows this as a means of giving incentives for private investment. Needless to say, this is one of the areas that government could have stepped in with appropriate economic planning.

What about the supply of tourist accommodation? The supply of tourist beds has increased over time. Especially in the new millennium with the entrance of large five-star hotels into this industry, the bed numbers have jumped significantly. The Bafra area was especially promoted by the state for the new developers, and we can see that after 2005 the number of hotels in this area did increase. On the other hand, smaller hotels have had difficulty competing with these large establishments, and

their numbers did decline during this period. The larger hotels have tended to lease the land for their buildings at very low costs (or none at all) as part of government incentive programmes and have secured tax exemption for the durable goods that they import for the hotel. This has provided a very good opportunity for large conglomerate hotel chains to set up business in northern Cyprus.

All these large hotels come with casinos. The casino industry is not new in northern Cyprus. The first casinos were established in the early 1990s when gambling was prohibited in Turkey. More than half of total employment in the tourism industry is accounted for by the hotel casinos. But these casinos also created 'casino tourism' which includes weekend tourists (or daily tourists sometimes from Turkey but more recently from southern Cyprus) whose sole purpose is gambling. Although the casino licence fee is substantial, the corporate taxes are not calculated properly and the net earnings of casinos are usually laundered outside the Cyprus economy.²⁰ In other words, except employment opportunities, casinos do not provide much for local aggregate economic development.

The environmental effects of these large hotels have never been considered by the policymakers. These large hotels use a lot of energy especially during summer months and they need constant water supply. Both of these resources are limited on the island and rather expensive. But of course, the governments have provided electricity at reduced (subsidized) tariffs to the tourist establishments. Instead of selling energy at lower prices, the governments could have provided incentives for these large hotels to establish solar energy systems, or sea water desalinization plants for their own usage. No such policies exist.

One of the reasons why these large hotels are still surviving is the incentives paid by the government. In Ekici and Caner (2016), we give a summary of these incentives in the last six years. The tourists brought by charter flights who stay more than five days at hotels are worth at least €50 to the travel agency and €10 to the hotel. So these large hotels who have the means to accommodate large number of tourists could sign an agreement with travel agents to take advantage of this system. Of course, it takes a while to pay the subsidies to the businesses, so only the wealthy businesses have the strength to last during this time. In other words, once again the system rewards the rich businesses and drives out the smaller

ones. Recently, in April 2017 the government announced that they will abandon some of these incentives which immediately prompted the leaders of this sector to announce doomsday scenarios for the industry. If such scenarios are true, that only tells us that the tourism sector has been surviving all these years only because of government subsidies.

Why did past governments continue with subsidies? Because they enjoyed taxation revenue from casinos, large hotel corporations and the airport taxes of the passengers. So even if a tourist does not behave like a normal tourist, insofar as s/he has to pay for plane ticket to get to the island, pass through the airport, and travel to the hotel casino, and book into the licensed hotel casino, then the government is guaranteed some tax revenue. In fact, the biggest reason for the 'success' of the tourism industry is the presence of casinos in large hotels who have substantial earnings without any serious government monitoring which then finances the cost of tourism-related activities (hotel, food, transportation). The smaller establishments can hardly compete, and the ones who can are mostly family owned (probably built on a Greek Cypriot land obtained through government contacts) and operated as a second job (the early retirees from the civil sector). The poor and unplanned governance has caused this sector to 'boom' according to official statistics, but it is in fact an unnatural boom which is destined to burst without heavy government subsidies.

Higher Education

Another important sector in the northern Cyprus economy has recently been that of higher education. It is probably not fair to call this a 'sector' as it would imply that the suppliers in this business, universities, should be treated as firms according to traditional economic definition. However, profit maximization and quality of education should be inversely proportional at an educational institution. Unfortunately, the higher education in northern Cyprus is largely supplied by profit-maximizing institutions, and the policymakers constantly refer to higher education as the 'key economic sector'.

The first public university was established in 1979 under the name of the Institute of Higher Technology. The institution had three programmes

in engineering (chemical, mechanical and civil) which were all three-year programmes. Then in 1986 with the help and direction of Higher Education Council in Turkey, the Institute was transformed into a state university called Eastern Mediterranean University (EMU, *Doğu Akdeniz Üniversitesi*). The University started with small number of departments and offered four-year education with one year of English prep school. With the decision of Higher Education Council in Turkey to accept the diplomas given by EMU in 1994, the sector has expanded.²¹ The second public university was established in 1990 as Lefke European University (LEU, *Lefke Avrupa Üniversitesi*), followed by several private universities started to pop up. Especially after 2005, the number of universities have spiked with, as of 2018, 25 registered universities or awaiting approval. The total number of students as of 2017 is around 85,000, and the policymakers see this as a great accomplishment.

The state universities (EMU and EUL) deserve separate mention. Both of them operate with a regular university with department heads, deans and president at the top of management. There is also the board of directors for these state universities which is similar in spirit to the board of trustees in European or North American universities. However, the difference is the members of this board are appointed by the government. In this regard, higher education is well within the domain of clientelistic politics that has been endemic in other sectors. Furthermore, therefore, the centralized board is also in charge of the appointment and promotion of university faculty staff, which is the exact mechanism to exercise clientelism.

The permanent staff of these state universities are treated as civil servants, eligible for the '13th salary' and other social security benefits, although they have their own retirement fund. There are also three different staff trade unions at EMU which are rather powerful. EUL staff also attempted to form a union, but there was a serious resistance from the university officials and no support from the government and the attempt failed. The other private universities have resisted the formation of trade unions with the sole exception of Middle East Technical University Northern Cyprus Campus, where an independent trade union was established in 2017.

The universities in north Cyprus are nominally regulated by Higher Education Planning, Evaluation, Accreditation and Coordination Council (*Yükseköğretim Planlama, Denetleme, Akreditasyon ve Koordinasyon Kurulu*, YODAK) which was under the control of the TRNC presidency. However, YODAK was only formed in 2005 and operates under TRNC Higher Education Law (*KKTC Yükseköğretim Yasası*, 65/2005). But in practice the Higher Education Council in Turkey (YOK) is the one that accredits the departments at the universities. Given that 80% of the students are from Turkey, the accreditation by YOK is very important in recognizing and validating the international standing of northern Cyprus degree certificates. The most recent move by the parliament was to take YODAK from president's control and give it to the Council of Ministers control. The idea is to be able to have the power to approve applications as they see fit.

As I said before, the increasing number of university students is seen as a great success and huge contribution on TRNC's economy by the policymakers. Over the last ten years, the areas where the universities are located have seen an increase in housing and entertainment/food establishments targeting the students. Casual communication with the locals will show you that such developments have also brought about environmental problems. The environmental effects such as congestion, pollution and increase in waste also put a lot of pressure on public goods. The policymakers on the other hand will argue that 100,000 (that's their target number of students, almost one third of the population in the north) more people bring in more business revenues, more rental income, more employment and better promotion of TRNC in the world. Unfortunately, these policymakers are not able to comprehend the concept of opportunity cost and economic planning.

Financial Sector

The banking sector in northern Cyprus has had a colourful history. Commercial banks are all subject to monitoring by the Central Bank of the Turkish Republic of Northern Cyprus (KKTCMB, Kuzey Kıbrıs Türk Cumhuriyeti Merkez Bankası). That is, in fact, the only major duty

of the central bank as they are not allowed to implement any monetary policy since they are not able to control the money supply through printing of money or setting interest rates. The independence of the central bank in north Cyprus as an entity has been an issue. The early banks were basically the historically local cooperative banks and large banks of Turkey that had branches in northern Cyprus. In the middle of the 1990s, there was a boom in the number of commercial banks that followed two banking crises towards the end of this decade, since when banking regulations have tightened.

Here the development, or lack thereof, of the financial sector in northern Cyprus since 1975 will be discussed, focusing on the banking sector. Formal regulation regarding the workings of the banks in northern Cyprus did not develop immediately after the division. For many years Ziraat Bank from Turkey acted as the central bank until the bill creating the public central bank and banking regulations was finally passed in 1983 just before the establishment of TRNC. Then in 1987, another bill that addressed all the banks in northern Cyprus was passed, replacing the previous law. A separate bill that only covers the TRNC Central Bank was drafted in 2001 after the banking crises in north Cyprus. Thus, for a long time, the financial sector in northern Cyprus had operated in a *laissez-faire* environment. The other key financial institution in northern Cyprus is the Development Bank whose main responsibility has been to provide loans at low interest rates to be used in key areas of economic development. I will discuss both of them in this section.

Before we get into details of these two banks, a few words need to be said regarding Turkish Cypriot customs of currency use. After the division, the medium of exchange in the north remained Cyprus pounds (CYP), but insofar as the new state became more dependent on the economic relationship with Turkey, the Turkish lira (TL) eventually became the *de facto* currency of day-to-day transactions. This, combined with nationalistic ambitions of the leaders to definitively break from any Greek Cypriot institutions, ensured the adoption of the Turkish lira. However, insofar as refugee Turkish Cypriots had their accounts at banks or holdings at home in Cyprus pounds and Cyprus pounds were not accepted as the medium of exchange in the north after 1974, so people had to exchange into TL, and—recalling the new-found dependency on Turkish

aid for all government services—all salaries were paid in TL and business was conducted in the same currency. On 8 June 1976, the government (Council of Ministers, Decision #44/76) fixed the exchange rate at 1 CYP = 36 TL although the actual open market rate ranged from 1 CYP to 38–45 TL. Obviously, the exchange was voluntary but there was only one central institution (Ziraat Bank) who would exchange pounds at the aforementioned rate. So, those who needed Turkish lira immediately had to accept some monetary losses. Alternatively, those who were able to get their money out of Cyprus did manage to exchange it at the international rates. However, the compensation could not take place immediately and, as time passed, Turkish lira had depreciated against foreign currencies especially in the early 1980s (the period of military rule in Turkey). Thus, with fixed exchange rate, the lira equivalent of accounts had decreased substantially.

