



- Information technology
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- Food
- Air transport
- Chemical industry
- Nuclear

# Northern Cyprus Economy **Competitiveness Report**

## 2019-2020

*Incentives and State  
Support Schemes  
at North Cyprus*

# Northern Cyprus Economy Competitiveness Report

**2019 - 2020**

Dr. Yenal Süreç  
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**Kıbrıs Türk Ticaret Odası**  
Turkish Cypriot Chamber of Commerce

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# Preface

Dear Reader,

As the Turkish Cypriot Chamber of Commerce, we are proud to publish the twelfth of the Northern Cyprus Competitiveness Report this year.

Writing the preface of this year's report coincided with the Covid-19 pandemic process. This process has once again shown us the importance of competitiveness. With this process, it is necessary to wait for the strengthening of global and regional competition and to revise the economic structures accordingly. In the first place, although this revision aims to compensate for the drop in demand due to the epidemic, to provide cash flow to the markets and to protect employment, it should aim to implement structural reforms in the medium and long term.

The pandemic process necessarily transforms businesses and the economy, along with human behaviors all over the world. It is imperative to develop economic structures that meet modern requirements, develop innovative and competitive products and offer them at an affordable quality and price. In my opinion, the new period will be such a period. In order to keep up with this, it also requires being prepared to change everything from public administration to company structures.

Competitiveness will be an important element of growth and creating added value in this new period. The ability to sell the goods and services produced in the country in high quality, at affordable prices and at competitive prices is related to competitiveness. Our resources need to be used effectively and efficiently for a competitive economy. This requires restructuring our economic structure under the leadership of advantageous sectors.

In Northern Cyprus, as an island country, doing all these will depend on restructuring our sectors that increase foreign

demand, such as the tourism, higher education and housing sectors.

The theme of this year in our Competitiveness Report is government incentives. Incentives applied to increase the functionality of the markets should be regulated and implemented in a way to create effective results. While evaluating the incentive models, inefficient resources should be avoided which cause the cost of goods and services, informality and unfair competition in our country. It is important to focus on sectors that do not make our country expensive and create added value and provide competitive advantage.

With the theme of this year, opinions and suggestions are presented on how to effectively promote incentive policies and increase country competitiveness in Northern Cyprus, where resources are limited.

There is no doubt that the importance of proper structuring of government incentives has increased in the post-pandemic process. It is necessary to ensure that scarce public resources are not wasted within an improperly structured incentive system. The views and suggestions contained in the report will also be useful guides for this restructuring process.

Dr. Yenal Süreç and Asst. Prof. Dr. Fehiman Eminer has written our report this year. I would like to thank them and everyone who contributed.

The Turkish Cypriot Chamber of Commerce will continue to be a follower of the issues raised and contribute to the formation of social dialogue channels.

Best regards,  
**Turgay Deniz,**  
**President of the Turkish Cypriot Chamber of Commerce**



# Executive Summary

The likely future economic situation of a country is shaped by today's policy preferences. For this reason, the Global Competitiveness study of the World Economic Forum is an important indicator for the executives who want to establish a forward-looking policy. This indicator shows the weaknesses and strengths of each country in comparison with other economies. It is important to read the substance of the figures thoroughly in order to take the right policies at the right time. The variables included in the Competitiveness Index not only include economic data, but also social, administrative and technical issues. Therefore the results obtained reveal the general structure such as growth, productivity growth and human development that affect the increase in the competitiveness of the country.

According to the 2019 Global Competitiveness Report prepared by the World Economic Forum, indicates that the acceleration of the global slowdown of the economic growth can be achieved by ensuring efficiency in production required for sustainable economic growth. The report reveals that the economic growth should not only be sustainable but also comprehensive, covering all segments. While revealing the importance of investing in the technologies of the future, namely R&D, it also emphasizes the necessity of policies that will create the labour force of the future. In addition to the policies, infrastructure and skills that support innovation and the importance of the culture of doing business is also revealed.

The Global Competitiveness 4.0 methodology, developed last year, has been updated this year, with minor changes. 98 variables used last year to calculate the index score were increased to 103 variables this year. While 46 of the variables under 12 Pillar are obtained through surveys to company managers, the remaining 57 variables are calculated using published statistics. While the scores of the countries are calculated over 100 as in the previous year, each section is assigned equal weight.

