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**FACULTY OF ECONOMICS  
&  
ADMINISTRATIVE SCIENCES**

**BANKING & FINANCE DEPARTMENT**

**GRADUATION PROJEKT**

**Strategic Analyses of The TRNC Public Banks**

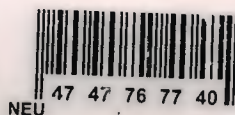
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## ABSTRACT

Sectors, organizations and firms may find themselves in weak conditions from time to time. These weaknesses must be eliminated in order to obtain optimal performance. In order to pursue work in appropriate conditions there is a need for appropriate strategic approaches.

This project will attempt to outline the strategies of the public banks and evaluate how much they are achieving this strategy. The first step will be to identify the place of the public banks in the banking sector. At the next step the strengths and weaknesses of the bank will be outlined. This will be followed by the possible opportunities and threats created by the environment. The final part will be the suggestion to the public banks to become effective and efficient and be able to give appropriate services.



## 1. INTRODUCTION

The world is in a speedy globalization process and started to become one global village. The changes are taking place with the social economic and technological innovations. Organizations are trying many new strategies in order to keep phase with the technological changes. Strategic management became over so important in organizational management.

Globalization and the speedy changes have led for a fierce competition between the organizations. Those who have adopted themselves to the new changes have become stronger and many who couldn't survive. Public services couldn't stay without response to the change. They also had to adopt long term strategies to survive the change. An effective public services is necessary for balanced and sustainable strategic approaches. The role of management in these new changes is to bring out the strong side of the individuals and facilitate them to achieve their tasks. Success has been the inseparable part of management concept. It has become inevitable to continuously measure and improve the performance (Senge, 1991.p142-155).

The key for success in the public services is to find viable solutions to the problems rather than spread and sustain them in longer time. Organizations need strategic approaches to solve the problems during the fast change. On the other hand demand of the public for quality and perfection in services is also forcing the public services to produce better, more effective and efficient services. To be able to achieve this the strategic approach becomes inevitable. There is a need for strong mission, vision, participation of the stakeholders, improved communication, and conflict resolution in the efforts of restructuring the public services.

The aim of this project is to outline the strategic management concept that is being practiced at the private sector successfully for many years and discuss the necessity of the long-vision, efficiency-effectiveness-and productivity

improvement in the public sector. Cooperation of the public services for sustainable strength and ways to obtain better management will be discussed.

Sectors, organizations and firms may find themselves in weak conditions from time to time. These weaknesses must be eliminated in order to obtain optimal performance. In order to pursue work in appropriate conditions there is a need for appropriate strategic approaches. Objective of regular strategy is "better and more", while the objective of development strategies "useful, new and necessary changes".

Purpose of existence of an organization is a guide for the managers for strategic planning. The strategies to be adopted must be in accord with the management concept, it must also be in parallel to the management skills and styles of the managers, and also they should be able to adopt to the changes.

Workable strategic planning should be made with attention too the short and middle-term plans. Strategic planning is made to reach the targeted goals in the shortest time and the least cost, and for this purpose strategic developments are necessary for attaining development-improvement and innovation. Strategic planning for the states and organizations are made by the managers (www.dpt.com.2003,June.28).



## **2. BASIC CONCEPTS OF STRATEGIC MANAGEMENT**

Firstly we will explain to strategy than seriesly we will explain to strategic approach, mission, vision strategy developments, and finally contingency planning

### **2.1 Strategy**

The strategy is a word both in Greek and Latin. In Greek the word strategy is associated with a general called Strategos and used as “the method to reach the goals at wars”. In Latin strategy means line, and road. As well as military plans, the strategy is also used for a football team to achieve their goals and also a firm uses strategies to achieve their goals ( Hofer C,W, Shendal D 1978, p.3).

In general the strategy can be defined as follows: strategy is “the sum of the basic objectives, aims, or targets, important policies and plans”. In a business organization strategy is the sum of the activities such as finding and solving the problems, coordinating, cost reducing and productivity improvement and task achieving decisions. Strategic decisions are important for the well being of the organizations. Strategy is about the future. Many organizations are preoccupied with present and future prospects. Strategies are necessary to adapt to the changes and to be able to solve the upcoming new problems when changes in the markets, consumer perceptions, and legal environment take place ( Weir-Smallman:1998, p.46).

