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**PROFITABILITY IN THE STATE ECONOMIC  
ENTERPRISES IN THE TURKISH REPUBLIC OF  
NORTHERN CYPRUS  
( 1990- 1995 )**

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# CHAPTER 1

## **CHAPTER 1 . INTRODUCTION**

### **1.1 Aim of the study**

There has been much debate on the strategy of development of the economy of the Northern Cyprus over the past decade. The large size and the inefficiency of the public sector has been one of the major issues of this debate. Obviously the public sector of the Turkish Republic of Northern Cyprus (TRNC) faced formidable difficulties because of the huge budget deficits. In this context State Economic Enterprises (SEE's) have been extra burden on the public finance.

After the Peace Operation of 1974, the authorities of Northern Cyprus have attempted to use State Economic Enterprises with the aim of achieving economic and the social objectives because of the weakness of private sector at that time. Actually SEEs have made a significant contribution to the economic development of the TRNC at the initial stages of their formation. They have acted both as a school for the training of managers and as incentives for the creation of private enterprises in subsidiary activities. A large numbers of directors of our private enterprises began their active life in state Economic Enterprises.

However, the process of development require continuous modifications, not only in production techniques but also in management and methods of encouraging initiative. What is therefore suitable for a country in its first stage of economic development can easily become wrong adoption at a more advanced stage.



Therefore, the need of restructuring SEEs of the TRNC which has been on the agenda of the successive governments in the recent years should not be an unexpected result. Politicised management in these enterprises have led to heavy subsidies, disguised unemployment and poor performance. Poor performance has been resulted from inefficient and wasteful use of production factors, capital and labour, that is the one of the major constraints in development process.

Furthermore, the picture of politicised State Economic Enterprises is not consistent with the liberal economic policy adopted by the governments of the TRNC to achieve the economic and social development. Thus privatisation should be considered in the context of restructuring process, which is a broader concept and contains a number of alternative solutions.

The purpose of this thesis is to analyse the performance and profitability of the SEEs in the TRNC.

## **1.2 Method Of The Study**

In order to evaluate the performances of the SEEs, a statistically survey was carried out by using their annual financial reports for the years' 1990-1995. Analyse the changes in the performance and financial structure of the company through the years that result in failure.

## **1.3 Structure Of The Study .**

In accordance with the purpose of the thesis chapter 2 presents the SEEs operating in the TRNC and gives some idea about their financial structures. The performances of the SEEs will be analysed in this chapter by using a time series data on their financial statements for the last five years. Chapter 3 is the concluding chapter, it includes the summary of the study with main findings and recommendation.

# CHAPTER 2

## CHAPTER 2.

### PROFITABILITY THE STATE ECONOMIC ENTERPRISES IN THE TURKISH REPUBLIC OF NORTHERN CYPRUS.

(1990-1995)

State Economic Enterprises of the TRNC were established after the Peace Operation of 1974. the private sector did not have the technical knowledge and financial accumulation sufficient to reportage the existing establishments with in the TRNC .So the only possible way to manage these establishments and include them to economy in a productive way with out loosing time was the formation of State Economic Enterprises. Thus, by taking technical and financial support from the State Economic Enterprises of Turkey,( since the private entrepreneurs of Turkey were not interested in participating in our economic life due to the post-war risks) State Economic Enterprises were formed.

There are seven State Economic Enterprises operating in the TRNC under Law 37/1975 ( Ad.Con. & Sup. of the SEEs). State Economic Enterprises in this law, is as follows: “ State Economic Enterprise is a legal entity which is autonomous in its activities and its liabilities are limited with its capital and at least 49% of capital is owned by government; Or by one or more State Economic Enterprise; or by State Economic Enterprise and government together.(1)

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(1) Cyprus Turkish federate State Public Economic Enterprises(Administration,Control and Supervision) Law no :37/1975 Official Paper No: 66. State Printing House, Nicosia TRNC, 5th December 1975 p.339.



The names of the SEEs which will be introduced in following sections are; ETI Enterprises Company Ltd., Cyprus Turkish Shipping Company Ltd., Cyprus Turkish Tourism Enterprises Company Ltd ., Cyprus Turkish Tobacco Industries Company Ltd., Cyprus Turkish Airlines Company Ltd., Cyprus Turkish Industrial Enterprises Holding Ltd. and Cyprus Turkish Fruit Vegetable Cypfruvex Company Ltd.

## **2.1 ETI ( Industry , Trade And Business ) Enterprises Co. Ltd.**

ETI Enterprises Co . Ltd. was established on November 22, 1963. 85% of its capital belongs to the TRNC Consolidated Development Fund and the remaining 15% is owned by private sector. The purpose of this enterprise is to provide permanent supply of all kind of consumption goods and services such as foods, beverages, spare parts or accessories of motor vehicles, electrical appliances, Renault cars , mechanic services, pharmaceutical and chemicals. It consists of eight different departments and a centre organization serving the goods and services given above.

The developments over the years 1990-1995 can be seen from table 1. Total assets of the company has been 356,986.0 million Turkish Lira (TL) in 1995 which was 14,540.9 million TL in 1990. But the figures that show total assets of the company do not seem consistent with the current worth of its assets because of the accounting system used.

The accounts of the company are prepared under the historical cost convention. Fixed capital assets of the company are not revealed each year according to the current prices. Thus it is not possible to make a healthy comparison or comments with these figures because of high inflation rates makes them meaningless. All the SEEs use the same accounting system so the total assets of the companies will not be considered in detail in this paper.

The paid in capital of ETI has reached to 6,698.8 million TL in 1995 at current prices which was 2.5136 billion TL in 1990, as it is seen from table 1. current prices can be misleading in an analysis because of including inflationary effects, So an appropriate deflator must be used to convert the current prices of 1995 to 1990 prices and compare two values at the same price level of 1990. The deflator 21.264401(2) will be used in this paper to eliminate inflationary effects and convert 1995 prices to 1990 prices.

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(2)The deflator is obtained by using Gross National Product deflators calculated by state planning organisation.

