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

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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 Angolemli 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 Divani*] 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 8.1[7] 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

	1974		1975		
Districts and mountain areas	No. of beds	% share	No. of beds	% share	No. outside RoC
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 Altinay, 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 businessman 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 mis-appropriate 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 seized 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 Crisis[35]

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 Denktaş (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 follows[47]:

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 [*Tarim Sayim Sonuclari*], 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. Gunsel (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 (*Yuksek Idare Mahkemesi*, YIM) Decision, D.25/97, YIM 223/95, 27 November 1997.

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