### **2.2. Strategic approach**

The coming 10 years will be different than today since there will be important, social, technological, and environmental changes. The organizations will have international identity, there will scarcity of natural resources and the business environment will be much more complex. How will the organizations survive these changes? The systematic decision making to adapt to the changing environment and general conditions is the strategic management. In short the

strategic management is making and implementing decision towards the future of the organization.(Harper&Row Publishes,1987,p.56)

## **2.3.Basic Elements of Strategic Management**

### **2.3.1Mission**

Mission is the personality, identity, and purpose of existence of an organization. Mission is inclusive of both the culture and strategy. Strategy and culture are supportive of each other and mission can only survive if it is supported by the culture. An organization has a mission when the culture and technology exist together. It is useful that the mission concept is developed with both the culture and the strategy in mind.

Organizations are founded for a purpose. Although the situation may change from time to time basic purpose of being remains to be important part of the mission. It is important that the employees know the mission. In many cases mission statement is written and handed out to the employees. The written mission statements are continuously kept in mind while making new strategies.

Business strategy become face to face with two basic questions:

1. what is our business?
2. Why are we in this business?

The answer to the first questions include the mission or the objective of a firm. The second question includes the development of the aims. Both questions help to identify the process for structure and production.

The mission and basic aims of an organization is the beginning point of the long-term strategic approach to increase the chance of success.

Mission is a long term task or objective that "directs the employees and make their tasks more meaningful and distinguish them from the similar organizations." Mission is like common denominator to all and gets all the employees together.

A mission is the purpose of the organization. It is why the organization exists. Thus, planning begins with clearly defining the mission of the organization. The



mission statement is broad, yet clear and concise, summarizing what the organization does. It directs the organization, as well as all of its major functions and operations, to its best opportunities. Then, it leads to supporting tactical and operational plans, which, in turn leads to supporting objectives. A mission statement should be short - no more than a single sentence(Andrew Campbell& Sally Yeung, 1991.p.145)

### **2.3.2Vision**

In management vision foresees the unapparent as well as the apparent. Vision and mission of an organization may be same or similar. Vision is where we want to see our organizations in future, it should be attainable and should create encouragement among the employees to work towards it. It can include the mission, strategy, standards and values. But the mission and vision is not exactly the same. Vision is about the future situation which is better then the existing situation, but the mission is about the present.

Mission is for promoting business and employee standards. Missions successful in the past may still be successful today. There is no limitation to the organizational improvement and advancement.

When a vision is reached and realized there is a need for a new vision. But the mission can remain to be the same and it can still empower the employees to work towards their goals. Vision is related with the business objectives. Mission is related to the behavioral aspects. Since objectives are valuable so is the vision.

When the vision materialize it start to lose its power. Vision on its own is not capable to carry the organizations to distant targets. When pushed too hard the organization may lose its way. This may happen to organizations that aim to be the market leaders. Excessive and unnecessary attempts to become leaders may waste the resources of the organization and leave the organization in a disarray. If the vision is not achievable in the next 5-10 years it loses its power to motivate the people(Andrew Campbell& Sally Yeung, 1991.p.145).

### **2.3.3.SWOT Analysis**



One of the most important tools of the strategic analysis is the SWOT analysis. SWOT analysis determine the internal and external environment of an organization. SWOT is the Acronim of the following English word:

S: Strength: (Determination of organization's strengths and better sides)

W: Weaknesses: (Weaknesses and inabilities of the organization)

O: Opportunities: (Opportunities that may exist ahead)

T: Threat (Threats that may exist ahead)

SWOT analysis is the analysis of the organization itself and also the market and the competitors. In short the SWOT is strategic tool internal and external analysis. SWOT analysis is useful for two purposes. First the SWOT analysis determines the present condition of the organization. In this respect the strengths and weaknesses of the organization and the opportunities and threats in the environment are identified. SWOT is in a way situational analysis. SWOT is also useful for determining the future of the company. In this respect the SWOT is analysis for the future. We can consider the SWOT analysis as a tool that enables us to see the near and distant future.

The important future of the SWOT is that it analyses both the internal and the external environment. The organizational structure and the system, employee conditions, working conditions, customer profiles, organizational culture, performance indicators, information system, and similar issues are dealt with for organizational success. SWOT enables us to make such analysis to address these issues (C.C.Aktan, 1999 p.152).