**Table 1. Financial Structure of ETI Enterprises Company Limited (million TL)**

	1990	1991	1992	1993	1994	1995
Fixed Assets	1,719.60	1,610.10	2,247.70	2,624.20	10,830.30	51,524.10
Other Assets	12,821.30	17,825.90	30,483.60	57,018.00	121,522.10	305,461.90
Total Assets	14,540.90	19,436.00	32,731.30	59,642.20	132,352.40	356,986.00
Capital	4,000.00	4,000.00	9,500.00	9,500.00	9,500.00	9,500.00
Paid In Capital	2,513.60	3,991.70	4,000.00	5,762.00	6,698.80	6,698.80
Owner's Equity	4,197.40	4,434.10	7,083.90	18,757.30	45,731.10	92,419.80
Revenue, Sales of						
Goods & Services	53,843.50	64,036.60	144,476.00	254,863.50	599,597.00	1,171,606.90
Other Revenues	395.10	429.30	1,020.90	577.10	2,029.20	3,958.30
Total Revenues	54,238.60	64,465.90	145,496.90	255,440.60	601,627.70	1,175,565.20
Profit	126.60	233.90	3,735.90	12,938.50	42,540.10	71,041.20

**Source :** ETI . Annual Financial Reports 1991-1995, Nicosia, TRNC, pp4-8



When the value of paid-in Capital for the year 1995 is deflated the value of 315.0 million TL at 1990 prices is obtained. Paid in capital in 1990 was 2,513.6 million TL. this shows that a decrease in paid-in capital during the period. The profit has been 71,041.0 million TL for the year 1995 which was 126.6 million TL in 1990. There is an increase in real terms during the period.

Table 2 shows the profits of the ETI enterprises Co Ltd for the year 1990-1995. According to the sales the goods and services, owner's equity and frequency rate of total assets. The ratio shown in the said table were calculated by dividing the profits made during the period by the revenues from the sales of goods and services, as in the first column, or the profits divided by owner's equity as in the second column or the profits divided by the frequency rate of the total assets of the corresponding periods as in the 3rd column of the table.

During the year 1990 the low profit of the company showed a gradual increase 0.2 % and in the year 1995 it reached 6.1 % the profit in 1991 was 0.4 % and 1992 it reached 2.6 %. In 1993 again it continued rising and reached 5.1 %. In 1994 the profit ratio raised to 7.1 % and thus the company achieved a good performance.

According to the second column of the table the figures relating to owner's equity reached from 30.2% in 1990 to 76.9% in 1995. Thus considerable increase in the productivity and profitability was achieved. In the third column of the table we observe the similar trend relating to



the frequency rate of the total assets. In 1990 the frequency rate of total assets was recorded as at 0.9 % and reached 1.2 % in 1991 and continued raising to 11.1 % in 1992 and 21.7 % in 1993 and 32.1 % in 1994 . It dropped to 19.9 % in 1995. In spite of the fact that there was a drop during 1994-1995. The company has used its total assets effectively and has achieved an overall good performance relating to productivity and profitability during the period 1990-1995.

**Table : 2      Profitability Ratio of ETI Enterprises Company Limited.**

Years	Profit Ratio According to Sale	Profit Ratio According to Owner's Equity	Frequency Rate of Total Assets
1990	0.20	30.20	0.90
1991	0.40	5.30	1.20
1992	2.60	52.70	11.40
1993	5.10	69.00	21.70
1994	7.10	93.00	32.10
1995	6.10	76.90	19.90

**Source:**Prepared by author from collected data from Annual Financial Reports  
from ETI Enterprises Co. Ltd.

## **2.2 Cyprus Turkish Shipping Company Ltd.**

Cyprus Turkish Shipping Co. Ltd. has been established on March 12, 1975. Its shareholders are the TRNC Consolidated Development fund, Shipping Enterprises of Republic of Turkey (TR) and TR Sea Transportation Company. The distribution of shares are 49%, 17% and 34% respectively.

The function of the company include:

- Transport of any kind of cargo,
- Liquid fuel,
- Vehicle and passenger;
- Provide agency services for air and sea transportation;
- Prepare freight contracts;
- Hire ship and assembly and repair of any kind of ships.

The company owns three ships:

- Sea Bird (857 DWT),
- Çaldiran Ship ( 2624 DWT ),
- Preveze Ship (2624 DWT).

The share of the company in total cargo transportation of TRNC has been 4.7% for the year 1995.

**Table 3.** Financial Structure of Cyprus Turkish Shipping Company Limited (million TL)

	1990	1991	1992	1993	1994	1995
Fixed Assets	633.20	1,808.70	4,372.10	8,456.30	18,537.90	19,628.80
Other Assets	2,379.80	3,121.90	1,943.10	3,369.70	15,415.00	31,410.30
Total Assets	3,013.00	4,930.60	6,315.20	11,826.00	33,952.90	51,039.10
Capital	1,250.00	1,250.00	1,250.00	3,430.00	3,430.00	7,000.00
Paid In Capital	760.00	1,250.00	1,250.00	3,430.00	3,430.00	5,250.70
Owner's Equity	1,753.70	2,249.30	2,050.60	2,851.20	3,370.90	5,624.60
Revenues, Sales of						
Goods & Services	3,061.20	5,843.10	9,881.00	16,169.40	50,386.20	98,382.80
Other Revenues	523.20	985.20	1,773.70	1,259.20	5,701.10	8,235.50
Total Revenues	3,584.40	6,828.30	11,654.70	17,428.60	56,087.30	106,618.30
Profit	190.30	579.00	(118.70)	(1,270.70)	2,828.80	2,320.00

**Source :** Cyprus Turkish Shipping Co. Ltd . Annual Financial Reports 1991-1995, Gazi Magosa, TRNC, pp 8-15

Table : 4

**Profitability Ratio of Cyprus Turkish Shipping Co. Ltd.**

Years	Profit Ratio According to Sale	Profit Ratio According to Owner's Equity	Frequency Rate of Total Assets
1990	6.20	10.90	6.30
1991	9.90	25.70	11.70
1992	..	..	..
1993	..	..	..
1994	5.60	83.90	8.30
1995	2.40	41.20	4.50

**Source:** Prepared by author from collected data from Annual Financial Reports from Cyprus Turkish Shipping Co. Ltd.

The development in the account of Cyprus Turkish Shipping Company during the period 1990-1995 can be seen from table 3. The value of total assets of the company has reached to 51,039,1 million TL at current price in 1995 which was 3,013 million TL in 1990.