This exchange rate policy is one of the most interesting stories of northern Cyprus and had become a burden for policymakers. The KTFD government drafted another bill on 17 May 1983 to compensate the CYP account holders. The bill was accepted on 24 June 1983 (40/1983) and basically updated the compensation rate for those still holding CYP in the banks. Turkish lira had depreciated over the years, and the people who still had CYP would have had huge losses if they wanted to convert their holdings at the old 1:36 rate. The new bill fixed the new rate at 1 CYP = 200 TL where 36 TL of this would be paid, at the Ziraat Bank branches in northern Cyprus within three years, by the bank and the remaining 164 TL was to be ‘donated’ by the state (Article 5). Those who wished to do so had to apply within three months, and once eligibility was determined, the applicant had to actually convert his/her holdings within 13 years (Article 10). This bill was intended to compensate for the losses of the account holders in response to a chronically weakening Turkish lira. However, the actual exchange rate in 1983 was 1 CYP = 440 TL according to TRNC SPO data (although the actual spot rate in the international markets may have been different). This development had affected many individuals in the north and many people were upset with the government as a result (Box 8.2).

On 13 January 1984, CTP had submitted a request for establishment of a Parliament Research Committee (PRC) regarding the withdrawal of

Box 8.2 Discussions Held at the Parliament on Exchange Rate Fixing Between CYP and TL

The discrepancy had caused some discussions in parliament on 27 June 1983.²² On that same day, a report of a parliamentary subcommittee on this topic was published showing that only one member of the committee (Mehmet Altınay, TKP) rejected the proposal on the grounds that the offered payment did not cover everyone and the compensation rate was less than the real exchange rate at the time (p. 5). He also claims that the lower exchange rate helped the borrowers. Ergün Vehbi from CTP (also on the committee) noted that this was a problem since 1976 and the past governments had never included any provisions in the central budgets so far to compensate the account holders (p. 8). He also claimed that the government had secured three billion TL from Turkey to be used for this purpose.

Vehbi claimed that banks had 20 million CYP in 1976 and that amount was not used by the central bank of Turkey but it was used 'in this country'. He claimed that some of this money was used by the state for emergencies (such as medicine) but a large portion of it was used as loans to some businessmen and banks and this new bill had no mention of these loans. Vehbi also criticized the proposed bill for not including the compensation of civil servants who used to receive wages from the state in CYP (but the Minister of Finance assured him that this would be managed in the future with another bill, p. 11).

The Finance Minister Salih Coşar responded to the opposition with some numbers. First of all, he agreed with the comments of Ergün Vehbi regarding the low exchange rate proposal. Furthermore, he noted that the account holders also had lost interest during this time and as the government they would like to compensate everybody and total losses. But then he added, 'the important thing is to find the source of compensation' (p. 19) and then expressed his gratitude to motherland Turkey for providing funding to compensate at least some of the losses. Coşar claimed that they had secured four billion TL from Turkey for this purpose (33% more than what Vehbi mentioned in his speech).

As of 1974, there were 44,063 CYP denominated deposit accounts in three major banks (İşbank, Turkish Bank, Coop Bank) with total of 14.5 million CYP at the time. Most of these accounts (38,360) had balance of less than 500 CYP, 2770 of them between 500 and 1000, and 1762 between 1000 and 2000 CYP. Coşar thus claimed that with less than 1 billion TL, they could compensate 40,930 account holders (equivalent of 4.2 million CYP) within a year. Of course, what Coşar missed is that the compensation was to have been half of their actual value.

Vehbi then noted that since 93% of the accounts can be compensated by 25% of the secured 4 billion TL from Turkey, then maybe the wealthy account holders can be put on hold for a while and the total compensation

of the smaller accounts could be done at the actual exchange rate of 1 CYP = 415 TL. So what was to happen to the other half? If the compensated CYP had been taken to an international exchange market, the rates would have been higher and thus they could have actually profit from this arrangement.

The total amount was around 20 million CYP once the money in other financial institutions (coops) are added. However, Coşar also added that most of this amount was loaned out, and thus the amount that needed to be compensated is the amount that was actually in the bank's possession which was equivalent to 3.062 million CYP.²³ But Mr Coşar failed to explain how the loans would be handled. Although the banks do not hold that much money in reserves, the credits had to be paid back at some point. If the loans are paid back in CYP, what kind of exchange rate the banks will use?

Ismail Bozkurt proposed a modification to Article 5 and proposed the payments to be made according to the actual exchange rates on the day of the payment instead of fixed 1:200 rate. This modification was rejected, 18 votes against 14 votes. In the end, the CTP-TKP voted against the entire bill but it was accepted by majority vote.

This bill basically aimed at compensating the loss of Turkish lira against CYP, but since the KTFD government did not have the necessary funding, they turned once again to Turkey. Turkey provided some amount, but then the compensation rate was determined by the local administrators. Although the conversion rate was not favourable, more than 40,000 account holders would have had some compensation where most of which probably forgotten about. This was once again a political move to attract votes rather than an economic move. Although Turkey provided the funding, Ziraat Bank was basically a Turkish bank which meant that the compensated pound accounts would be accumulated by the Turkish authorities. Therefore, if they exchanged the amount in the international markets, Turkey would have actually obtained the money they have allocated for this purpose back and also make some profit out of it (since the exchange rate at the time was more than 100% of the proposed compensation rate).

CYP from the banks after exchange rate fixing as a result of the June 1976 Council of Ministers decision. The request included the following allegations: 'After the decision [June 1976], the government at the time had seized the CYP in the banks. Although it is known that some of the CYP had been withdrawn from the banks before the government had seized the accounts, the perpetrators and their methods of withdrawal are unknown. Thus, we request a PRC in order to shed light on the events.'

I don't know why the opposition party had waited eight years to submit such a request. I also cannot find if such a PRC had ever been established, but the accusation of 'someone had benefited greatly from the exchange rate fixation' has been legendary among Turkish Cypriots and expressed out loud over and over again. Of course, once again we do not have official proof. The state officially prohibited CYP borrowing from the local banks in 1991. Notwithstanding efforts at compensation, the ultimately compulsory conversion of CYP accounts to TL accounts was secured through an opaque, unaccountable and long-drawn out process in which certain parties profited enormously whilst others lost significantly, confirming the dark politics of rentierism and clientelism.

The Central Bank

Whilst the law establishing the KTFD Central Bank was passed in 1983, it was replaced in 1987 by a more comprehensive new banking law that incorporated the central bank as well as other banks. After the banking crisis in 2001, an additional law was passed separately for the central bank, but the organizational law for the central bank that provides for appointment criteria and responsibilities of the personnel at the bank remained from 1987. The original law required 250 million TL (about \$1.08 million) nominal capital reserves for the bank, of which 100 million TL was paid and the rest would be financed through any central bank commercial profits and the government budget as necessary. Central bank personnel were to be subject to the Public Servants Law albeit not paid from the central government budget. Additional benefits were assigned over the recent years; thus, prior to 2001 personnel were eligible for the Retirement Fund as they were considered civil servants, whereas after 2001, a special retirement fund for central bank personnel, managed by the bank's executive board, came into operation. Also in 2017 a new health fund was established to cover some or all of the costs of the health expenditure at private clinics (on top of free healthcare services at state hospitals which is provided to all the civil servants). The revenues of the Fund come from 1% deduction from gross salary of the currently

working and retired personnel, and the Fund is managed by a three-person board where the vice-director of the bank is the head of this board. The bank's executive board currently consists of five members (it used to be seven). The head of the board is appointed for five years by the Council of Ministers upon recommendation of the prime minister. The other four members are also appointed in the same manner but for three years.

The head of the executive board has traditionally been appointed by Turkey. Although there are Council of Minister decisions on the appointment, the TRNC governments did not have any say in who the person should be and he will be appointed in practice directly from Turkey.²⁴ According to a protocol signed between Turkey and TRNC, four of the members would be from Turkey and the other three from TRNC. This tradition of the ratio of the representation has continued after 2001 when the number of board members decreased to five. All the members of the board should have tertiary education and significant experience in banking sector, but the TRNC governments have used this as another opportunity for political clientelism.²⁵ The first head of the board has served for 16–17 years until 2001 banking crisis and then there were five more until today. Again, we see, reflecting a colonial or semi-colonial relationship, that the key monetary policy enforcer of an 'independent' state is managed by members appointed by another state.

What are the responsibilities of the central bank? In a traditional sense, any central bank is in charge of controlling the money supply in the economy. They can do this potentially by three different methods: adjusting the discount rate (the interest rate charged by the central bank when commercial banks borrow money), adjusting reserve requirements and buying/selling of treasury bills. Unfortunately, TRNC Central Bank did not do any of these for a long time. In other words, the central bank was not worried about any sound monetary policy. They merely acted as an auditing mechanism for other commercial banks. According to the establishment law (41/2001) Article 5, paragraph 3, the central bank is 'government's financial and economic consultant, financial agent, and keeper of treasury'. So the central bank is seen as an institution who provides money for the government's budget. In fact, Article 44 of the same law states that 'the 75% of the profits of the central bank are channeled into national treasury, and the losses are covered from the central budget'.

This kind of connections between the central government and the central bank is simply against the prevailing idea of the autonomous working of central banks around the world. And, as we have seen in Chap. 7, the central bank will extend credit to SEEs under letters of guarantee from the state which basically if not paid is deducted from the transfer of the profits (under the temporary Article 3). In other words, the state could appropriate or misappropriate from its own resources. So effectively the real and only responsibility of the central bank in TRNC has been to control and regulate the other commercial banks. This duty proved to be very important at the end of the 1990s when the banking crisis erupted. At the beginning of the 1990s, many bank licences had been issued with very low requirements such as the minimum startup capital of 50,000,000,000 TL (equivalent to \$119,683 in 1999) dictated by the 11/1976 Banking Law.²⁶ After the crisis in 2001, this number increased to \$2,000,000 and is still the requirement today.

The successive development plans had identified some targets regarding the financial sector although the plans never considered it as a separate economic sector but just a set of tools needed to enable the development of other sectors such as agriculture, industry, tourism and construction. The first FYDP acknowledged the need for the 'establishment of an expert money authority who would deal with the money operations efficiently'²⁷ but this authority was not named a central bank. The establishment of central bank was postponed until 1984 which was covered in the second FYDP. As noted earlier, in 1976 a law 'Payments of Premiums against Cyprus Pounds' was passed which was supposed to start payments in 1984. There were eight banks in northern Cyprus as of 1982, and Cooperative Central Bank had 34.6% of all the demand deposits, followed by Turkey's Ziraat Bank at 26.7%. The second FYDP had the goal of 'monitoring the money supply through the central bank'.²⁸ Plans to establish a development bank were also included in the second FYDP. The third FYDP would acknowledge the existence of 'financial sector' and include plans to bring international financial tools to northern Cyprus such as factoring, leasing and venture capital which only entered the vocabulary of the financial sector in the north after 2001. One would not normally expect the central bank to be included in a government's development plans since as a central bank it should be

independent from government intervention. However, given the dependent legal status of the central bank in northern Cyprus, the mere lack of mentioning of possible targets for the workings of the central bank in the development plans indicated that the government was practically simply not in charge of the central bank.