#### **2.3.4. Strategy Development**

Most of the management concepts are introduced in the 20<sup>th</sup> century. For example, Taylor carried out his studies in effectiveness, efficiency, assessment of speedy

growth measurement and the new assessment techniques in 1930s. organizational development and demand and consumer responsive approaches however started after the second world war in 1951. the first to indicate the importance of the strategy was Newman in 1951.

Next the attempt was to spread the success cases to general. The present studies are still based on the same foundations. There was a shift in the 1980s from planning towards strategic planning. Porter led to way to develop new management approaches and focused on competition and the other tools of strategy development. The researchers appreciated that fact that while there may be some missing elements in the process of reaching the targeted goals, each case is specific in itself.

Fast changes, increasing competition environment, increasing amount of uncertainties are forcing the organizations to establish dynamic strategies Strategy and plan are two different things. Strategy includes ideas and thinking but plan is just a guide to be implemented. In this respect the strategic plan is the relation of the organization with its environment. The broad definition of strategic planning is: Strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals (Thomson-Strickland: 1996, pp20).

Most of the strategy approaches adopted by the industrial experts were generated at the Harvard University in the 1960s. the process of strategic planning included data collection, processing, evaluation, selection, and identification. The basic strategy is to match the strengths of the organization with the opportunities in the environment. SWOT is used for this purpose.

Ability to be competitive will create additional benefits from the technological capabilities and strategic processes this will in turn will add value to the services or products of the organization and be innovative. Additional product and service advantages will create comparative advantages. The organizations can



manage the changes around them as long as they are aware of the changes taking place around them. Environmental changes may take place externally beyond the control of the organizations, while some changes may be internal (Feurer-Chaharbaghi: 1995, pp.12).

### **2.3.5. Contingency Planning**

The type of planning process used by a firm will influence the generation of alternatives. Strategist will choose to look at one set of strategic alternatives in first-generation planning and multiple sets of alternatives in second-generation or contingency approaches to strategic management. In more developed strategic management, managers also prepare alternative strategies that they can consider of conditions should change. When conditions change sufficiently, consideration of the contingency strategies is triggered.

Thus we can add one more dimension to our list of alternative approaches to strategic choice a programmed or contingency strategy. A programmed strategy is a strategy which is planned in such a detailed and integrated way that it is difficult to change it once it has begun to be implemented. A contingency strategy requires the planner to choose the preferred strategy given the best estimate of conditions and other strategic choices but it is flexible enough to allow for shifts in the thrust of the plan when conditions warrant it. In effect, programmed strategies emanate from first-generation planning. Second-generation planning leads to contingency strategy formation.

Programmed planning is suitable for environments with people who prefer well-defined roles. The contingency strategy is suitable for unstable environments with people who prefer variety and stimulation. Conditions change rapidly. Since 1972 large firms have chosen their strategies and have also developed plans B, C and D on a "what if" basis. If the "what if" comes to be, plan C (or B or D) becomes the strategy. This requires that plan A include enough flexibility to allow the firm to recognize the need and then shift if necessary. In effect, the firm must provide for



"anticipatory flexibility" with careful environmental monitoring and more frequent evaluation so that it can respond to signals as they become stronger. (Lawrence R. Jauch, William)

### 3. STRATEGIC ANALYSES OF THE TRNC PUBLIC BANKS

Firstly we will explain to place of the public banks in the banking sector. And than seriesly we will explain to mission and vision of the public banks, strenghts and weaknesses of the public banks and finally we will explain to external enviromental threats and oppurtunities created public banks.

#### 3.1. Place of the Public Banks in the Banking Sector

Starting capital of the public banks are usually obtained from the state or other state owned organizations. Their purpose is to function for public interest.

The public banks carry out the same type of business as the commercial banks. Among the functions of the public banks are acceptance of bank deposits both in TL or foreign currencies, extend commercial credits, middle to long term investment credits, carry out international finances, sell and purchase commercial papers, discount state bonds and bills and market state guaranteed treasury bills.

There are three public banks in TRNC that are owned directly or indirectly by the state. These are the Vakıflar Bank, Akdeniz Garanti Bank and the Cooperative Central Bank.