This year, a total of 141 countries were included in the study, Northern Cyprus was added as the 142nd country. Among 142 countries, Singapore took the first place, while USA, the first of last year, took the second place. This year, Hong Kong, the 7th of last year, took the 3rd place. Cyprus and Turkey's places remained unchanged compared to last year, 44th and 61st respectively. Far East and Pacific region countries have

achieved the best performance among regions. The fact that Singapore and Hong Kong are in the first three places reflected positively on the score of this region. The second best regions were Europe and North America, while the weakest region was, as always, Sub-Saharan African countries.

The highest performance of the countries within the Twelve Sections was realized under Pillar 4 Macroeconomic Stability and Pillar 5 Health. The lowest performance was in Pillar 12 Innovation Capacity. While the overall median score was 60, the median value of Pillar 12 Innovation Capacity remained at 42.

North Cyprus 2019-2020 period Competitiveness score was calculated as 51.8. With this score, it dropped-off to 107th place among 141 countries. Although this may seem like a serious drop-off, considering last year's score of 55.2 and 89th place, it is understood that there are several reasons behind this. The most important one of these is the considerable increase in 2018 inflation rate compared to the previous year. The fact that there are only two variables under the Pillar 4 Macroeconomic Stability, and inflation being one of them, dropped the country's score from 70.3 to 27.9. The reflection of this drop-off on the total country score was 3.4 points, which is equal to the difference between last year's and this year's score.

The most successful section of this year was in Pillar 3 Information and Information Technologies and Pillar 5 Health. While the Information and Information Technologies score was 71.8 out of 100, the score of Health was 71.1. The weakest performance rated was Pillar 10 Market Size with a score of 22.8, Pillar 4 Macroeconomic Stability with 27.9 and Pillar 12 Innovation Capacity with 32.7.

The theme of this year's report has been identified as "Incentives and State Supports in North Cyprus". Various incentive policies implemented at different times by governments in North Cyprus in order to develop the economy of the country and to increase investment, production, employment, and exports were analysed and their effectiveness was examined. As part of the study, Investment Incentives, Employment Incentives, Agricultural Incentives, Export Incentives and government subsidies in different sectors were scrutinized. While the information about the applications was compiled through face-to-face interviews

with representatives of the institutions providing incentives during the study, analyses were made using the limited data provided and the reports and statistics published. In addition, comparisons were made with the global practices and the practices in the European Union. As a result, opinions and recommendations on how the incentive policies implemented in North Cyprus, a country with limited resources, can allocate scarce resources in the most effective way and how they can increase country competitiveness, are presented in the conclusion and recommendations part.

During the study, data and opinions were compiled through interviews with representatives of many institutions. It should be noted that there is no sensible data available in many areas and yet there are difficulties in sharing the existing data. In this digital era, the fact that many public institutions is not publishing statistics over the internet, is an important obstacle not only for this research study but also for other researchers.

As a conclusion, there is a need to organize and implement incentives and support practices, which means a kind of state intervention to the markets in cases where they are not functioning properly, in the best manner to achieve the most effective results. In order for such incentives and support practices to be effective and successful, it is important that it is managed either by a single authority or by a limited number of institutions with a well-established coordination.

In addition, the supports and incentives provided should have measurable results and it should be possible to actively change, develop or cancel them as a result of a monitoring organised at specific intervals to measure whether they produce purposeful results. Tax exemptions and reductions, which are the most widely used support type in North Cyprus, should be granted for certain periods, not indefinitely. In addition, the approximate annual tax loss resulting from tax exemptions should be calculated and included in the budget in the form of tax expenditures. By this way, the budget which has limited resources and has serious financing problems with the decrease in the budget contribution from Turkey, will be used more effectively.

It is estimated that the economic decline as a result of the 2018 economic recession in North Cyprus will worsen in 2019. The fact that the productivity is not increasing which is an important barrier on economic growth. Due to this constraint, supports in the economy should be measured and resources must be allocated to the areas with higher efficiency not the inefficient ones. This type of policy changes can contribute to sustainable economic growth.