There was some significant movement in the banking sector in the middle of the 1990s. In 1990, there were 14 banks that operated in northern Cyprus subject to central bank regulation. About 11% of all the foreign currencies were held by the central bank. By this time 38.5% of the total demand deposits (*resmi mevduat*) in the economy were held by the central bank compared to 66.7% in 1986.²⁹ In the mid-1990s, problems began to arise in the banking sector and the government temporarily seized control of Akdeniz Garanti and Everest Bank in May 1994. By 1997, there were 27 banks and 34 offshore banks (established under 48/1990 law) operating in northern Cyprus. These many banks competing for relatively small number of account holders complemented with inadequate government policies paved the way for a banking crisis that began in 1999. Between 2000 and 2002, ten banks in TRNC ceased operations, and later in 2005 and 2009 five more banks either merged with larger banks or had to be bailed out by the government.³⁰ The total cost of the crisis between 2000 and 2002 is estimated to be \$200,000,000.³¹

Part of this failure is due to external economic shocks coming from Turkey since the currency in circulation is the same. However, other part definitely came from poor regulatory practices which led to a change in the banking regulations after 2002. Safakli (2002) cites lack of regulations, lack of financial capital and the business structure of the banks as some of causes of the banking crisis. What is more interesting, he cites several unethical principles that might have contributed to the crisis such as 'extending credits to bank owners or members of the board of directors against existing regulations', 'inconsistencies between the financial statements of the banks and the ones sent to the TRNC Central Bank' and 'accepting illegal deposits at the banks'.³² Furthermore, Safakli claims that 'the banks' managers hide information from the external auditors and internal auditors misconducted their duties in favor of the banks'.³³ The crisis caused many of the depositors who lost their savings to forcibly enter parliament and demonstrate actions that were responded with

police violence.³⁴ There are also stories that some people who lost their life savings committed suicide. Although the Central Bank and the governments had any intention to monitor financial activities of these institutions which is very important, the behaviour of the managers of these banks had no intention to act in a professional manner knowing that there is no need for transparency and they will not be held accountable for their actions. Additional discussions held in the parliament on the banking crisis are available in Box 8.3.

Box 8.3 Discussions on Banking Crisis³⁵

After the raid by the depositors who lost their savings at the failed banks, the parliament had a meeting on 28 July 2000. The opposition led by Mehmet Ali Talat seized this opportunity to attack the incumbent UBP-TKP government.

Talat claimed that 'the only reason of why this [banking] crisis has happened is because we cannot manage our own affairs, our banking system' (p. 5721). He then continued a step further to claim that the same applied to 1974, 1983 and other state structures in between. He also claimed that the government did nothing to prevent this from happening and relied on Turkey to pay off the cost of the crisis (p. 5722).

Mehmet Bayram (UBP) responded to the allegations as the Economics and Finance Minister. He claimed that the cost of the crisis went up from 60,000,000 TL to 120,000,000 after failure of two additional banks, and thus the ministry had to revise their work which they had conveyed in a letter to the affected depositors. But then he claimed that TRNC and the Central Bank do not have the necessary funds to compensate for the banking crisis (pp. 5724–5725).

Osman Imre (DP) also accused the government of lacking regulations in the banking sector. He also claims that the government signed an agreement with the affected depositors but did not honour it (p. 5734).

Serdar Denктаş (DP) stated that if Turkish Cypriots want to run their own affairs, they cannot rely on financial aid from Turkey. And as long as Turkey sends the money, they have the right to tell Turkish Cypriots how to use it. But he also added the following: 'We have been isolated from the rest of the world, but the reason for that is because we stopped following what has been going on in the rest of the world. And unfortunately, we the politicians are the most responsible for this' (p. 5753). He then condemned the demonstrators for entering the parliament and blames UBP for letting all this come to this.

Over the years the governments have proposed central bank policy changes in their programme announcements.³⁶ The first government to include such a policy was in 1985 (UBP-TKP) who assured that the central bank would be 'a bank that regulates other banks and regulates interest rates and money markets'. In the second half of the 1990s, DP-CTP government programmes would vow to 'review the Central Bank Law' and strengthen its semi-independent (*ozerk*) structure. In 1999, UBP-TKP government programme would require the Central Bank to be given the role of 'sustaining economic consistency'. And finally, in 2013, CTP-DP programme would include a statement as 'The directors of the Central Bank will be directly appointed by TRNC officials' as if it was not already required by the law. Such futile promise, of course not kept, indicates how the policymakers were unaware of Central Bank's predicament.

The Development Bank

As noted, the idea to establish a Development Bank in northern Cyprus goes back to 1983. The first government in the north had secured 500,000 million TL from Turkey to be included in the central budget for the establishment of the bank. Although the 1985 and 1988 government programmes had specific plans to 'complete the establishment of the Development Bank',³⁷ the initiatives were unsuccessful until 1992 when the relevant law was passed and the bank started operations on 29 May 1993 with its 15 employees.³⁸ The bank's stakeholders are the Consolidated Fund (97.93%), legal persons/entities who borrowed loans from the bank (2.06%) and other commercial banks operating in north Cyprus.

There are 65 available employment positions (*kadro*) in the bank according to the related law, 51 of which are currently filled. The board of directors of the bank are the highest decision-making group within the bank. There are seven members, of which six are appointed by the board of ministers (upon recommendation by the related minister) and the other is selected among the 1.56% stakeholders. The general manager of the bank is responsible for day-to-day operations of the bank and is appointed for duration of five years by the board of ministers but can be

dismissed before the end of the term. In fact, there have been seven general managers since 1993 and only one of them served the full five years.³⁹ There was an amendment in 1994 where a new position of a second vice-manager was added. This position was to be a permanent position unlike general manager and vice-manager positions who could be dismissed by the Council of Ministers. There was a claim that this change was made to cover the daughter of a minister at the time.⁴⁰ Since this change created more positions for the government to be used for nepotism, the opponent party UBP did not object to it. Basically, the bank has been managed by people appointed by the ministers in the central government; thus, once again there is a huge opportunity for political clientelism.

The main purpose of the bank is to provide credit to investors that will add to the development of the aggregate economy. The main sectors that received credit over the years were agriculture, tourism and construction. The total amount of credits being allocated and the corresponding payments received between 1999 and 2013 show that until 2006 the collection of debts was not a priority for the bank.⁴¹ The total number of projects receiving these credits was 742.⁴² However, we don't have any data on the amount of credit for each project which could potentially enable us to judge the efficiency of the extended credits. It is generally believed among the public that in order to get credit from the bank, one needs to have close ties with the politicians. In fact, there was a great incentive for borrowers not to repay their loans as they had ties with the politicians who would control the senior managers at the bank who would therefore not go after the borrowers.⁴³ (World Bank Report 2006: 181–182).

The supervision of activities of the Development Bank (DB) is under the State Court of Accounts (SCA) rather than the Central Bank. The Central Bank supervises all other banks in northern Cyprus, and they have the right to enforce strict guidelines and penalties. Since the Development Bank is not under such supervision, some of the mismanagement practices have gone unrecorded. For example, according to a 2013 SCA report regarding the 2010 financial year accounts of the bank, the value of bonds that was bought by the local banks were 13,800,000 TL less than the legally required amount.⁴⁴ The same report also finds that the Bank did not follow the guidelines for following up on unpaid

instalments on the credits extended.⁴⁵ Finally, another finding indicated that the Bank gave \$1,000,000 credit to a company even though the collateral was worth only \$930,000.⁴⁶ This report covers only 2010 and it is a wonder how the bank has been managed since 1993. In any case, such mismanagements show that the Bank's operations are not as efficient as they need to be and the future profitability and sustainability is questionable.

A Parliament Research Committee (PRC) was established in 1995 to investigate if there was any 'unlawful practices in the loans extended through Development Bank during the campaign season for the 1995 presidential elections' (Aytac Besesler was the head of the committee). The first meeting took place in November 1995, and after obtaining several extensions, the committee finally completed the seven-page report in December 1997 with a total of six meetings. Some of the findings of the committee can be summarized as follows⁴⁷:

1. The general manager of the Development Bank who was also the head of the executive board exercised two votes and he had meetings on his own, taking some unilateral decisions.
2. The amount of loans extended during the 1995 presidential elections increased substantially.
3. The bank had extended credit in breach of Development Bank bylaws (according to a SCA report of 1995).

And then the committee listed 13 steps that need to be taken to improve the workings of the bank. They further claimed that 'we [the committee] ha[ve] identified faulty, discriminatory, and out of purpose [ultra vires] practices within the Bank'. The committee accepted this report unanimously, and they also said that it was pleasing to see that 80% of the loans had now been collected.

Salih Coşar was not very happy with this report. He was to criticize the committee for producing a report *irrelevant to its purpose*. Although the report included several suggestions on improvement of the practices of the Bank, Coşar claimed, the report did not answer the question of whether or not there has been an unlawful practice during the election campaign in 1995. He agreed that there were unlawful and faulty

practices, but did not concur with the discriminatory and ultra vires practices findings of the report. He also claims that the findings of the SCA report that the committee used was interpreted incorrectly. The committee members would respond by citing the finding #2 above as the key finding that there was unlawful practice during the time under consideration. And then, as always, there was to be yelling and accusations between the MPs. At the end of the day, this committee had six meetings in 24 months and unanimously agreed on a report that basically repeated the findings of the Court of Accounts report but also confirmed that the Development Bank has been mismanaged. However, the parliament was not empowered to act any further and had to leave it to the governments to carry out the proposed corrections.

Ad hoc and sporadically available information characterizes the history of the Development Bank, even more so than other key institutions. For example, some information on the loans extended to individuals/businesses in 1996 was found. The coalition government changed on 16 August 1996 and UBP-DP formed a new government. As of 23 December 1996, the Development Bank had extended 27,870 million TL, GB£669,462 and US\$40,000 worth of loans to 9 unique individuals and 16 businesses.⁴⁸ The list of these recipients shows that most of the recipients were individuals or companies who were close to government officials.