Looking into the banking sector it can be seen that the sector is creating additional value for the economy. According to State Plannin Organization (SPO) the 1977 figures of the share of the banking sector in the GDP is 4% by the 1997 prices. According to SPO the contribution of the sector for employment is 2.5%. during the period of the 1992-1998 the share of the sector within the economy grew from 3.6% to 4.7%.([www.kkctbb.go.tr](http://www.kkctbb.go.tr).2003.july,29.)

At present there are 27 active banks in TRNC. Three of these are the public banks. Below is the table which compares the state banks with the commercial banks in term of actives, number of branches, number of personnel and total deposits.([www.kkctmb.gov.tr](http://www.kkctmb.gov.tr).2003.july,29)

**Table: 1**

**Public banks in respect of actives (billion TL)**

Year	Public banks		Private banks		Total
	Actives	%	Actives	%	
2002	855.162	38.68	1.733.643	61.32	2.211.002

Source: Central Bank of TRNC

As it can be seen from the table 1, the state banks are 38.68% of the total banking industry in respect of the actives. Such size of these banks introduce unfair competition in the sector and also has important pace in the sector.

**Table: 2**

**State Banks in respect to branches**

Year	Public banks		Private banks		Total
	Number of Branches	%	Number of branches	%	
2002	29	21	109	79	138

Source: Central Bank of TRNC

Although they are only 3 banks the number of branches of the public banks amount to 21% of the total sector. The high number of the branches has both advantages and disadvantages. Larger number of branches may mean better services but sometimes it is waste of resources. This situation has an overall negative effect on the economy of the TRNC.

**Table: 3**

**Number of personnel**

Year	Public banks		Private banks		Total
	Personnel	%	Personnel	%	
2002	871	42	1181	58	2052



**Source:** Central Bank of TRNC

As it can be seen from the above table the public banks have a large share of employment in the sector with 42%. Although the greater number of employees may mean improved services, this situation is exploited by the politicians and political favoritism play an important role in employment of the state banks. Excessive employment in the banks lead to inefficiencies and hence lack of competition with the private banks.

**Table: 4**  
**Public banks in relation to the deposits**

Year	Public banks		Private banks		Total
	Deposits	%	Deposits	%	
2002	777.7000.648	42	1.122.154.724 1.899.855.372	58	

**Source:** Central Bank of TRNC

Despite their small number the share of the banks in deposits is considerably high at 42%.

### **3.2. Mission and Vision of the Public Banks**

Before getting into the mission of the public bank we shall look into the general mission of the banks and what it should be.

Banks accept deposits from the public in order to safe keep the money, provide adequate interest rate to add value to the savings, in return they make use of these savings by extending credits to the entrepreneurs to make investment or to meet their financial needs. The banks always make sure that these credits are repaid back to the bank since the owner of these money are depositors. The banks play an intermediary role between the depositors and credit clients. They also play an important role in the financial markets by determining the money movements.

The EU banking coordination law describes banking as: accepting money and other types of finance which are refundable to the depositors and allocate credits with their own responsibility.

Among the several interesting characteristics of the banks is that they generate credit not by giving out physical money. They give credits on paper which can be partly used by the clients and the remaining can be used as credit for another customer. To summarize the mission of the banks is money creation for the economy. Collecting deposits to give out credits. (Prof.Dr.Ali S. Yüksel, 2002,p.10-159)

The public banks, Vakıflar Bankası, Akdeniz Garanti Bankası, and Kooperatif Merkez Bankası of TRNC which are under restructuring amount to the 30% of the banking sector.

The public banks have important portion of the sector. However over the years these banks have shifted from their original purpose and mission. Cooperative Central Bank for example is involved in dairy production, commerce and international trade as well as usual banking activities. The Vakıflar Bank which was established to assist artisan and small businesses has become state's support mechanism and also commercial banking.

The mission of the public banks, according to Elvan Kınış, the chief Accountant of Vakıf Banks is: to meet the financial need of the state, make payments of the state, and extend credit at adequate interest rates. According to Kınış the public banks have assumed greater responsibilities after the failure of some commercial banks. They have been given the responsibility to deal with the accounts of the failed banks and make payment to the depositors.([www.kibrisvakiflbankasi.com](http://www.kibrisvakiflbankasi.com),2003.Aug.25)

Akdeniz Garanti Bank also carries some responsibilities by making payment on behalf of the state, to give away credits with low interest rates and collect taxes, as well as ordinary bank activities.