Paid-in capital of the company has increased from 760 million TL to 5,250.7 million TL during the period at current prices. But if the value of 5,250.7 million TL in 1995 is expressed at 1990 prices by deflating, it will be equal to 246.9 million TL which is much lower than the value of



760 million TL; the paid-in capital in 1990. The paid-in capital of Cyprus Turkish Shipping Company Ltd. has worn down as the time passed.

The company has made profit of 2,320 million TL in 1995 and 190.3 million TL in 1990. Although the ships that the company owns are very old, the company achieves profit since it is the biggest one in its sector, and the sector has strategic importance because TRNC is an island country. But this does not change the reality that the company needs both new and renovative investment projects and more capital for implementing these projects.

As it can be seen in table 4, the profit ratio of the company according to sales ( 1st column ) dropped from 6.2% in 1990 to 2.4% in 1995, and for the years 1992 and 1993 the company showed losses. The profit ratio according to sales in 1990 showed 6.2 % in 1991. It reached 9.9 % . But in 1992-1993 the company's loses were due to the fact that the ships it owned were old and under repair and cargo transportation was not realised at the expected level. Again in 1995 the profit ratio dropped to 2.4 % from 5.6 % in 1994. In the second column the ratio of owner's equity profit rose from 10.9 % in 1990 to 41.2 % in 1995. In the third column the profit ratio of the frequency rate of the total assets dropped from 6.3 % in 1990 to 4.5 % in 1995. This shows that the total assets were not utilised effectively.

### **2.3 Cyprus Turkish Tourism Enterprises Company Ltd.**

Cyprus Turkish Tourism Enterprises Co. Ltd. has been established on November 9, 1974. Its shareholders are the TRNC Consolidated Development Fund and TR Turban Tourism and the distribution of shares are 51 % and 49 % respectively.

The tourist accommodation establishments owned by Cyprus Turkish Tourism Enterprises Company are given as follows:

#### **The Hotels which are operated directly by the company:**

*Salamis Bay Hotel*: Supply 369 hotel rooms with a bed capacity of 738; 34 bungalows with a bed capacity of 110; 28 hotel apartments with a bed capacity of 112 and 16 Sea-Side Hotel apartments with a bed capacity of 46.

*Mare Monte Hotel* : Supply 94 hotel rooms with a bed capacity of 188 and 4 bungalows with a bed capacity of 16.

**The hotel which is operated by private individuals and the company takes a shares from the profit.**

*Bogaz Hotel* : supply 40 hotel room with a bed capacity of 80.

#### **The hotels which are rented :**

*Rocks Hotel* : Supply 64 hotel rooms with a bed capacity of 128.

*Park Hotel* : Supply 93 hotel rooms with a bed capacity of 186.

*Rebecca Hotel* :Supply 40 Hotel rooms with a bed capacity of 80 .

The development in the company during the period 1990-1995 can be seen from table 5. Total assets of the company has reached to 57,812.4 million TL at current prices in 1995 which was 7,007.6 million TL in 1990.

**Table 5. Financial Structure of Cyprus Turkish Tourism Enterprises Company Limited (million TL)**

	1990	1991	1992	1993	1994	1995
Fixed Assets	2,158.00	2,214.10	2,462.90	3,161.10	8,403.20	15,416.40
Other Assets	4,849.60	6,174.70	9,435.50	11,356.90	29,935.40	42,396.00
Total Assets	7,007.60	8,388.80	11,898.40	14,518.00	38,338.60	57,812.40
Capital	1,500.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00
Paid In Capital	1,050.80	1,771.20	1,771.20	1,771.20	1,771.20	1,771.20
Owner's Equity	1,745.20	-	-	-	-	-
Revenues, Sales of						
Goods & Services	15,993.20	17,253.50	34,504.90	54,910.20	144,709.60	236.00
Other Revenues	373.60	432.80	545.20	1,093.20	6,239.70	1,890.50
Total Revenues	16,366.80	17,686.30	35,050.10	56,003.40	150,949.30	237,967.70
Profit	481.90	(4,165.80)	(4,315.70)	(14,523.70)	(72,644.10)	(183,069.40)

**Source :** Cyprus Turkish Tourism Enterprises Co. Ltd. Annual Financial Reports 1991-1995, Girne, TRNC, pp 22.-30

(-) Between 1991-1995 owner's equity is negative



Paid in capital of the company has increased to 1,771.2 million TL at current prices in 1995 from 1,050.8 million TL in 1990, Again in real term there is no increase since the value of 83.3 million TL will be found if the value of paid in capital 1,771.2 million TL at current prices in 1995 is converted to 1990 prices.

The loss of company has been 183,069.4 million TL at current prices in 1995, in 1990 the profit is 481.9 million TL. As will be seen from table 5 the company has not made any profit during the period from 1991 to 1995 and therefore the profitability of the company has not been evaluated. We also note that the losses of the company has increased each year. The loss incurred in 1991 was 4,165.8 million TL. which raise to 183,069.4 million TL. in 1995 in current prices. This negative performance is mainly due to the Greek inspired embargo, The lack of transportation , the non-recognition of TRNC by the international community the highly politicised top management of the company.

## **2.4 Cyprus Turkish Tobacco Industries Company Ltd.**

Cyprus Turkish Tobacco Industries Company Ltd. has been established on may 14, 1975 with the aim of producing cigarette and marketing them in both domestic and foreign markets. The shareholders of the company are the TR TEKEL administration, the TRNC consolidated Development fund and ETI Enterprises Company Ltd with the share of 51% , 46.5% and 2.5% receptively .