Once again, the allegations of mismanagement at the Development Bank did not stop. The DP submitted a proposal on 24 March 2000 for a PRC to be established to investigate the 'loans given by the Development Bank in 1998–1999 season'.⁴⁹ The motivation behind this was to investigate 'whether or not there were inconsistencies in the loans extended similar to the ones extended to InterGaz (a private firm)'. Mustafa Arabacıoğlu was to claim that this private firm received loans from the Development Bank inconsistent with the regulations. Mehmet Bayram (the Minister of Economics and Finance) denied any inconsistency but also added that his party would be happy to have such a committee so that the truth can be revealed. The parliament voted unanimously in favour of establishment of a PRC on this topic.

The PRC was established on 28 March 2000 and was headed by Hasan Taçoy. As always the committee asked for two-month extensions when

their time was up. On 11 May 2001, when the committee requested yet another extension, Mustafa Arabacıoğlu (a member of this committee) said ‘these kinds of committees are formed to reveal some things, but unfortunately this committee has convened only once so far, thus I don’t think we will reach any conclusion even with two years extension’ and he condemned the situation.⁵⁰ The parliament granted the extension with majority of votes (probably Arabacıoğlu voted against), and then they continued asking for extensions on 11 May 2001, 17 May 2002, 14 November 2002, 14 March 2003 and so on. Once again we see members of a parliament who start an investigation with a great ambition on a very important topic but then don’t follow their own bylaws (it is against bylaws to grant more than two extensions).

The general manager and vice-manager were two important positions within the bank who were appointed by the board of governors. These two positions received some extra privileges after 2001 changes in the related law (17/2001). The corresponding salary scales of these two posts were respectively set as grade 19 (maximum civil servant pay scale) and 18A by the board of the bank. Also after this date, these two posts were given the same rights as other workers. After this date, the posts under ‘Manager Services Class’ was divided into two as ‘Actual’ and ‘Other’ where only the two posts mentioned above was included in the former class and their appointment criteria is left to be decided under the Development Bank Law instead of the related Establishment Law (*teskilat yasası*) that dictates all the other post requirements. CTP and DP were to object to these changes arguing that there was no need for such changes especially in the midst of economic downturn (affected by the banking crisis). Ferdi Sabit Soyer and Salih Coşar, whose parties were the creators of the new posts in 1994, were now the key opponents to these changes.

There have been cases which suggest that posts have been inappropriately filled with unqualified persons, undermining confidence in the integrity of the Bank. For example, the branch office manager position required a higher education degree in ‘Banking, Finance, Economics, Statistics, Management, Accounting, Commerce or other appropriate subjects’ or ‘having a bachelor’s degree in any discipline but having post-graduate degree in the above subjects’. In 1993, the executive board of

the bank employed an individual who had architecture degree to one of these positions. Some other employee of the bank at the time took the matters to the court claiming that the hired person did not have the required skills for the position.⁵¹ The defendant's lawyers argued that due to the presence of 'other appropriate subjects' in the list, architecture degree should be irrelevant in this discussion. The court disagreed and the appointment was overturned at the time. Such an example reinforces the notion that Turkish Cypriot politicians have engaged heavily in clientelism at every level of the state including key economic institutions.

The two key financial institutions that could have provided the uplift needed by the private sector were not managed very well since the beginning. The Central Bank simply has been limited in its power not only because it has been managed directly by appointees from Turkey but because it had no control over the currency in the circulation. Development Bank who could have accelerated growth of the private sector investments was established rather late and has been at the whim of politicians. Once again colonial influence and clientelistic and rent-seeking politicians have dictated the history of private sector development in northern Cyprus.

The ECJ decision we introduced at the beginning of this chapter has been used as an excuse for the economic situation in TRNC for many years. Although I agree that such an external economic shock could derail the economic development, it cannot be the sole reason for the current state. The governments had almost 20 years (1975–1994) to prepare a good foundation for the state with its properly working institutions and private sector. And it wasn't as if this was the first time Greek Cypriots were trying to block export of products from northern territories as we have seen, in Chap. 4, how they took the matters to the courts in the UK and Holland in 1976. Regardless, if the economy had been founded on solid grounds, this decision would have had much smaller effects. For example, we have seen in Chap. 7 where Erdal Onurhan (a director at Sanayi Holding and later Minister of Economics and Finance) said that Sanayi Holding would have collapsed even if it wasn't for this decision. Furthermore, the decision only covered exports to European Community area countries and not the entire world. So, the policymakers and the professionals in the industry should have worked towards finding other

markets (Middle East, North Africa, Israel) for their products, but instead they sat back and played the blaming game. Finally, the saviour of Turkish Cypriots, the motherland, Turkey could have opened its market completely free to Turkish Cypriot products. After all, how much of a competitive impact the small island economy could have brought to Turkish firms? Were they (Turkey) afraid of little competition who can only produce products that are not even enough for one large city in Turkey? Instead, Ozal simply implied in his speech ‘don’t worry you can buy from us and stop producing’. What is more heartbreaking is that TRNC officials went along with this because alternative outcome would have required political determination and bureaucratic manoeuvring against a country who has constantly been providing financial aid. Although northern Cyprus was ‘fortunate’ enough with the economic wealth they appropriated after the division, they were unfortunate with the policy-making abilities of their leaders who relied heavily on financial support from Turkey.

Notes

1. M.A. No: 4/1/94, 13.7.1994.
2. TRNC Parliament Proceedings, 13 July 1994a, p. 4286.
3. *Ibid.*, p. 4288.
4. *Ibid.*, p. 4299.
5. *Ibid.*, p. 4300.
6. TRNC Parliament Reports, 25 July 1994b, p. 4686.
7. *Ibid.*, pp. 4662–4666.
8. SPO (1982), p. 114.
9. *Ibid.*, p. 43.
10. *Ibid.*, p. 120.
11. *Ibid.*, p. 121.
12. *Ibid.*, pp. 140–141.
13. Turkish Cypriot Administration, Agriculture and Natural Resources Membership, Status of Agricultural Sector, 1970 Activities Report, Nicosia, p. 48.
14. SPO (1977), p. 36.
15. *Ibid.*, p. 37.

16. Agriculture Census Results [*Tarım Sayım Sonuçları*], 2011. State Planning Organization, Statistical and Research Office, January 2015.
17. We are grateful to Symeon Matsis who provided this information based on data he obtained from the Tourism Office of the Republic of Cyprus.
18. SPO (2016), Table 35.
19. Ibid., Table 27.
20. Please see the following two links on claims of money laundering in northern Cyprus: <https://www.state.gov/j/inl/rls/nrcrpt/2015/vol2/239069.htm> and <https://www.reuters.com/article/us-cyprus-turkish-crime/isolated-turk-cypriots-try-to-clean-up-image-idUSL1119544420080211>.
21. Mehmet (2009), p. 4.
22. The date on the bill was 24 June, but the date on the Parliament Reports is 27 June. All the information in this box are obtained from TRNC Parliament Proceedings, 27 June 1983.
23. These three major banks also had 2.7 million CYP blocked at the RoC central bank (p. 21).
24. Alpay Durduran, TRNC Parliament Proceedings (27 February 1990), p. 6812.
25. Ekici (2009), p. 179.
26. Safakli (2003), p. 224.
27. SPO (1977), p. 25.
28. SPO (1982), p. 372.
29. TRNC Central Bank Bulletin, No. 14, Table 9, December 1990.
30. Günsel (2012).
31. Safakli (2002), p. 110.
32. Ibid., p. 112.
33. Ibid., p. 113.
34. There is a YouTube video in Turkish at <https://www.youtube.com/watch?v=gIl80oLJ80w>.
35. All the details in this box are obtained from TRNC Parliament Proceedings, 28 July 2000b.
36. Diler (2015), pp. 185–186.
37. Ibid., p. 187.
38. <http://kktckb.org/tr/index.php/tarihce-2/>.
39. <http://kktckb.org/tr/index.php/hizmet-veren-genel-mudurler/>.
40. Ekici (2009), p. 215.

41. The data and the chart are available at <http://kktckb.org/tr/index.php/kullandirilan-kredilerde-tahsilat-durumu/>.
42. The percentage of establishments who received credits in industry, tourism and education areas are, respectively, 52.5%, 24% and 7.3%. The rest are under 'Other' category.
43. World Bank Report (2006), pp. 181–182.
44. One of the main financial resources of the Development Bank is the bonds purchased by the local banks that is required by the laws.
45. TRNC SCA (2013).
46. Ibid.
47. The entire report presented at the parliament and the corresponding discussions held can be found at TRNC Parliament Reports, Season III, Year 1997/4, Session 31, 24 January 1997.
48. TRNC Parliament Proceedings (27 December 1996), p. 2034.
49. TRNC Parliament Proceedings (24 March 2000a).
50. TRNC Parliament Proceedings (14 May 2001).
51. High Administrative Court (*Yukse Idare Mahkemesi*, YIM) Decision, D.25/97, YIM 223/95, 27 November 1997.

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- TRNC Parliament Proceedings [*KKTC Meclis Tutanaklari*], Term III, Year 1996/4, Session 25, 27 December 1996.
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- TRNC Parliament Proceedings [*KKTC Meclis Tutanaklari*], Term IV, Year 2001/3, Session 60, 14 May 2001.



9

Conclusion

I have attempted to present a picture of Turkish Cypriot governance and economic development in northern part of Cyprus since 1974. There are of course several other significant issues which were not discussed here due to either data or space limitations. Nevertheless, it can safely be said that the story has been discordant at best. The political leaders have been acting in their own self-interest throughout this history, and the people have contributed to this purpose instead of acting against it. The self-regulatory institutions of the state structure (police, Court of Accounts, prosecutor's office) have been set up in a way to prevent them from executing their very basic roles. This has led to lack of accountability and transparency in domestic state affairs over the years. In terms of economic development, the governments actually never carefully *planned* (although required by the very same constitution accepted under reign of these policymakers) strategic policies that could have benefited the development trajectory of the economy. Despite several early development plans, which were more likely *wishes* than plans, the economy of the north has never developed although wealth of the people has increased. The simple reason of the latter increase has been the unceasing financial aid received from Turkey but not without political consequences. In the end, Turkish

Cypriot politicians, with the support of voters, have created an economically vulnerable and aid-dependent state (perhaps a colony) without much hint of political independence and respect in the international circles. While Turkish Cypriot leaders were busy with clientelistic and rent-seeking activities and solidifying their relationship with the motherland, Greek Cypriots just across the border have taken a post-war shattered economy and converted, with the help of international actors, into a developed nation.