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European University of Lefke

# North Cyprus 107<sup>th</sup> / 141

Global Competitiveness Index 4.0

2019 edition

Rank in 2018 edition : 89th/140

Performans

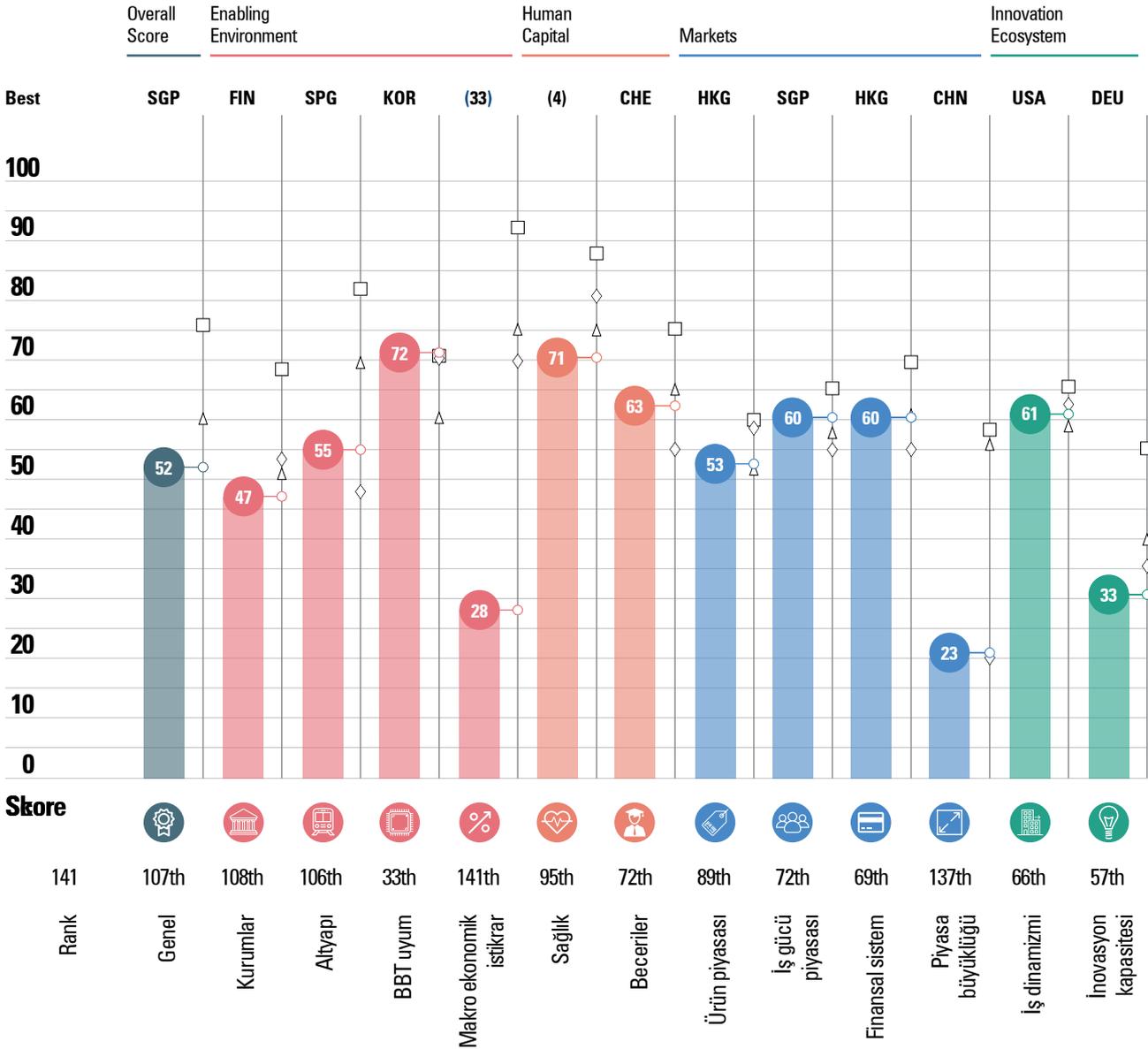
Key

◊ Previous edition

△ Upper middle income group average

□ Europe and North America average

Overview 2018



## Selected contextual indicators

Population (thousand)	372	GDP (PPP) % world GDP	0,0097
GDP per capita (US\$)	13,277	Unemployment rate (%)	6.9
10-year average annual GDP growth (%)	2.6		