The total production capacity of the company is 300,000 Kilograms per year but the actual annual production of the company is about 40% - 50% of its total capacity . Because of the liberal economic policies adopted in TRNC, the product of the company compete different types of imported cigarettes in domestic market and its market share is about 22% . Four different types of cigarettes are produced by the company and their names are Harman , Luxe Harman , Most and Tekel/2000. the only export of these domestically produced cigarettes has taken place to Turkey via Tekel Administration of Turkey.

The development of the company during the period 1990-1995 can be seen from table 6. The total assets of the company reached to 31,687.5 million TL at current prices in 1995 from 3,982.8 million TL in 1990.

Paid-in capital of the company has increased to 1,800 million TL at current prices in 1995 which was 300 million TL in 1990. Again , the value of paid-in capital at current prices for the year 1995 must be converted into 1990 prices by deflating it, in order to see the real increase that took place during the period 1990-1995. Infact, there has been no real increase since the value of 84.6 million TL which is the lower than the value paid-in capital in 1990, will be obtained if the current value of 1995. is converted to 1990 prices. So the paid in capital of the company has remained behind of the inflation rate accrued during the period.

**Table 6. Financial Structure of Cyprus Turkish Tobacco Industries Company Limited (million TL)**

	1990	1991	1992	1993	1994	1995
Fixed Assets	1,673.20	1,504.30	1,342.90	1,175.20	1,980.60	2,019.40
Other Assets	2,309.60	2,966.30	5,739.30	8,493.70	28,505.50	29,668.10
Total Assets	3,982.80	4,470.60	7,082.20	9,668.90	30,486.10	31,687.50
Capital	300.00	1,800.00	1,800.00	1,800.00	1,800.00	30,000.00
Paid In Capital	300.00	1,800.00	1,800.00	1,800.00	1,800.00	1,800.00
Owner's Equity	2,368.80	2,326.70	3,324.90	3,919.60	614.40	4,182.20
Revenues, Sales of						
Goods and Services	4,702.80	6,867.20	9,960.90	13,306.20	61,255.90	55,960.80
Other Revenues	101.10	231.10	195.90	586.90	2,373.60	3,735.50
Total Revenues	4,803.90	6,990.30	10,156.80	13,893.10	63,629.50	59,696.30
Profit	355.20	970.60	2,177.50	1,722.50	12,310.30	1,620.60

**Source :** Cyprus Turkish Tobacco Industries Co. Ltd . Annual Financial Reports 1991-1995, Nicosia, TRNC, pp 19-23



The profit of the company has reached to 1,620.6 million TL at current prices in 1995 from 355.2 million TL in 1990. The company has not incurred losses during the period as it is seen from Table 6, but its profit has decreased in real terms, because the value of 1,620.6 million TL at current prices in 1995 equals to 76.2 million TL at 1990 prices which is lower than the profit in 1990. Also the ratio of profit to the total revenues of the company has decreased as the years passed since this ratio is 2.7% for the year 1995 which was 7.4% for the year 1990. The decrease in this ratio also shows that the profitability of the company fell down during the period.

In table 7 column 1 shows that the company's profits increased from 7.6% in 1990 to 21.9% in 1992 but due to the decrease in the volume of sales, because of anti smoking campaigns and foreign cigarettes preference of smoking population, the profit ratio dropped to 2.9% in 1995 . In 1992 the profit ratio increased to 21.9 % from 14.1 % in 1991. In 1993 the profit ratio was 12.9 % and in 1994 20.1 %. In column 2 according to the owner's equity ratio there was an increase from 15% in 1990 to 38.7% in 1995. In column 3 the frequency rate of total assets profit ratio increased from 8.9% in 1990 to 40.4% in 1994 but dropped from 40.4% to 5.1% in 1995. It can be observed from above figures that the company used its assets rationally and effectively during the 1990- 94 period. The frequency rate of total assets in increased in 1991 to 21.7 % from 8.9 % in 1990. In 1992 the ratio was 30.7 % and in 1993 17.8 %.



**Table : 7****Profitability Ratio of Cyprus Turkish  
Tabacco Industries Co. Ltd.**

Years	Profit Ratio According to Sale	Profit Ratio According to Owner's Equity	Frequency Rate of Total Assets
1990	7.60	15.00	8.90
1991	14.10	41.70	21.70
1992	21.90	65.50	30.70
1993	12.90	43.90	17.80
1994	20.10	101.70	40.40
1995	2.90	38.70	5.10

**Source:** Prepared by Author from collected data from Annual Financial  
Reports of Tabacco Industries Co. Ltd.

## **2.5 Cyprus Turkish Airlines Company Ltd.**

Cyprus Turkish Airlines Company Ltd. has been established on December 4th ,1974 with the aim of providing air transportation of every kind of cargo and passenger. the shareholders of the company are the TRNC Consolidated Development fund and TR Turkish Airlines with the shares of 50% and 50% receptively.

Other function of the company include purchasing and hiring aeroplanes, providing equipment's necessary for catering and ground services and establishing units in which the plane are checked, controlled and repaired.

The shares of the company in the total passenger and cargo transportation of the TRNC have been 71% and 76% respectively for the year 1995.

The company provides the transportation services by six planes. Four of them are Boeing 727 type and the rest of two are A-310 type air busses.

The development of the company can be seen from table 8. The total assets of the company has reached to 2,137,171.5 million TL at current prices in 1995 which was 54,429.9 million TL in 1990.

Paid-in capital of the company has increased to 41,937.9 million TL at current prices in 1995 from 6,000.0 million TL in 1990 . But paid-in capital at current prices for the year 1994 is equal to 702.5 million TL at 1990 prices , so there has been no increase, in fact the depreciation has taken place in the value of paid-in capital in real terms during the period.