In their book *Why Nations Fail?*, authors Daron Acemoglu and James Robinson analyse the history of many different states across the world and provide a single explanation for their failure: lack of institutional development. The motivation example of the book is the city called Nogales on the US-Mexico border where on both sides of the fence two groups of people with similar culture, tradition and geographic resources live, but their economic developments are vastly different. Consistent with their analysis, the authors could readily have used example of north/south Cyprus in their book. I have shown throughout this book how the very institutions (parliament, courts, civil sector, policymakers) required to enforce laws in the north have been operating a clientelistic politics or even corrupt polity. Beyond limited sketches of developments in the south, it would nevertheless be fair to say that there have been significant differences in the institutional development between the two sides.

Why is that the case? Culture and traditional values cannot be the reason as Cypriots have co-existed for a very long time and the locals share similar values. One could of course argue that after 1974 with the changing demographic distribution in the north, the 'values' also changed, but as this book showed, it was mostly the 'locals' who misbehaved throughout the short history of northern Cyprus. Could it be the physical and human capital? The physical capital left in the north, whether workshops and factories under Sanayi Holding, or touristic accommodations, or fertile citrus fruit lands, and more, have been substantial after 1974. The way they were managed by the policymakers in the north though was very poor. With regard to human capital, there is some merit that (as we have shown with the statistics released right after 1974) in the argument that the education level and business experience of Turkish Cypriots was not well developed. But after the division, Turkish Cypriots

were given easy access to higher education institutions in Turkey and produced many highly educated workers. Also, through business partnership with Turkish firms, many successful business people have emerged. So, although human capital was limited at the beginning, this nominal gap was reduced within the first decade of the division. Then how about financial conditions? I have shown in Chaps. 3 and 4 that Turkish aid to the north has been substantial over the years. In fact, per capita foreign aid had been larger than foreign aid received by the south of the island. A counterargument to this would be given by a clientelistic government official saying that although the aid was larger to the north, there was a substantial embargo towards Turkish Cypriots which hindered the economic development. As I described throughout the book, the embargos did not start until 1994 and whose impacts were unmitigated largely by Turkish Cypriot policymakers. Even after 1994, north Cyprus still had great economic opportunities to explore, but poor governance has been a constant obstacle.

Thus, one could helpfully use Acemoglu and Robinson's analysis in the examination of the comparative development of north and south Cyprus: Two nations separated by a border with similar culture, traditions, natural resources, human/physical capital and financial aid had different growth trajectories after 1975. Could it be because of the lack of development of institutions on both sides? I have argued that it is. In the north, the leaders were so occupied with consuming and distributing spoils of war that they did not bother to set up correct institutions for the development of the nation. On paper, they had all the rules and regulations, but when it came to execution, they were simply ignored, and instead of the rule of law, the leaders used 'rule of force and intimidation'. The unchallenged and undisputed financial support from 'motherland' only contributed further to the discordant polity that lasted to this date. The south on the other hand developed their institutions properly, especially after 1990 when the south had applied to EU to become a full member state. The prospect of EU accession added to development of the institutions and the polity. No such stimulating factor existed for Turkish Cypriots.

The example I always use to show the differences in institutional development is regarding the behaviour of Cypriots in traffic. The parking and driving regulations in the south are what you would expect from any

European country. For example, no parking zones are clearly identified (two parallel yellow lines), and violators are punished according to traffic regulations. Although such regulations also exist in the north, there is very limited control mechanism, and in rare cases of punishment, the violator was likely to find a *torpil* in the relevant state office to get rid of the ticket. After the borders were removed partially in 2003, drivers on both sides have had the experience of driving under both regulations. I have witnessed on several occasions that a Turkish Cypriot who would park anywhere (including sidewalks, disabled parking, middle of the road) in northern Cyprus will be very careful to obey parking regulations in the south, and contrary to that, a Greek Cypriot driver will forget all about the traffic regulations as soon as he crossed to the north with his car.¹ How can these two individuals with similar education and socio-economic characteristics behave differently on two sides of the divided island? Actually, they are both behaving exactly similarly on each side whereby their behaviour is dictated by the development level of the institutions.

Although there are hints in respective chapters regarding the likely perpetrators of the outcome in northern Cyprus, I write in detail on this topic in the next section with a warning for the readers: the narrative in the remainder of the book will diverge from academic tenor. I tried to give a history of developments without explicit judgement (although I might have failed in some cases), but as a Turkish Cypriot, I have been outraged by the discordant policies. Therefore, in the remainder of the book, I will not hide my frustration by discussing who has been to blame for the status quo.

The Usual Suspects

Throughout the book we have discussed the historical developments of the political and economic circumstances in northern Cyprus, an unwanted de facto state that has been surviving for more than 44 years now. We have seen some occasional good examples of the governance in the north, amongst a catalogue of bad and even ugly examples, hence an alternative title for this book inspired by the famous Clint Eastwood

movie of the 1960s: *The Good, the Bad and the Ugly Governance*. Regardless of the discordance in politics, the current situation in the north can safely be characterized as ‘problematic’ and the future is unknown. Not only have the economic problems such as inflation, slow growth and underdevelopment of public services continued to dominate the lives of locals but also other problems such as crowded population, environmental issues and ethnic identity conflicts. However, hardly any of these issues are discussed by the politicians.

North Cyprus politics was to suffer two major problems. First, clientelism was to continue to inform and dominate state affairs from the outset albeit enmeshing newer political actors. Anybody running for office was faced with the following dilemma: if committed to remove clientelistic behaviour that governed the polity in the last 40 years, then any chance of electoral success was doomed. With that history, the clientelistic trend has continued unabated and seems to have become even more irreversible. On the other hand, Turkey’s influence on the local policymakers has become steadily more visible, and deepening economic dependence on Turkey has also reached irreversible levels. Thus, any politician who claims to stand up against Turkey also runs the risk of not gaining office in the first place, let alone losing office, especially since a majority of voters now are composed of Turkish nationals with TRNC citizenship. Although many people would point to the solution of Cyprus problem as the only means of changing the accord of the local polity (at least those who are not satisfied with the status quo), I have shown throughout the book that it was not the Cyprus problem to blame for the status quo, but local actors instead.

The Three Musketeers

The three major political parties in north Cyprus (UBP-DP-CTP)—to be dubbed ‘the three musketeers’—have been in north Cyprus’ governing bodies 90% of the time since 1975. During the earlier periods, the UBP used political clientelism constantly to strengthen and maintain its power like a monopolist acting against anti-trust regulations. Especially during the 1990s, with the closing of the international community, the

government came to rely more heavily on nepotism and redistributing wealth for the citizens. After the UBP's Denktaş-led divisions, the newly formed DP and the hungry CTP continued the tradition of nepotism in the second half of the 1990s and the early 2000s. In the last decade, we have constantly seen these three musketeers forming coalition governments only to break up without keeping any of their promises laid out in the government programmes. They only used the financial aid from Turkey to aid their own supporters and only give basics to the people. Using scare tactics and the support of the unions, the public was never able to fully oppose to this. If the past governments could have created a financially strong and planned state, then there would not have been such a huge need of dependence on Turkey today. The bad governance of these actors in the 1980s and 1990s have paved the way to absolute dependence.

Except for the UBP, the other parties have never served alone in government. This is one of the excuses used when asked about their failures, 'we wanted to change things in the right way, but our coalition partner did not allow us'. There is a government programme that is prepared at the beginning of each government which is constitutionally binding. So, if these parties did not agree on the tasks on these programmes, then why did they form a coalition? Furthermore, if their partners were not on board later, then they should break up the partnership and never form a coalition again. But we have seen the main three parties getting married again and again. What's worse is that they did not use all the tools to pressure the incumbent government when they were in parliamentary opposition. The reason is simply that all of them had committed misdeeds obliging them to keep silent.

The UBP was in government for 17 years before a coalition without their presence was formed in 1994. With all that experience, they were not going to make it easy on the new coalition. Parliamentary records show that UBP activist MPs demanded plenty of written and oral questions for the DP-CTP government in order to put pressure on them. But the answers received to these questions were rarely to be used for any further investigation or anything else. The CTP and TKP on the other hand did not ask many written questions during 1983–1994 period; although they tried to put pressure through speeches, there is no written evidence but only allegations. But they were to do so later when UBP

came to the power again (with other parties of course). I think we can safely assume that these questions were being utilized for no purpose and just to 'fit the books'.

It is ironic how policymakers blamed the lack of legal powers as the cause of political and economic status quo when they were the ones who were elected and therefore enabled and empowered to draft bills. Furthermore, MPs often failed to even obey existing laws. For example, the state budget was supposed to be prepared in accordance with the 'development plans of SPO' according to the budget law, but no such plans have existed since 1997, and even before, and the budgets never took those into consideration. Another example is when the state would purchase goods/services without adhering to the rules of Central Auction Commission rules and regulations whereby they use the exception clause as an excuse although it makes absolutely no sense. Finally, the Parliament Research Committees which are empowered to investigate very serious corruption allegations or unlawful political practices would continually ask for two-month extensions even though the bylaws clearly allow only one extension. Such examples of policymakers bypassing or simply ignoring laws and regulations have gone unchallenged and allowed these individuals to exert their reign over the public over the last 40 years.

Past governments have also weakened the quality of the public services. Health and education discussed particularly in Chaps. 3 and 4 are the two key public service areas that the north Cyprus governments have been responsible for. Their argument for failure of these services has been a 'lack of funding', but that of course is not correct. For example, in 2016 and 2017, the state budget allocated respectively TL 10,000,000 (approximately \$3,000,000) and TL 17,000,000 for reimbursement of the healthcare costs of the citizens at 'local private' hospitals,² although the state hospital had a broken radiation equipment during this time and physicians had to refer cancer patients to other private hospitals. In other words, the government preferred spending money to send citizens to private hospitals and pay for the incurred cost instead of fixing the machine so that the treatments can be carried out at the state hospital at a much lower cost. This kind of behaviour is not the result of lack of funding, but it is the act of a business person trying to maximize their own rent instead of a social planner working towards good of the overall economy.