# North Cyprus 107<sup>th</sup> / 141

## Economy Profile

INDEX COMPONENT	VALUE	SCORE**		RANK	BEST PERFORMER
 <b>1st pillar: Institutions</b> 0-100	-	<b>46,8</b>	↓	<b>108</b>	<b>Finland</b>
<b>Security 0-100</b>	-	<b>75,2</b>	↓	<b>66</b>	<b>Finland</b>
1.01 Organized crime 1-7 (best)	4,02	50,3	↓	103	Finland
1.02 Homicide rate per 100,000 pop.*	2,00	94,9	↑	64	Multiple (14)
1.03 Terrorism incidence 0 (very high) - 100 (no incidence)*	100,00	100,0	=	1	Multiple (25)
1.04 Reliability of police services 1-7 (best)	4,34	55,7	↓	70	Finland
<b>Social Capital 0-100</b>	-	<b>n/a</b>		<b>n/a</b>	<b>New Zealand</b>
1.05 Social capital 0-100 (best)*	n/a	n/a		n/a	New Zealand
<b>Checks and balances 0-100</b>	-	<b>46,0</b>	↓	<b>88</b>	<b>Finland</b>
1.06 Budget transparency 0-100 (best)*	n/a	n/a		n/a	Multiple (2)
1.07 Judicial independence 1-7 (best)	3,66	44,3	↓	74	Finland
1.08 Efficiency of legal framework in challenging regulations 1-7 (best)	2,41	23,5	↓	126	Finland
1.09 Freedom of the press 0-100 (worst)*	29,67	70,3	↑	62	Norway
<b>Public-sector performance 0-100</b>	-	<b>33,0</b>	↓	<b>128</b>	<b>Singapore</b>
1.10 Burden of government regulation 1-7 (best)	3,27	37,8	↓	82	Singapore
1.11 Efficiency of legal framework in settling disputes 1-7 (best)	2,69	28,2	↓	120	Singapore
1.12 E-Participation 0-1 (best)*	n/a	n/a		n/a	Multiple (3)
<b>Transparency 0-100</b>	-	<b>n/a</b>		<b>n/a</b>	<b>Denmark</b>
1.13 Incidence of corruption 0-100 (best)*	n/a	n/a		n/a	Denmark
<b>Property rights 0-100</b>	-	<b>50,8</b>	↑	<b>51</b>	<b>Finland</b>
1.14 Property rights 1-7 (best)	4,19	53,2	↑	79	Finland
1.15 Intellectual property protection 1-7 (best)	3,85	47,5	↑	82	Finland
1.16 Quality of land administration 0-30 (best)*	15,50	51,7	↓	73	Multiple (5)
<b>Corporate governance 0-100</b>	-	<b>42,8</b>	↓	<b>123</b>	<b>New Zealand</b>
1.17 Strength of auditing and reporting standards 1-7 (best)	2,88	31,3	↓	136	<b>Finland</b>
1.18 Conflict of interest regulation 0-10 (best)*	6,00	60,0	↓	53	Kenya
1.19 Shareholder governance 0-10 (best)*	3,70	37,0	↓	112	Kazakhstan
<b>Future orientation of government 0-100</b>	-	<b>32,9</b>		<b>135</b>	<b>Luxembourg</b>