After these explanations the mission of the state banks can be summarized as follows: public banks is responsible to carry out banking activities in favor of the state and the public.

The vision of the public banks can be described as follows: to organize the public banks under one roof and to eliminate the political interference in order to provide efficient and effective, as well as profitable banking activities in benefit of the public at large.(Banking Regulation and Supervision of Turkey 2002)

### **3.3. Strengths and Weaknesses of the Public Banks**

It may be more useful to have a look at the whole banking sector before looking into the public banks.

Apart from the problems arising from the political unrecognition of TRNC, recent global financial problems, financial crises in Turkey and general economic recession had negative influence on the banking sector of the TRNC. The new regulations created to improve the situation has not been adequate.

The biggest handicap of the banking sector of TRNC is in the international arena. Political situation create negative conditions for the banking sector. These conditions make the banks unproductive. As a simple example of the shortcomings the TRNC banks are unable to become the international payment system SWIFT and the international credit card system. This means shortcomings in services to the customers. The Turkish banks who are extension of the big banks of Turkey in TRNC are giving all the international services. This creates an unfair competition in he sector.

The remaining problems are as follows:

**High cost of input:** the cost of input in the sector is much higher relative to Turkey which uses the same currency.

**Deposit securityFund:** banks have to deposit 15% of their deposits at the Central Bank for which they get no interest. They also have to deposit 18% of the



currency deposits at the Central banks. The same figures in Turkey is 6%. This situation increase the cost of the inputs relative to Turkey.

**Deposit Insurance Fund:** Deposit insurance funds are too high and this is the highest costs of te banks after the labor costs. The Deposit insurance Fund is .25 percent of the monthly deposits (TRNC Bank Unions).

Above was evaluation of some present problems of the banking sector. The study will now follow with the strengths and weaknesses of the public banks.

The function of any bank is to collect money by deposits, hand these out as credits and continue existence by the profit from these interactions. Political interference, excessive employment, supporting programs to the certain sectors, and irrational banking are some of the weaknesses of the state banks. They are in high risk due this situation.(www.kktcbb.com, 2003 Aug,25)

It is a known fact that the public banks are used as political power stations. The governments see these banks as employment opportunities. The biggest weakness and the problem of the public banks in TRNC is the state and political involvement. Although the actives of the public banks has a high percentage in the banking sector, these banks are being operated for political purposes.

The banks give credits as political favourism. There are also rumors for big-scale exploitation.

Another weakness of the public banks is that they are far from adopting the modern banking systems and technologies. Slow and inefficient bureaucracy is the biggest barrier in this sense. The decision making process is slow and there are frequent changes at the top management. There is also lack of strategic planning. Another weakness is that these banks are not flexible enough and they are not dynamic (Goldsten, Turner, 1999, pp.47-48)

Another important weakness of these banks is the unpaid debts. The public make payments via these banks without actually putting money in the system.

Unpaid debts such as the payments to the agricultural sector amounts to great values.

As a conclusion we can say that the problems arisen from public banks in the less developed states and in a non-recognized state such as TRNC is not coincidental. The common characteristic of the public banks in the less developed countries is macroeconomic instability, political interference, crony capitalism, lack of ethical values and exploitation (www.kktcbb.com, 2002.Aug.26 ).

After the weaknesses of the public banks lets now look at the strengths. Despite the political problems, and non-recognition of TRNC banks are playing important role in the economy of TRNC and international trade. The banks are in good relations with the international banks and finance institutes.

Another important strength of the public banks is the support they receive from the state. The state in a way guarantees these banks. This is why the state banks receive more deposits in relative to their sizes and number.

The public banks comprise the 38% of the banking sector in TRNC. They are able to direct the TRNC economy with their strengths.

The public banks also acted as schools for developing and contributing personnel for the financial sector and the new commercial banks. The public banks also act as last resort for public finance for the governments (TRNC Central Bank, 2003).

### **3.4. External Environmental Threats And Opportunities Created For The Public Banks**

Banking sector is closely effected by the general economic and political changes. Such environmental developments are the application of the Greek side to EU membership, and as a result the fact that they will become EU member by 2004, the lack of finding solution to the Cyprus problem, and a possible solution to the problem in near future.