'Motherland'

Turkey continued providing financial support over the years without completely focusing on the management of those funds. The trust-based system did not work in Turkey's favour until the AKP started to tighten aid and impose its own agenda. Serdar Denktaş claimed that \$17 billion has been transferred to northern Cyprus since 1983. This kind of money could have easily been used to build a fine infrastructure. The conspiracy theorists would claim that Turkey did this on purpose to ensure the dependence of northern Cyprus. I don't believe this explanation. Especially the more nationalist governments in Turkey in the 1980s and 1990s would send the money without any questions and fully trust the local government. What went wrong is that local governments just wasted these on unnecessary items. The motivation in the 2000s was different when AKP was in power and they wanted to have more control and maybe change the socio-economic structure of Cyprus. Regardless of the motivations, Turkey should have been more careful with the aid sent to the island before the new millennium, and thus some of the blame falls onto them.

Turkey's foreign aid to northern Cyprus has been and still is substantial. There are two key problems with the kind of aid and Turkish support on the island. When the Prime Minister of Turkey Turgut Özal visited the island in 1986, his first message was that the island cannot sustain itself by relying on industry and should focus on the service sectors. We have seen in the previous chapters that the industrial sector had been a key sector in the 1970s and early 1980s. In fact, it could have been even stronger if the governments were more successful with their policies and management of Sanayi Holding. If Turkey had really wanted northern Cyprus to have a stronger economy, they could have made it possible by directly supporting the development of this sector rather than making it obsolete. Of course, an industrial sector in such a small country that depends heavily on imported raw materials could not have survived a long time, but the period of 1975–1995 could have been used much more efficiently which would have made the economy much stronger.

The economy of Turkey compared to northern Cyprus is extremely large, and there is no way that the competition in the Turkish market could have been negatively affected by imports from the island. So, my question to the Turkish authorities is, instead of killing the production sector, and agriculture for that matter, why weren't these sectors strengthened by purchasing northern Cyprus products as long as they satisfied certain quality criteria? How much would the Turkish market be affected if all the citrus fruit produced in northern Cyprus was sold in Turkey? After the 1994 ECJ decision, it was certainly costlier for TRNC to sell to European countries, but Turkey could have signed an agreement whereby a zero-rated custom regime for products from northern Cyprus was to be sold in Europe through Turkey as long as quality of the products are guaranteed (even the certification problem could have been overcome). In other words, instead of sending aid directly and giving the money to the TRNC governments, Turkish officials, upon request by TRNC officials of course, could have engaged in protocols that served to help north Cyprus to sell their products overseas, thereby letting the Cypriots improve themselves rather than seeking employment in public sector that had no production possibility.

The Turkish Aid Office started providing funds to various organizations based on projects they received from the governments as well as private sector and NGOs. I believe this was an innovative way of allocating aid to the country. Even then there are still some projects that are unfinished yet the funds are all spent, but there is higher chance of strengthening the economy this way rather than distributing funds without any justification and expecting that policymakers would do the right thing (especially after they have wasted these funds for many years). But this practice was only implemented over the last ten years.

Another fault of Turkish policy in northern Cyprus has been the inability to separate financial aid from political affairs. By doing so they have created resentment and irreversible ethnic conflict on the island. If the real aim was to help Turkish Cypriots develop a sustainable economy, then they could have devised aid methods and policies differently. For example, when the protocol was signed that allowed Turkish citizens to enter the island only by identity card, didn't anybody realize that there would be a significant influx of immigrants from Turkey from certain

demographic backgrounds who would threaten the politically sensitive demography of the island? Similarly, didn't anybody realize that with the continuous uncontrolled increase in the population, the infrastructure would not be able to support and economy would suffer eventually? Or perhaps, the sceptic would suggest, the re-composition of the demography of northern Cyprus according to a Turkish neo-colonial plan was precisely the point. By 2006, according to the official figures, more than 60% of the citizens were not born on the island (thus immigrants) plus there were almost another 10% of the population that consisted of other legal permanent workers. Of course, right-wing parties and supporters would claim that people from Turkey are not immigrants but instead that 'we are all Turks' so their presence on the island should not be seen as an issue.

It is difficult for me to believe that Turkey ever had the goal of creating an independent self-sustaining republic in the north of the island. Instead my own sense is that the Turkish state has seen the north as part of the 'mainland' and just kept it as a political bargaining tool against Europe. It has been made clear by Turkish politicians since the beginning that one of the reasons for the interference in 1974 was the 'strategic importance' of the island for Turkey.³ When I was in high school, our 'national security' subject teacher (who were always some military personnel) explained the importance of the island for Turkey as 'military critical location' due to its proximity to south shores of Turkey. But then he continued saying that it would take less than a minute for a military fighter jet to come from Turkey to Cyprus. Since the internal political situation of the north was discounted and the economic cost of maintaining the occupation was insignificant compared to the entire Turkish budget, the Turkish interest on the island has not been for the benefit of Turkish Cypriots but for their own purposes. Sometimes individuals do not throw away an old item in the house but never use it either, and they just keep it in case it might be useful one day. I think that's how successive Turkish governments felt about northern Cyprus.

That day probably is now. The submarine water pipe was completed in 2016, and the flow of water from Turkey to northern Cyprus has begun. That is such an obvious 'humanitarian' project, and nobody would deny the coming of water given how Turkish Cypriot leaders have not managed

to deliver drinkable clean water to major cities in the last 40 years. But with the protocols signed between Turkey and TRNC, all the sale rights are held by Turkey. Thus, now Turkey can sell this water to the Republic of Cyprus or even to Israel or Northern African countries. Without northern Cyprus, this would not have been possible. Another recent opportunity has been the discovery of natural gas in the sea around Cyprus. There is still some time required to get the gas out, but financially the best method of utilizing this gas seems to be sending it through pipes to Turkey, of course through northern Cyprus. But how many Turkish Cypriots would benefit from this? We have to wait and see. Finally, there is currently a project of bringing electricity by cable from Turkey under seabed. Again, this sounds like a great idea that will connect north (and south) Cyprus grid to the entire European interconnected electricity network, or the European Network of Transmission System Operators for Electricity. But once again the north Cyprus government has no say in this matter, Turkey is just mandating this to be done. The questions of who controls the price, whether we can we sell electricity (solar) back to Turkey through this cable, who would be in charge of the maintenance of the cable and so on, are still waiting to be answered at this stage.

Whenever someone questions the agreements between Turkey and northern Cyprus, certain networks always object by saying 'you have received so much money from Turkey all these years, and wasted it, and now how dare you question Turkey's motives?' If TRNC is a self-sufficient independent country, then all the agreements must be made between sovereign equals; otherwise, the integrity of the TRNC is compromised. Throughout the book I have explained how bad governments have abused financial aid from Turkey, but that does not justify Turkish position of treating TRNC as a spoiled child and ignore the will of its people. Government in the TRNC might deserve such a treatment, but the people do not. This kind of behaviour is against Turkey's international position that the TRNC is a sovereign, politically independent country. I believe that, although it was not the intention of Turkey at the beginning (1974), because of greedy and clientelistic Turkish Cypriot leadership over the years, the trajectory of northern Cyprus has switched from evolving into a self-sustaining independent state to becoming a small Turkish colony.

The People

Some or all of the topics we discussed in this book are known by Cypriots who are over the age of 30. You can't have a conversation with someone for ten minutes without hearing some kind of complaint about the existing economic and political conditions. However, the Cypriots are not known to speak out collectively against the governance in the north. Even the ones who publicly accused political parties would one day become part of the system and start receiving rent from something. This has reduced the trust in politicians and the parliament over the years. The non-governmental organizations or labour unions have also been known to act only on the matters related to their own self-interest or none at all.

And people would complain about the part of the corrupt system that affects them negatively but continue to benefit from the part that influences them positively. For example, after 2008 when the law regarding the payments of state teachers changed, there was some opposition by the unions. However, the teacher's union would go on strike with only the members who are affected by this law and not include the rest of their members. Another example is when individuals would complain constantly how their children could not get a job in the public sector because of nepotism, but then rush to the minister in charge when someone they knew was elected. Numerous examples of these kinds show that people continued complaining about the conditions, but never acted collectively in opposition to change the system mainly because most of the people had some gain from the system. This constitutes a classic problem of the incentives and disincentives to collective action.

Some would criticize this last point and insist that the only guilty parties are the political parties or Turkey or both and that people have only been trying to adapt to the system and the change should begin from the top. However, a change could also start from the bottom. Whilst it is true that in order to survive, it is sometimes difficult to ignore the system and not abuse it. However, throughout the book we have talked about the privileges given to the people in the north. So, this kind of 'complain but do nothing' behaviour cannot be just for surviving. It includes some kind of greed and ignorance on the part of the people. Most of them used the

corrupt nature of the new republic as a chance to get richer and wealthier, and these individuals were not prevented unless they did something to offend the rulers. The early retirement laws, bulky benefits schemes in the public sector, flexible working hours coupled with second-job opportunities, possibility of tax evasion and other law breaking and other fractures in the system did allow most of the individuals to more than just survive.

It is hard to describe the economic system in northern Cyprus within defined formal definitions. On the one hand, the government has been providing many public services at little or no cost to the people (which would put us closer to the 'socialism' end of the spectrum), but, on the other hand, government does not regulate the private sector and the tax system favours the corporations (i.e., a libertarian 'anything goes' capitalism). Furthermore, the state cannot collect direct taxes most of the time due to corruption and lack of monitoring, and funds most of the public services through Turkish aid. But the farmers would expect to be subsidized in full from the state for their products sold to the state enterprises (SUTEK or Cypfruvex), but they will not be paying their taxes in full. Or when a state teacher opens a new business on the busiest street of Nicosia (just because someone else next door is making some money), he/she will complain in the newspapers that the 'business' is not going well; thus, the policymakers should do something to fix the problem. If people want the state to control the business world, then they should also be willing to pay the corresponding taxes and obey the regulations. If, however, people want *laissez-faire* (no government intervention), then they should not complain so much if their businesses fail.