1.20 Government ensuring policy stability 1-7 (best)	2,82	30,3		125	Switzerland
1.21 Government's responsiveness to change 1-7 (best)	3,07	34,5		102	Singapore
1.22 Legal framework's adaptability to digital business models 1-7 (best)	3,43	40,5		85	United States
1.23 Government long-term vision 1-7 (best)	2,58	26,3		128	Singapore
1.24 Energy efficiency regulation 0-100 (best)*	n/a	n/a		n/a	Italy
1.25 Renewable energy regulation 0-100 (best)*	n/a	n/a		n/a	Germany
1.26 Environment-related treaties in force (count out of 29)*	n/a	n/a		n/a	Multiple (6)
 <b>2nd pillar: Infrastructure</b> 0-100	-	<b>55,2</b>	↑	<b>106</b>	<b>Singapore</b>
<b>Transport infrastructure 0-100</b>	-	<b>28,0</b>	↑	<b>134</b>	<b>Singapore</b>
2.01 Road connectivity index 0-100 (best)*	n/a	n/a		n/a	Multiple (3)
2.02 Quality of road infrastructure 1-7 (best)	2,19	19,8	↑	135	Singapore
2.03 Railroad density km of roads/square km*	n/a	n/a		n/a	Multiple (24)
2.04 Efficiency of train services 1-7 (best)	n/a	n/a		n/a	Japan
2.05 Airport connectivity score*	19,21	9,6	↑	127	Multiple (8)
2.06 Efficiency of air transport services 1-7 (best)	3,77	46,2	↑	106	Singapore
2.07 Liner Shipping Connectivity 0-100 (best)*	n/a	n/a		n/a	Multiple (5)
2.08 Efficiency of seaport services 1-7 (best)	3,19	36,5	↑	102	Singapore
<b>Utility infrastructure 0-100</b>	-	<b>82,4</b>	↑	<b>79</b>	<b>Iceland</b>
2.09 Electricity access % of population*	100,00	100,0	=	1	Multiple (67)
2.10 Electric supply quality % of output*	6,66	97,2	↓	35	Multiple (10)
2.11 Exposure to unsafe drinking water % of population*	n/a	n/a		n/a	Multiple (28)
2.12 Reliability of water supply 1-7 (best)	4,00	50,0	↑	103	Iceland
 <b>3rd pillar: ICT adoption</b> 0-100	-	<b>71,8</b>	↑	<b>33</b>	<b>Korea, Rep.</b>
3.01 Mobile-cellular telephone subscriptions per 100 pop.*	131,38	100,0	=	42	Multiple (63)
3.02 Mobile-broadband subscriptions per 100 pop.*	96,80	100,0	=	35	United Arab Emirates
3.03 Fixed-broadband Internet subscriptions per 100 pop.*	56,50	100,0	=	1	Switzerland
3.04 Fibre Internet subscriptions per 100 pop.*	0,02	2,2	↑	102	Korea, Rep.
3.05 Internet users % of adult population*	56,61	56,5	↑	91	Qatar