Such possible changes may mean that the TRNC can suddenly find itself in the EU. How would this effect the banking sector? Are the banks in harmony with the EU norms in respect of personnel, legal framework, and technology? Where do the public banks stand in relative to the state banks of EU? How will the possible developments effect the sector. What will the near developments produce as threats or opportunities?

Before finding answers to many questions we should first look att the norms of EU in public bank operations. Only then we can be able to offer any suggestions.

The structure of banking sector in EU: the overall banking sector in the EU comprise many different banking activities, cultures and systems among the member states. These differences make it difficult to generalized the banking sector as a whole. When evaluated in terms of deposits per capita the banking sector seems to be saturated in Europe. The saturation ratio in North Europe is above 90%, while the same figure is around 80% in the Central European States. The same ratio in the Greece, Spain and Portugal is 50-60%.

The number of branches of the local banks also vary from country to country. The table below indicates the number of branches per capita.

**Table:5**  
**Branches of the Public Banks in the EU**

<b>Countries</b>	<b>Branch numbers</b>	<b>Population rate of Branches</b>
<b>KKTC</b>	<b>138</b>	<b>1579</b>
<b>Belçika</b>	<b>10178</b>	<b>1015</b>
<b>İspanya</b>	<b>35282</b>	<b>909</b>
<b>Lüksemburg</b>	<b>299</b>	<b>801</b>
<b>İsviçre</b>	<b>4190</b>	<b>613</b>
<b>Amanya</b>	<b>49169</b>	<b>612</b>
<b>Danimarka</b>	<b>3107</b>	<b>606</b>
<b>Fransa</b>	<b>25426</b>	<b>456</b>
<b>Hollanda</b>	<b>5520</b>	<b>365</b>



İtalya	20784	362
İsveç	3064	354
İngiltere	19771	345
İrlanda	1128	319
Portekiz	2412	234

**Resource:** Banking Regulations and Supervision of Turkey and Central Bank of TRNC

As it can be seen the number of branches in the banking sector in EU is quite adequate. The present trend is to close some of the branches and also make mergers to reduce the number of actors in the market. The number of branches in the TRNC is inadequate. This provides inconsistent services and long waiting durations for services. This situation is likely to create handicap for TRNC banking.

The structure of the public banks in EU: the share of the state finance in the general finance sector is quite high in EU. In these countries the public banks were first in the form of specialized banking institutes. The specialized banks were then turned into commercial banks. The rate of public banks in the banking sector in the different countries are shown in table 5.( Banking Regulations and Supervision of Turkey and Central Bank of TRNC)

**Table 6:**  
**Banks Actives of the Countries**

COUNTRIES	BANKS ACTIVES (%)
İngiltere	0
Fransa	42
Almanya	48
İtalya	34
İspanya	10
KKTC	38

**Resource:**Banking Regulations and Supervision of Turkey and Central Bank of TRNC

As it can be seen from the table 6 the biggest share of public banks in respect of bank actives is Germany. This country is followed by France, TRNC, Italy, and Spain. The only country that has no public banks is the Britain. As seen in the table the size of the actives of the TRNC state banks is as big as the EU countries. TRNC public banks will face no difficult in this respect.

Banking sector in EU uses high technology. KOISK banking is well developed. The paid up capital in EU is \$10 million. The banking law and regulation of EU is very high. The banking sector in TRNC is far from EU criteria. The public bank with the highest paid up capital is the Vakıf Bank which has only \$3 million dollars. The banks in TRNC are technologically far behind the EU banks. These factors will create big problems to the state banks of TRNC.

The opportunities that exist for the state banks of TRNC is that these banks will attain international recognition and they will be part of the international financial system and hence they will be able to give all the services.(www.koop.com .2003.Aug

#### **4.DEVELOPING STRATEGIES FOR THE PUBLIC BANKS**

The public banks which has a high share in the overall finance must be prepared to all the economic and political developments. Use of Turkish Lira as the legal tender make TRNC vulnerable from any crises and developments outside its boundaries, in Turkey. This situation for many years made obstacle for TRNC to achieve stable policies.

First of all the economic life must be stabilized in TRNC. The only way for this development is by finding a solution to the Cyprus problem. Another problem in TRNC that the banks as well as the other businesses are managed as family businesses. This leads to lack of stability. These organizations must be institutionalized.