Thus, I also blame the people for not acting collectively to stop the corruption and furthermore strengthening the system by acting in their own interest and thinking in the short term. Northern Cyprus is procedurally democratic in the sense that people elect the members of the parliament and the president. There are always alternatives to the existing parties, but because the people had strong reasons to expect something (rents) from the existing parties, they continued to elect the same people. And the politicians clinched their seats for long term by providing the rents requested by the people (clientelism). All these years, labour unions or other collective organizations did not work against the system, but

instead they voluntarily chose to become part of the system. And for that I think the people also share some of the blame.

The Bermuda Triangle

The policymakers may not pass required laws or in some cases they might even disobey them, but in a society with developed institutions and legal framework, there are other actors who could and should monitor and enforce laws on the members of the parliament and other high-level state officials. The head prosecutor is required by law to give an opinion on the legal issues when a bill is drafted. Furthermore, the same office is required to monitor the practices of the governments and make sure they abide by the laws. But instead, this office simply acts as the attorney of the governments if and when the practices of the government are challenged and taken to the courts. The Court of Accounts on the other hand is responsible for the auditing of many of the state offices and making sure the finances are in order. This is actually a very important job especially in northern Cyprus as corruption and patronage are the key problems. However, this office can only prepare reports and pass it to the head prosecutor's office for further actions. In other words, they are not in charge of pressing charges. They basically do not have any power to actually collect any financial penalty from wrongdoing or send a public worker to jail (not that this ever happened in northern Cyprus). The police is in charge of doing this upon recommendations of the prosecutor's office. But the police can also start investigations on any public or private allegation upon observing any evidence (including an allegation in a newspaper), but over the years, police would only start an investigation if a party officially files a request after which in most cases the filer will not be notified of the outcome.

A retired senior civil servant from a state office with more than 20 years of experience described this trio (head prosecutor, State Court of Accounts and police) to me as 'the Bermuda Triangle' with elected politicians at the centre of the triangle. Even when the Court of Accounts prepares a report and finds some wrongdoing, they don't follow the procedure and pass it along to the state prosecutor. Even if they do, then the prosecutor's office

does not follow it up and pass it along to the police for questioning and investigation. And even if they do, the police is required to take statements of the people whose names are in the allegations of the report. The files tend to get lost or the procedures are not followed somewhere in between these three offices. At the end, the names of the allegations stay in the reports or whispered by the public, but the sentencing or proof of innocence is never realized. But is it unreasonable to expect this outcome? That two of these offices are appointed by the governments confirms that they are not free from political influence. The police on the other hand is governed by the military, and they are not bothered by these investigations.

If the triangle above did their work properly, there is still the court hearing that must be carried out. Matters related to wrongdoing of state officials can be heard at the Supreme Administrative Court. The courts usually take a lot of time to decide on issues, and it could be expensive to see it through. Of course, this is a problem in many countries, even developed ones, but there is yet another problem with northern Cyprus courts, namely, the notion of 'legitimate interest'. The courts will not even hear a case unless the plaintiff can be shown to have a legitimate interest or standing. For example, I was personally involved in a court case as the plaintiff where the Association I was involved with (*Temiz Toplum Derneği*, Clean Society Association) asked for the cancellation of a Council of Minister decision in 2016 due to its alleged violation of laws regarding the purchase of vehicles for the state. The case sparked a lot of public interest, but the court in the first instance did not grant the interlocutory order because the judge claimed that the action of using state budget to buy brand new cars for the state 'does not negatively influence the rights of the members of the association'; thus, the Association 'does not have the right to file suit'.⁴ In other words, the judge did not think that an organization whose founding purpose is to enforce good governance had any legitimate interest. The High Court did not reverse the verdict and they furthermore ordered the plaintiff to pay the prosecutor's costs whose job is to monitor and advise the government for illegal behaviour, but in this case they defended them, in a very determined tone I might add, even though the wrongdoing was clear in public's opinion. In the end, due to enormous public pressure, the government cancelled the buying contract, but the trust in court's judgements was shaken, at

least in my eyes. Related to this, Tufan Erhürman, a lawyer by training who became the president of CTP in 2016, criticized court's aforementioned decision in the parliament and attacked Serdar Denktaş for wasting state's budget. Ironically, these two were once again sharing the seats of Council of Ministers after the 2018 elections.

Now and Future

The status quo is the outcome of 40 years of bad governance, foreign meddling with local politics, and greedy, inattentive, ignorant and opportunistic society. But which one of these 'perpetrators' is complaining about the status quo? Is it an unbearable status quo as I am portraying? When I returned to Cyprus after my graduate studies, the first year was very difficult as I had been away for so long, and now I had to re-adjust to life in northern Cyprus. I used to complain about the chaos in the traffic, incompetence at the public offices, inefficiency in the private sector, the level of clientelism in the society and so on. I was not the only one complaining about these, but somehow, I was the one psychologically getting affected. One day my mother told me the following: 'this is how it is in northern Cyprus and you need to get used to it. We all complain about those things, but nothing will ever change, so don't let those things get to you!' Complaining but doing nothing to change it has been the accepted wisdom of the Turkish Cypriots living in Cyprus.

A promising initiative in the hope of changing the status quo in northern Cyprus' internal matters started in 2012. A young academic who had been working under different presidents at the Cyprus negotiations, Kudret Özersay, decided to start a movement under the principles of 'Clean Society, Clean Politics; The precedence of Law; and a future that depends on our own will'. The so-called Toparlanıyoruz Movement (*Toparlanıyoruz Hareketi*) operates under the official name of Clean Society Association (*Temiz Toplum Derneği*) and immediately managed to attract many individuals who were simply sick of the status quo created mainly by the politicians. Of course, some of the people who supported this movement did not think that people of northern Cyprus were also at fault, and some of the people who were part of the movement had

been directly involved in the creation of the system or have been ripping off its benefits for many years. Nevertheless, the movement was different than any other organization that surfaced in northern Cyprus before and thus attracted many supporters, mainly young professionals who had been feeling like me.

The movement has been acting as a watchdog organization. They monitor the MPs and the parliament and make sure the laws are being applied. They also started visiting villages and talk with the public and ask for their problems unlike the political parties who would only visit the public before the elections and usually ask for votes. During the early years, the emphasis was on revealing unlawful actions of MPs and sharing those with the public. Later the movement also started providing information on the duties and responsibilities of the elected officials and explain how public can and should be involved in assuring good governance. The movement also took some matters to the court and put pressure on government officials, and in some cases, they were successful in reversing their actions.⁵ The Right to Information Act (*Bilgi Edinme Hakkı Yasası*, 12/2006) has been utilized extensively by the Association to ask for information from public offices, but some offices either denied to respond (despite being illegal) or gave missing/incorrect information. Nevertheless, since the beginning of their establishment, the Association created a different feeling among civic societies in northern Cyprus.

The movement is still active but not as popular as before. Özersay did quit the movement in 2015 to run for the presidency, and a lot of significant people have followed him. Some left to join him in his political career, and some left because they resented him for establishing such an important movement rightly criticizing the whole political arena of northern Cyprus only to quit and turn from poacher to gamekeeper. His campaign for the TRNC presidency was one of the largest scale public opinion surveys (actually a census) ever conducted to determine his future (he obtained around 20% of the votes in the first round which was very close to the votes received by CTP's candidate). It was clear then that Özersay's motivation at the beginning of forming the movement was to analyse the public's opinion on a possible political movement which was proven right when he finally formed a new political party, Halkin Partisi (People's Party) in January 2017. Right before the January 2018 early

general elections, they offered an alternative to 44 years of shoddy governance in northern Cyprus. The movement though still continues to exist as an independent NGO whose founding principles are still intact. Although not as popular as before, the movement still continues to monitor the parliament and will enforce its principles on whichever political party comes to the power.⁶

This is not to say that *Toparlanıyorus* is the only active NGO in north Cyprus. There are several others who monitor and publicly criticize the MPs and other high-level state officials as well as professional associations who inspect their respective areas. However, only a handful of these organizations are consistent and impartial in their actions. For example, in an attempt to demonstrate against failure of removal of a radioactive equipment from the Nicosia state hospital (which was clearly specified in expert reports from Turkey and shared by the policymakers in TRNC), *Toparlanıyorus* approached other related NGOs. Although some of these NGOs were also very frustrated with the failure of the officials in removing the equipment, I personally heard a response from one of them which said 'we have good relations with the Ministry of Finance (meaning they are given aid for their activities), thus we cannot support you publicly'. If there is going to be any kind of change in the governance of northern Cyprus, I believe that NGOs need to play a critical role. They should be more involved, not necessarily in every event, but focus on their priority areas and devote a significant energy for ensuring good governance in those areas. If the NGOs do not speak up against state's as well as private sector's mischiefs, and instead stick to the 'a snake that does not bite me can live forever' attitude, then the hope to change bad governance in northern Cyprus is greatly diminished.

The 'left' in northern Cyprus has also been going through a transformation. The CTP elected a young advocate, Tufan Erhürman, as their leader in 2015 who has been very active in the last couple of years. The older generation of MPs in CTP, some of whom has been in the parliament for more than 20 years, did announce that they will not be running as candidates at the 2018 general elections. The CTP elected 'younger' minds in the coming race and added some popular public figures into their ballot lists, but also this pro-working class party joined forces with some business patrons which attracted some protests by some of their

own supporters. Other leftist parties however have become weaker, and their fate in these elections is unknown.

The 'right' on the other hand has been as consistent as it gets. Everything they have been doing since 1975 still makes up their agenda in 2017. The incumbent government of UBP-DP has given citizenship to around 10,000 immigrants between 2015 and 2017, they have signed several questionable decisions, some of which were challenged in court, and they have openly used state resources for clientelistic purposes such as distributing rural land to young people 'in need' living in those areas and changing the status of some 1000 temporary civil servants into permanent status (although it is unconstitutional) just two months before the general elections. They have also impaired the transparency and accountability of state governance by stopping the publication of the Council of Minister decisions online and disabling the power of the committee who handles the complaints about the state offices who fail to respond to a request of information (which is granted to all living in northern Cyprus by law 12/2006). On a more individual level, the Prime Minister Hüseyin Özgürgün used state resources to attend to his own daughter's graduation ceremony, and when challenged by the Ombudsman's office, he criticized the Ombudsman about her legal responsibilities instead of explaining his actions. Serdar Denktaş (the vice-minister and Minister of Finance) on the other hand defended in High Court his government's decision to purchase brand new Mercedes cars by saying 'I could have purchased Porsche if I wanted to' and then responded to public criticism regarding allocation of a high-value land to his son for building a university (there were already more than 20 universities in northern Cyprus at this time) by saying 'Maybe this [decision] was not ethical, but it was legal.' These two parties (actually they have the same genetics) could simply be the best examples of 'political clientelism' and 'bad governance'.