**Table 8. Financial Structure of Cyprus Turkish Airlines Company Limited (million TL)**

	1990	1991	1992	1993	1994	1995
Fixed Assets	45,317.80	38,316.70	54,684.00	114,634.20	196,055.00	498,153.90
Other Assets	9,112.10	19,620.40	39,402.50	43,532.20	340,897.30	1,639,017.60
Total Assets	54,429.90	57,937.10	94,086.50	158,166.40	536,952.30	2,137,171.50
Capital	6,000.00	6,000.00	30,000.00	30,000.00	30,000.00	30,000.00
Paid In Capital	6,000.00	6,000.00	12,714.80	12,871.90	14,937.90	14,937.90
Owner's Equity	11,579.10	10,736.50	15,811.50	18,329.40	23,060.20	25,936.80
Revenues, Sales of						
Goods And Services	51,594.70	81,811.50	149,794.60	350,657.40	1,082,620.70	2,623,029.90
Other Revenues	7,881.90	5,021.90	13,369.70	16,347.70	30,298.10	35,999.70
Rotal Revenues	60,476.60	86,833.40	163,164.30	367,005.10	1,112,918.80	2,659,029.60
Profit	5,136.90	2,620.00	2,371.40	3,233.00	5,514.00	8,390.60

**Source :** Cyprus Turkish Airlines Co. Ltd . Annual Financial Reports 1991-1995, pp 40-42



The company has made profit 5,136.9 million TL in 1990 and 8,390.6 million TL in 1995. The profit made by the company amounted 0.02% of GNP for the year 1995 and this ratio was 0.3% for the year 1990 . The profitability of the company has been declining in recent years since the ratio of profit to the total revenues decreased to 0.03% for the year 1995 from 8.5% for the year 1990.

In the 1st column of the table 9 we see that the profit ratio of the sales of goods and services dropped from 9.8% in 1990 to 0.3% in 1995. The revenues from the sales of the goods and services in 1990 amounted to 52,594.7 million TL reached a total of 2,632,029.9 million TL by an increase of 400.4% , whereas the profit from the sales increased from 5,136.9 million TL in 1990 to 8,390.6 million TL in 1995 which represent an increase of 63.3% in current prices. Taking in to account the high inflation rate of the TL, we can see that the company has incurred losses during this period. In 1990 the profit ratio was 9.8 % , in 1991 it dropped to 3.2 % , in 1992 it dropped again to 1.6 % , in 1993 this ratio was 0.9 % and in 1994 it was 0.5 % .

In the 2nd column of table 9 we see that profit ratio of the Owner's Equity dropped from 44.4% in 1990 to 32.4% in 1995. In column 3rd we can see that the ratio of the frequency rate of the total assets profit dropped from 9.4% in 1990 to 0.4% in 1995. The company has not utilised its assets effectively during this period and has not shown good performance as regards to profit and productivity. The company purchased three planes during the period. 1990-1995 and thus had to paid instalments with high interest rates which effected its profitability.



**Table : 9      Profitability Ratio of Cyprus Turkish Airlines Company Limited.**

Years	Profit Ratio According to Sale	Profit Ratio According to Owner's Equity	Frequency Rate of Total Assets
<b>1990</b>	9.80	44.40	9.40
<b>1991</b>	3.20	24.40	4.50
<b>1992</b>	1.60	25.00	2.50
<b>1993</b>	0.90	17.60	2.00
<b>1994</b>	0.50	23.90	1.00
<b>1995</b>	0.30	32.40	0.40

**Source:** Prepared by Author from collected data from Annual Financial Reports of Cyprus Turkish Airlines Co. Ltd.

## 2.6 Cyprus Turkish Industrial Enterprises Holding Ltd.

Cyprus Turkish Industrial Enterprises Holding Ltd. has been established in 1975. Its shareholders are the TRNC Consolidated Development Fund, Provident Fund and Social Insurance Fund with the shares 51%, 29% and 20% respectively.

The company owns the factories given below that are operating in plastic, metal, Chemistry and textile sectors.

*Bordo Plastic* : Produces moulded plastic goods, film.

*Kurtulus* : Produces artificial sponge and plastic pipe.

*Famasack* : Produces plastic sack.

*Plasbag* : Produces plastic film, sack.

*Cyprocable* : Produces cables.

*Ikas Köpük* : Produces plastic foam.

*Oral Plastic* : Produces plastic goods.

*Tuncer Nikelaj* : Produces nickel plates, stoves.

*Akin Türbün* : produces water pumps for agriculturing purposes.

*Teksan* : Produces cut and shape metals.

*Türteks* : Produces textile and ready made clothing.

*Luxor* : Produces mattress.

*Harika* : Produces detergent.

*GBS* : Produces dye.

*DO-RE-MI* : Produces cosmetics.

**Table 10. Financial Structure of Cyprus Turkish Industrial Enterprises Holding Limited (million TL)**

	1990	1991	1992	1993	1994	1995
Fixed Assets	1,167.00	1,032.70	1,093.60	3,607.20	5,537.50	13,203.70
Other Assets	18,887.00	10,641.60	15,282.70	26,334.70	52,173.70	115,116.80
Total Assets	20,054.00	11,674.30	16,376.30	29,941.90	57,112.20	128,320.50
Capital	7,500.00	10,750.00	10,750.00	10,750.00	10,750.00	10,750.00
Paid In Capital	7,100.00	9,092.50	10,750.00	10,750.00	10,750.00	10,750.00
Owner's Equity	1,653.00	5,245.40	124,261.10	20,461.00	34,571.20	32,500.90
Revenues, Sales of						
Goods & Services	27,489.50	22,588.00	36,971.80	66,396.40	154,577.70	311,039.10
Other Revenues	824.80	367.60	597.60	1,163.50	2,361.70	2,344.80
Total Revenues	28,314.30	22,955.60	37,569.40	67,559.90	156,939.40	313,383.90
Profit	(1,151.10)	1,605.30	5,523.50	6,614.90	18,960.90	5,759.20

Source : Cyprus Turkish Industrial Enterprises Holding Ltd . Annual Financial Reports 1991-1995, pp 14-15



The company operates at a very low capacity of 30% because of the small domestic market of the TRNC, the availability of various types of import goods that can be substituted for the products of the company and the problems that the company is faced in entering external markets.

The development of the company during the period 1990-1995 can be seen from table 10. The total assets of the company has increased to 128,320.5 million TL. at current prices in 1995 from 20,054 million TL in 1990.