Looking at the developments it is appropriate to propose that the public banks should be merged under one roof. By doing this the banks will become bigger and stronger both in size and capital. The merger will bring economy and improved services. The merger of the state banks is under the consideration of the Central Bank of TRNC.

If the merger of the banks is successful the next step should be to privatize the banks. All the services that are given by the public banks can also be given by the commercial banks.

The basic objectives of privatizations are as follows:

- reducing the state involvement in the economy
- to improve competitiveness and efficiency and enhance further liberalization of the market economy,
- to spread the capital to a wider foundation and develop capital markets.
- To reduce the burden of the state owned enterprises on the state.
- To avoid arbitrary price formation



The public owned banks have negative effect on the competition in the sector. Privatization will mean that the public banks will get into private organization and the unfair competition will end. Privatized banks will reduce the burden of these banks on the state. A research carried out in Argentina indicated that the privatized banks became more effective and gave more contribution to the economy after being privatized (Burdisso, D'amato, Molinari, 1998, pp2).

Another objective with privatization is to break the link between the politicians and the banks. It is well known that the public banks are used for political purposes. The state see the public banks as employment places and providers of low interest rate credit to the political supporters. The public banks are at extreme influence of the political powers. These banks are not being able to implement proper banking systems. This situation has many disadvantages and negative influences on the proper functioning of the public banks. There are also frequent rumors about mishandling, bribery and exploitation of these banks. Public banks also appear as obstacles for budgetary discipline.

There are basic principles for bank credits. These are known as 5C (character, capacity, capital, collateral, conditions).. financial analysis should be carried out in this respect before any credit is allocated. Strong collaterals are also required to make sure that the credits are paid back.

At the state banks the management is not able to implement the 5C principles. The management is always under political pressure to hand out credits without adequate conditions. When compared with the commercial banks the unpaid or delayed debts are greater at the public banks. The private banks guarantee themselves by taking strong collaterals. The public banks fail to achieve this. The basic reason for the public banks of failure to operate rationally is the political pressure. Privatization is the only way to end this.

The fact that the public banks lag behind in adopting the modern management and technologic developments is the bureaucratic obstacles and slow decision making

mechanism. The top management and the structure is continuously changing and this reduces the continuity in dynamism.

The public banks for all these purposes must be privatized. They will be privatized to reduce the burden on the state and become efficient and effective members of the economy.(Central Bank of TRNC)

## 5.CONCLUSION

State enterprises continued to create problems as in the past and they will continue to do so. As well as the internal shortcomings and inadequate management the political interference has also been effective for this situation.

The public banks are under difficulties and problems due to the reasons stated above. These banks need restructuring in order to improve their conditions and become effective and efficient. The only way to become efficient and effective and give proper and profitable banking services is to become privatized. By privatizing:

- since the banks are under the state ownership this situation creates unfair competition within the sector. Privatization ends the financial linkage between the state and the banks. Privatization will also mean more productive services which will reduce the losses and hence the burden on the state.
- It is known that the public banks are used as political instruments. The governments see the banks as employment places and low interest rate credit institutions to their supporters. The state banks are always at loss and they are not able to function effectively. Privatization will end this situation.
- The state banks give credits according to the political favoritism. There are always arguments that there are large amount of exploitation, bribery and mishandling. Privatization will mean the end for this.
- The internal and external audit and control is very important in the banking sector. However these functions are carried out in rather different manner. The auditing and inspection on the public banks is more relaxed. This creates greater risks at these banks. Privatization will stop the risk.

As it is known the credit is given under certain principles. These are known as 5C (character, capacity, capital, collateral, conditions).. financial analysis should be carried out in this respect before any credit is allocated. Strong collaterals are also required to make sure that the credits are paid back.



At the public banks the management is not able to implement the 5C principles. The management is always under political pressure to hand out credits without adequate conditions. When compared with the commercial banks the unpaid or delayed debts are greater at the state banks. The private banks guarantee themselves by taking strong collaterals. The public banks fail to achieve this. The basic reason for the state banks of failure to operate rationally is the political pressure. Privatization is the only way to end this.

In short the state banks should be privatized. The private banks are able to carry out the services and responsibilities of these banks. Their privatization is no loss to the economy. The privatization of the banks will also be relief to the state.

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