The 2018 general elections in TRNC were rather interesting. The Erhürman-led young and rejuvenated CTP competed with Özersay's 'new and improved' HP, while UBP and DP worked on their intra-party problems and tried to 'buy out' as many votes as possible. The public has been divided into two. On the one side, there are many who have been angry at the incumbent parties for using the state resources for their own

nepotism purposes and wanted a ‘change’ immediately, but these people were also not sure if CTP or HP would be any different. On the other side, there are those who have been living happily under the status quo for so long, and the only way to improve their own well-being in the country is through clientelism, but they are also afraid that there isn’t much left to be ‘distributed’; thus, they wondered if UBP and DP can still be the party to vote for. And of course, there is always the third group who couldn’t be bothered with the politics, and would not even vote on the election day because they believe that ‘all are the same’, and then continue to complain and enjoy the practices of whoever is elected. Two months before the elections, all of these parties portrayed a very positive energy claiming that they will come out as the winners. I am not talking about the ‘ideologies’ or the ‘plans’ about any of the parties, because it does not exist or simply it is inconsistent. CTP and HP were concentrating on ‘change is coming’ theme, whereas DP and UBP still focused on ‘national cause’ and ‘closer ties with motherland’ dogmas. Right before the 2018 elections, the TRNC Parliament modified the Election and Referendum Law. As I introduced this law in Chap. 3, it allowed for three different kinds of voting within each district in which the voter is registered. The new law changed the different districts and allowed voters to vote for candidates from other districts but added many other criteria that made the *karma* voting very complicated. All the parties basically wished for STAMP vote casting.

The participation rate in 2018 elections was 66.14%. The winner of the 2018 elections was the UBP with 35.7% of the votes, followed by CTP (20.95%), HP (17.07%), TDP (8.65%), DP (7.82%) and YDP⁷ (6.99%). Despite all the negativities I have shown throughout the book, UBP still managed to receive the largest share of the vote which is what makes me claim that a lot of people are happy with the status quo. The CTP on the other hand had experienced a significant loss of votes compared to the previous general elections (decrease from 38.4% in 2013 to 21%) despite their younger and diverse candidates. HP had a good success in my mind for a party who only started within a year of the elections, but not high enough. The DP as always managed to pass the electoral threshold of 5% despite all the crookedness they have been involved in even in the last few years.

In the end, for the first time in northern Cyprus' history, we have four-party coalition government with CTP-HP-TDP-DP. Many people were surprised to see the other three parties form a coalition with Serdar Denktaş (DP) despite their heavy criticisms in the days leading up to the elections. Especially, HP was so sure they would win the majority of votes, they declared that they will not form a coalition with anyone, but they formed one with DP of all the parties. HP who wanted to change the status quo, CTP who have been criticizing clientelistic practices of DP and UBP, and TDP who considers themselves as a socialist pro-labour party have forgotten all about that and formed partnership with Serdar Denktaş. The members of these three parties defended this action by saying 'if we didn't do it, then UBP will come to power again'.

Well, so what has this government done different than their predecessors in the last nine months? Without exception, all the four parties have engaged in clientelism. HP ministers appointed friends as undersecretaries or private secretaries (*ozel kalem muduru*). CTP and TDP similarly made appointments of their friends to important high-level positions. Their common claim was of course that this was a necessity in order to create a healthy and harmonized work environment. However, all three of the parties were silent in a situation when Serdar Denktaş decided to allocate a public land to be used to build dormitory for a private university that belongs to his son, although the leaders of these three parties were very vocal and critical of Denktaş a couple of years earlier in a similar situation. Such a silence was also needed for continuation of the coalition.

HP has been a big disappointment for many. Even before the elections, when HP announced their candidates, the list contained *musavirs*, business people, ex-UBP and ex-DP militants and other questionable names. Some of the registered members of the party resigned and criticized publicly the party's internal affairs and in some cases blamed Kudret Özersay for being a dictator within the party. Later it was found that some of the people left the party because their names were not included in the ballots for the upcoming elections, while some others—whom I trust individually—have confirmed that the party did not become what they had expected. This was confirmed after the election when they participated in a four-party coalition despite saying that they will not form a coalition

with anyone. Before the elections, HP also suggested that they will use outside experts as ministers, but they used their own people for the three minister positions they were allocated. Finally, HP has engaged in clientelism and hired close friends to important public positions. On important issues, such as relations with Turkey and immigration problems, HP has been quiet which shows me that they are in the footsteps of their predecessors.

So what about the future of northern Cyprus? I am known for my pessimism among those who know me well, but I cannot find any argument to present otherwise in this context. When a local newspaper, *Afrika*, criticized Turkey for her military activities in Syria in January 2018, a group of a couple of hundred people demonstrated in front of the newspaper's building and attacked the office and broke the windows. This building is right next door to the TRNC Parliament and, on that day, new MPs were in the parliament at the same time as the demonstrations, commencing their oath ceremony. Some of the demonstrators also managed to get on the roof of the TRNC Parliament and unfurled Turkish flags. It is of course unacceptable to have violent demonstrations against a newspaper even if one does not agree with their views. However, there are two other things in this story that makes me hopeless about the future of northern Cyprus. First of all, when these attacks on *Afrika* were happening, none of the newly elected MPs stopped their ceremony to go outside to see what is happening. The only political figure to go there personally was the president, Mustafa Akıncı. Secondly, the police force just observed everything transpiring around them and did not do anything to stop it (but this police force responded to demonstrators after the banking crisis of 2000). This shows how weak the polity is against Turkish influence, and the notions like democracy and good governance are distant whispers nowadays in northern Cyprus.

My frustration and pessimism have also recently been echoed by a judge from TRNC High Court. *Tacan Reynar* has resigned from his eight-year long post of TRNC High Court Judge in June 2018 after criticizing the judiciary system in northern Cyprus. He was the judge who heard the case against the perpetrators in the *Afrika* incident we have introduced in the previous paragraph. In his press release, he noted the following⁸: 'I would like, as the judge at this [Afrika] hearing, everyone to

know that the judiciary process experienced during this period has been a disgrace to the legal order. Attempts to influence the court, verbal attacks on me and the corresponding silence of all the organizations in the country, judiciary scandals and disregard to obey a court's order by an administrative body have shown me that there is no point and importance for me to continue my duties.' And then he continued to say that because he no longer believed that TRNC is a state of law, he decided to resign in order not to further legitimize the system. If a judge feels like this about the state, then how are we supposed to feel?

I would like to say a few words to my fellow Greek Cypriot friends at the end of this work. Despite the economic wealth and relative stability of the south, it needs to be remembered that all of what has been described in this book about what has been happening in the north has been reducing, probably eliminating completely, the chances for a unified Cyprus. No longer are the effective negotiations with Turkish Cypriots but with Turks living in Cyprus. Do the Greek Cypriots want unification? I hardly think that since the official government policy has been stalling the negotiations and demoting Turkish Cypriots in everyday experiences (such as prejudice treatment of Turkish Cypriots at borders, not extending citizenship to children with one Turkish citizen parent, trying to block economic transactions of Greek Cypriots in the north, not allowing Turkish Cypriots to use state hospitals for free, not allowing foreign tourists enter the country through south sea ports if they declare point of stay as northern part of the island). After all, the Republic of Cyprus is already part of the European Union and still doesn't need to share the republic with anyone, least of all Turkish Cypriots. All the other 'positive externalities' of partially open borders (gambling, prostitution, cheap tickets to Turkey, tax revenues from Turkish Cypriots' using airports in the south) can be continued to be enjoyed without any solution to the Cyprus problem. If the Greek Cypriots had been sincere enough, they would have accepted the 2004 Annan Plan. I realize it had several problems, but no other plan will be better. By rejecting that plan, Greek Cypriots now have to deal directly with Turkey.

The story that I have described in this book is common knowledge to all Turkish Cypriots and even others who are living in northern Cyprus. There are plenty of people who are not happy with the current social,

economic and political conditions of northern Cyprus. However, the ability or even willingness of the people to change the status quo is questionable. There are plenty of books on beaches, birds, hotels, food and other great things northern Cyprus has to offer. You can also read a lot about the conflict between Greek and Turkish Cypriots and their blame game. But you will not find many books about recent progression of events in northern Cyprus. Turkish Cypriots as an ethnic community went through very difficult periods, and they surely deserved to have some fortunate economic and political development. Unfortunately, thanks to various domestic and foreign actors, the development of this polity has been discordant at best. I hope that this book fills part of the gap in that history.

Notes

1. Of course, there are opposite examples from both sides, but on average this kind of behaviour has been observed over and over again since 2003.
2. TRNC 2017 Government Budget, item 12-01-07-9-9-1-05-4-3-02 under “Health Related Transfers”, p. 433.
3. TBMM Proceedings, 23/07/1974.
4. Yuksek Idare Mahkemesi, YIM: 207/2016, D. 33/2016.
5. At one time, the movement asked for an information from Minister of Transportation (Tahsin Ertuğruloğlu) which he did not give in the legally required timeframe, but later it was obtained upon court’s decision. Another time a decision of the Council of Ministers was taken to the court by the movement on the basis that it was illegal, but the case was rejected based on lack of legitimate interest. Finally, the movement put pressure on Office of Antiquities to overturn an illegal decision in which they did.
6. The first president of the association was Özersay. After he quit, the movement was led first by Serkan Mesutoglu and then by Adil Seytanoglu, both of whom have worked very hard to keep the movement going under its established principles and the association continued to exert pressure on the elected officials. I have been on the executive board of this movement during 2013–2018, and I am proud to have served in such an organization.

7. YDP (Yeniden Doğuş Partisi, New Birth Party) was formed recently by Turkish immigrants with strong ties to AKP in Turkey.
8. The press release was obtained from <http://www.yeniduzen.com/reynar-acikladi-neden-istifa-103095h.htm>. Accessed on 3 June 2018.

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¹ Note: Page numbers followed by 'n' refer to notes.

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