Paid-in capital of the company has reached to 10,750 million TL at current prices in 1995 which was 7,100 million TL in 1990. Again if these two values are compared at the same prices it will be seen that the value of paid-in capital has depreciated during the period, since the value of 10,750 million TL at current prices for the year 1995 is equal to 505.5 million TL at 1990 prices.

The company's profit was 5,759.2 million TL in 1995 at current prices. In 1990 it had loss. The profit of the company has announced 0.02% of the GNP in 1995.

The Enterprises had losses in 1990. During the period from 1991-1994 the Enterprises showed the positive development and reached the profit ratio of 12.3% in 1994 from 7.1% in 1991 and dropped to 1.9% in 1995. In 1992 the profit ratio according to sales showed at 14.9% in 1993 it dropped to 10.0% . In 1994 it increased to 12.3% and in 1995 it was 1.9%. This can be attributed mainly to the changes of the top management which took place as the result of the changes in the government. The Enterprises did use its assets effectively during this period and as a result the profit ratio of the frequency rate of total assets dropped to 4.5% in 1995 from 13.8% in 1991 . Also the profit ratio of the Owner's Equity dropped from 30.6% in 1991 to 17.7% in 1995. ( **Table : 11 )**

**Table : 11      Profitability Ratio of Cyprus Turkish Industrial Enterprises Holding Limited.**

Years	Profit Ratio According to Sale	Profit Ratio According to Owner's Equity	Frequency Rate of Total Assets
<b>1990</b>	..	..	..
<b>1991</b>	7.10	30.60	13.80
<b>1992</b>	14.90	44.50	33.70
<b>1993</b>	10.00	32.30	22.10
<b>1994</b>	12.30	54.80	32.90
<b>1995</b>	1.90	17.70	4.50

**Source:** Prepared by Author from collected data from Annual Financial Reports of Cyprus Turkish Industrial Holding Ltd.

## **2.7. Cyprus Fruit Vegetable " CYPFRUVEX " Company Ltd.**

Cyprus Fruit Vegetable " Cypfruvex " Company Ltd. has been established on November 21, 1974 with the aim of marketing citrus products, especially at external markets. The nominal capital of the company is 10,000.0 million TL. The biggest shareholder of Cypfruvex is the Consolidated Development Fund of the TRNC. Other shareholders are Cyprus Turkish Co-operative Central Bank Ltd. and private individuals. The distribution of shares among the Consolidated Development Fund, Co-operative Central Bank and private individuals are 51%, 10% and 39%, respectively.

The company's head office is in Güzelyurt and it has offices in Mersin, London and Rotterdam. The company is administered by a State-appointed Board of Directors of six. One of them is the general director of company, one is appointed by Cyprus Turkish Co-operative Central Bank and the rest are appointed by State. There is on private representative on the board since paid-in capital held is not sufficient. Minimum worth of paid shares held must be one billion TL in order to be a representative board. The paid-in capital of the company is 6,279.5 million TL of which 5,100 million TL was paid by State, 1,000 million TL was paid by Cyprus Turkish Co-operative Central Bank Ltd., and the rest 179.5 million TL was paid by private individuals.

Cypfruvex has an important place in citrus sector and it has six packing houses and two of processing plant. Two of the packing houses have been rented for ten months for the year 1995-96; and the fodder plant is not in use for a long time.



The assets, capital, total sales revenue and the profit or loss the company from the year 1989-90 to 1994-95 can be seen from the Table 12. The figures were taken from annual reports of Cypfruvex which are prepared under the historical cost convention. So the figures about the assets of the company have no proper meaning because of the high inflation and high depreciation takes place in Turkish Lira. For example, the value of the fixed assets of the company for the year 1994-95 is equal to 2,384.0 million TL according to the table, which makes no sense when one considers the fixed assets of the company and the market prices. The current value of fixed assets must be quite higher than the value written in the table. So it is not possible to make any comment on these figures.

The company has incurred continuous losses since 1987-88. In an article(3) in the Kibris newspaper, Mr. Ünal Akif, who was the head of the Board of Directors of Cypfruvex in the year 1987-88, wrote that the Prime Minister, the Minister of Trade and the Minister of Agriculture at that time had great shares in the present failure of Cypfruvex.

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(3) Ünal Akif. " Cypfruvex: Ne zaman ve Kimler Tarafından Batırıldı?" , Kibris Gazetesi, 26th May 1996,p.9.

They dismissed the successful Board of Directors and appointed a new Board and allowed the use of Cypruvex for political aims. This claim is in conformity with the figures that show continuous losses of Cypruvex started in 1987-88.

The amount of losses has reached to 731,422.0 million TL was equal to 51.7% of the total revenues for the year 1994-95. Also the losses of the company at the same year has amounted 2.3% of the GNP and 15.2% of the State Budget deficit of the TRNC.

As it can be seen from Table 12 the company incurred losses for the period from 1989-90 to 1994-95. As a result the profit ratio could not be calculated the company had losses amounting to 6,252.1 million TL during 1989/90 season and during the 1994/95 season the loss reached 731,422.0 million TL. The company's Owner's Equity is negative because of high losses.

**Table 12. Financial Structure of Cyprus Fruit Vegetable "CYPFRUVEX" Company Limited (million TL)**

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95
Fixed Assets	670.30	702.40	788.30	613.80	1,418.90	2,384.00
Other Assets	6,801.70	19,822.30	10,628.00	39,917.20	57,811.10	63,418.50
Total Assets	7,472.00	20,524.70	11,416.30	40,531.00	59,230.00	65,802.40
Capital	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Paid In Capital	807.20	5,858.60	5,879.80	5,885.20	5,887.70	6,279.50
Owner's Equity	-	-	-	-	-	-
Revenues, Sales of						
Goods & Services	36,860.20	91,895.20	132,719.70	138,336.20	471,754.30	1,403,069.60
Other Revenues	281.80	1,258.80	1,648.50	2,432.90	18,673.50	12,312.20
Total Revenues	37,142.00	93,154.00	134,368.20	140,769.10	490,427.80	1,415,381.80
Profit	(6,252.10)	(11,932.00)	(62,560.20)	(102,645.20)	(230,526.00)	(731,422.00)

**Source :**

Cypfruvex Co. Ltd., Annual Financial Reports 1991-1995 , Guzelyurt, TRNC, pp1-4

( - ) Owner's equity is negative because of high losses.

# CHAPTER 3



## CHAPTER 3

### CONCLUSION:

#### CONCLUDING, REMARKS, SUGGESTION, RECOMMENDATION ON PROFITABILITY IN THE STATE ECONOMIC ENTERPRISES

This study aims at gives some idea relating to the efficient functionary, performance and profitability of the State Economic Enterprises in Turkish Republic Of Northern Cyprus during the period from 1990-1995.

State Economic Enterprises had been very useful at the beginning of their formation. They had served as a breeding ground for the training of managers and developing private sector in subsidiary activities which was very weak at the first stages of the development of the TRNC.

So, the formation SEEs was right at that time and indeed they performed well in stimulating economic activity, under financial and administrative support of government. But now the conditions are not same as those in mid 1970s. The contribution that SEEs can make has become minimal in relation to its real economic cost. The bureaucratic structures and political and social obligations of the government are inappropriate equipment's to be a rational manager and a sensible merchant in the contemporary economic environment.

The developments which have been studied in Chapter two are in conformity with preceding assertion about government. Almost all SEEs have no capital relative to their business volume; they have been

incurring losses or their profitability's have been declining in recent years. The reason is well known; the bureaucratic structure and the politicised management of SEEs are the main obstacles that prevent them to be more flexible and quick in economic decision making to respond to changes in the market. Furthermore, political and social preferences of government are not always consistent with those of economically required. Social preferences may be related to employment or development of certain sectors . Political preferences may be related to safeguarding the interests of certain groups. In this way, government reduces competitiveness of the companies in liberal economic system adopted in the TRNC. In return for the burdens on SEEs imposed by government it provides subsidies or explicit guarantees for credit to the SEEs by this way, the government encourages inefficiency in these companies.

During the period of study (1990-1995) the SEEs showed very poor economic performance. These companies contributed much benefit to the community of the country during a period when many factories and work places could not be operational without state support after the 1974 Turkish Peace Operation when there was great demand for qualified and well-trained work-force and sufficient capital available for the private sector. But now as can be easily observed the reasons and conditions justifying the continuation of these enterprises no longer exist. Therefore the changing conditions which no longer serve the purpose for the establishment of these enterprises do not justify their continued existence because they no longer respond to the requirements and needs of the times. The state should leave the administration of these enterprises to the Private Sector. Thus the government will avoid being an active player



and a referee at the same time in the current economic system of the TRNC. The state should only intervene in the economy as a public authority to promote price stability, know how basic infrastructure, research, external affairs relating to foreign market exploration environment conservation, educational facilities etc. Thus the task of meeting the needs of the market will be left to the private enterprises.

Privatisation which can be defined as the transfer of the government assets or functions to the private sector is on rise all over the world because of the generally poor performance of state enterprises and a disappointing record of past reform effects that fell short of ownership change. The evidence shows that privatisation produces benefits of efficiency and innovation if done right.

Privatisation may be seen that although they made a significant contribution to the economic development of TRNC at the initial stages of their formation. The performances and the contributions of the State Economic Enterprises have decrease over the years. Because the bureaucratic structure and political or social obligations of the government are not appropriate equipment's to be a rational manager in the contemporary economic environment. So, it has been concluded that reorganisation of these enterprises cannot be avoided .

In order to increased the efficiency productivity and profitability of these enterprises; the State should relinquish it's control and administration from these enterprises and save them from total politicisation.

The members of the Board of Director's should be qualification in their respective field of work and should not be politically oriented.

State Economic Enterprises are not profitability for TRNC. For this reason they must be privatisation as soon as possible. Privatisation should therefore be considered as a major tool.

If the State Economic Enterprises are privatised , government sell owned assets to private buyers. So, government earns revenue from these enterprises in a very short time.

We can show these in experiences countries which are use privatisation and earn profit. You can find some information about these subject in the appendix part.



# APPENDIX

## 1.1 THE CONCEPT OF PRIVATISATION

Privatisation which is a phenomenon that has been growing rapidly around the world has become a hot subject in the TRNC in recent times.

### 1.1.1 What Is privatisation's?

The general definition of privatisation's is the transfer of government assets or functions to the private sector. Privatisations can take many forms and each of them has different economic and political effects.<sup>(1)</sup>

The most complete form of privatisation is to sell governments owned assets to private buyers, removing government entirely from any involvement in the activity. This is the form of privatisation that we are recommending in this study in commotion with the SEEs in the TRNC.

Deregulation which involves simply allowing the private sector to provide a service now monopolised by the government is a second form of privatisation. The new entrants succeed or fail solely on their ability to serve the public. This form of privatisation leads to more competition and choice, to the benefit of the consumer and cuts the budget by reducing the need for government provision of a service.

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(1) Stuart M. Butter "Privatising Government Services" Economic Impact Number fifty-five 1986/3 P.21

### 1.1.2. Growth and Performance of State Owned Enterprises

State Owned Enterprises (SOE) has been formed in most countries after Second World War with the aim of achieving economic and social objectives. Developing countries relied more on state owned enterprises than industrial economies did in the hope that they would balance or replace a weak or ideologically unacceptable private sector; would invest more and also produce a capital surplus to finance investment; and would transfer technology to strategic firms in mining, telecommunications, transport and heavy industry.

Some SOEs performed, and still perform well: The national electricity company in France, the major steel producer in Republic of Korea, the airline in Ethiopia, a publicly owned fertiliser company in Indonesia and many SOEs in Singapore are a few of many well-run, profitable, efficient state-owned entities<sup>(2)</sup>. But the above good performers tend to be the exceptions. Evidence from a wide range of countries shows that many SOEs have been economically inefficient and have incurred heavy financial losses. For example, according to the World Bank estimates, SOE losses between 1989-1991 reached 9 percent of GDP in Argentina and more than 5 percent on average, in a sample of Sub Saharan African countries. In Turkey the marginal efficiency of SOE capital is half that of the private sector. Average return on capital employed between 1985-1991 was 12 percent for SOEs versus 20 percent for the private sector. Labour productivity in 1990 was 38 percent lower in SOEs overall than it was in the private sector.

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<sup>(2)</sup>Sunita Kikeri, John Nellis, Mary Shirley, "Privatisation: Lessons From Market Economies", *The World Bank Research Observer*, Vol. 9, No.2 (July 1994), pp. 242-243.



SOEs have become a burden on the state budget and banking system by absorbing scarce public resources. Government transfers and subsidized to SOEs amounted to more than 3 percent of GDP in Bangladesh and Mexico in 1980s, 4 percent of GNP in Turkey in 1990, and 9 percent of GDP in Poland according to World Bank estimates. In Sri Lanka, those subsidies have accounted for 20 percent of government expenditure and 60 percent of the budget deficit. In Comeroon, the losses of State Enterprises often exceeded the government's total revenue from oil (3).

Furthermore, poorly performing state enterprises have also slowed the growth of the private sector in many developing countries by many ways: First, governments often block the entry of private firms that would compete with SOEs. Second, governments credit directed to capital-intensive SOEs often leaves private firms out of credit markets. Third, even when government eliminates explicit guarantees for credit taken on by SOEs, bankers tend to assume that there is an implicit government quarantine, a perception that affects their lending, to the disadvantage of the private sector.

A state-owned firm should operate as efficiently as a private firm, it both operate in a competitive market and subject to the same rules and incentives.

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(3)United Nations Development Programme, **Human Development Report 1993**, New York, 1993, p.48.



But, in practice markets and public ownership are linked in ways that can reduce competition. Because losses from state enterprises can affect the public budget and debt, governments often intervene to protect high cost SOEs from competition, to give them subsidies or privileged access to finance. The high costs of SOEs are the result of burdens imposed by government. These burdens may be social such as maintaining employment or developing backward regions, or political such as providing jobs and power to certain groups. In this way state ownership, created to overcome or correct market failure, can aggravate or perpetuate it.

## **1.2 Experiences Countries**

### *1.2.1. The Experience Of Turkiye*

The economic model of Turkiye is defined as mixed economic model in which significant amount of the national productive assets are under the control of the state sector.

State enterprises are inefficient in comparison with the corresponding private enterprises.<sup>(4)</sup> They have obsolete technologies; low capacity utilisation rates; increasing amounts of deferred receivable; shortage of qualified workers; their decision mechanism are affected by State intervention and therefore they are unable to adopt profit oriented outlook. They have unavoidable marketing and distribution handicaps.

Thus the need to eliminate these problems and promote more productive and efficient operation of the SEEs have led to privatisation in Turkiye.

The privatisation program which is implemented at present time was initiated in 1984. The responsibility to carry out the privatisation program was originally given to the Prime Ministry Housing Development and Public Participation Administration by a law issued on February 1984. Now the responsible body for privatisation is the Privatisation Administration.

The government objectives in privatisation were manifold according to a plan prepared in 1986 by Morgan Bank for the State Planning Organisation of Turkiye.

The SEEs which were determined to be privatised are as follows: Sumerbank Holding, Etibank, Shipping Bank, Turkish Milk Industry, Institution of Meat and Fish, Industry of Forestry Production, and Fodder Industry.

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(4) Ozuygur O. "The Turkish Pattern of Privatisation" Report of the International Symposium on Turkey's Experience in Developing a Market Economy and Its Relevance for the Reforming Countries of Central and Eastern Europe and the Business Week Aimed at Strengthening the Economic Relations Between Turkey and the Central and East European Countries, State Planning Organisation, Ankara. Turkiye, 1991, p.269.

### 1.2.2. *British Experience*

Generally poor performance of state enterprises and unsuccessful results of reform efforts, privatisation became such a popular subject not only in the industrialised world and the developing countries, but increasingly in the state-run economies of Eastern Europe. But it is Britain that illustrates privatisation in the most extensive and politically sophisticated form.

Successful privatisation has been done in Britain after Prime Minister Thatcher came to power in 1979. Privatisation included Britain's largest trucking firm, more than half a million public housing units, hotels, chemical firms, electronic firms, and the entire British telephone system, British Airways, gas distribution system, and the water supply facilities.<sup>(§)</sup>

Contracting out public services to private sector firms, so that the government continues to finance the service but private sector firms are invited to bid for the contract. In this way, competition and private sector efficiency replace bureaucratic incentives.

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(§) Atasoy V. *Türkiye'de Kamu İktisadi Tesebbüsleri ve Özelleştirme Sorunu*, Nurel Matbaacılık, San. ve Tic. A.Ş., Ankara, Türkiye, 1993, pp. 196-197.



### 1.2.3. *The US Experience*

At the state and local levels, governments has turned to privatisation to reduce the cost of services. Local governments have private firms to collect residential garbage, to operate and maintain their bus systems, to do street repair work, traffic signal maintenance, ambulance services, health and welfare programs. Even fire departments and prison facilities are operated by private firms in many cities.

The overriding factor leading local officials to privatisation is cost. The competitive private market generally provides routine services much cheaper than a government department.

Even the health services have been privatised in US. Humana, Hospital Corporation of America or American Medical International have been buying the public-owned hospitals and health centres of universities like George Washington University. The perception of public services is disappearing in US.



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## 1.4. ABBREVIATIONS

Ad.	Administration
Co.	Company
Con.	Control
<b>DWT</b>	<b>Deck Weight Ton</b>
ETI	Industry Trade and Business
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GNP</b>	<b>Gross National Product</b>
TL.	Turkish Lira
Ltd.	Limited
<b>SEE</b>	<b>State Economic Enterprises</b>
<b>SOE</b>	<b>State Owned Enterprises</b>
Sup.	Supervision
<b>TR</b>	<b>Republic of Turkey</b>
<b>TRNC</b>	<b>Turkish Republic of Northern Cyprus</b>
<b>TURBAN</b>	<b>Tourism Bank</b>
US	United State