INDEX COMPONENT	VALUE	SCORE**		RANK	BEST PERFORMER
 <b>4th pillar: Macroeconomic stability</b> 0-100	-	<b>27,9</b>	↓	<b>141</b>	<b>Multiple (33)</b>
4.01 Inflation %*	29,96	27,9	↓	138	Multiple (88)
4.02 Debt dynamics 0-100 (best)*	n/a	n/a		n/a	Multiple (34)
 <b>5th pillar: Health</b> 0-100	-	<b>71,1</b>	↓	<b>95</b>	<b>Multiple (4)</b>
5.01 Healthy life expectancy years*	66,30	71,1	↓	56	Multiple (4)
 <b>6th pillar:</b> 0-100	-	<b>62,5</b>	↑	<b>72</b>	<b>Switzerland</b>
<b>Current workforce 0-100</b>	-	n/a		n/a	Switzerland
6.01 Mean years of schooling years*	n/a	n/a		n/a	Germany
Skills of current workforce 0-100	-	37,5	=	135	Switzerland
6.02 Extent of staff training 1-7 (best)	3,06	34,3	↓	133	Switzerland
6.03 Quality of vocational training 1-7 (best)	2,78	29,7	↓	139	Switzerland
6.04 Skillset of graduates 1-7 (best)	3,55	42,5	↓	104	Switzerland
6.05 Digital skills among active population 1-7 (best)	3,79	46,5	↑	92	Finland
6.06 Ease of finding skilled employees 1-7 (best)	3,07	34,5	↑	138	United States
<b>Future workforce 0-100</b>	-	<b>88,9</b>	↑	<b>8</b>	<b>Denmark</b>
6.07 School life expectancy years*	16,00	88,9	↑	18	Multiple (11)
<b>Skills of future workforce 0-100</b>	-	<b>63,0</b>	↑	<b>55</b>	<b>Denmark</b>
6.08 Critical thinking in teaching 1-7 (best)	2,56	26,0	↑	127	Finland
6.09 Pupil-to-teacher ratio in primary education ratio*	8,60	100,0	↑	1	Multiple (5)
 <b>7th pillar: Product market</b> 0-100	-	<b>52,7</b>	↓	<b>89</b>	<b>Hong Kong SAR</b>
<b>Domestic competition 0-100</b>	-	<b>40,6</b>	↓	<b>127</b>	<b>Hong Kong SAR</b>
7.01 Distortive effect of taxes and subsidies on competition 1-7 (best)	3,86	47,7	↑	59	Singapore
7.02 Extent of market dominance 1-7 (best)	3,04	34,0	↑	122	Switzerland
7.03 Competition in services 1-7 (best)	3,41	40,2	↓	138	Hong Kong SAR
<b>Trade openness 0-100</b>	-	<b>63,1</b>	↓	<b>36</b>	<b>Singapore</b>
7.04 Prevalence of non-tariff barriers 1-7 (best)	3,02	33,7	↓	140	Singapore
7.05 Trade tariffs %*	1,11	92,6	↓	34	Hong Kong SAR
7.06 Complexity of tariffs 1-7 (best)*	n/a	n/a		n/a	Hong Kong SAR
7.07 Border clearance efficiency 1-5 (best)*	n/a	n/a		n/a	Germany
 <b>8th pillar: Labour market</b> 0-100	-	<b>59,7</b>	↑	<b>72</b>	<b>Singapore</b>
<b>Flexibility 0-100</b>	-	<b>62,3</b>	↑	<b>43</b>	<b>Singapore</b>
8.01 Redundancy costs weeks of salary*	5,00	97,9	↑	13	Multiple (8)
8.02 Hiring and firing practices 1-7 (best)	3,81	46,8	↑	72	Hong Kong SAR
8.03 Cooperation in labour-employer relations 1-7 (best)	4,78	63,0	↑	40	Singapore
8.04 Flexibility of wage determination 1-7 (best)	5,54	75,7	↑	24	Estonia
8.05 Active labour market policies 1-7 (best)	3,45	40,8	=	64	Switzerland
8.06 Workers' rights 0-100 (best)*	n/a	n/a		n/a	Multiple (2)
8.07 Ease of hiring foreign labour 1-7 (best)	4,18	53,0	↑	59	Albania
8.08 Internal labour mobility 1-7 (best)	4,55	59,2	↑	58	United States
<b>Meritocracy and incentivization 0-100</b>	-	<b>57,1</b>	↑	<b>95</b>	<b>Denmark</b>
8.09 Reliance on professional management 1-7 (best)	3,23	37,2	↑	132	Finland
8.10 Pay and productivity 1-7 (best)	4,19	53,2	↑	51	Hong Kong SAR
8.11 Ratio of wage and salaried female workers to male workers %*	0,57	46,3	↑	89	Multiple (4)
8.12 Labour tax rate %*	14,00	91,7	=	61	Multiple (24)
 <b>9th pillar: Financial system</b> 0-100	-	<b>60,2</b>	↑	<b>69</b>	<b>Hong Kong SAR</b>
<b>Depth 0-100</b>	-	<b>42,4</b>	↓	<b>59</b>	<b>United States</b>
9.01 Domestic credit to private sector % GDP*	75,45	79,4	↓	42	Multiple (30)
9.02 Financing of SMEs 1-7 (best)	3,25	37,5	↑	113	Finland
9.03 Venture capital availability 1-7 (best)	2,39	23,2	↑	117	United States
9.04 Market capitalization % GDP*	n/a	n/a		n/a	Multiple (15)
9.05 Insurance premium volume to GDP*	1,77	29,5	↓	61	Multiple (17)
<b>Stability 0-100</b>	-	<b>77,9</b>	↑	<b>125</b>	<b>Finland</b>
9.06 Soundness of banks 1-7 (best)	3,67	44,5	↑	122	Finland
9.07 Non-performing loans % of gross total loans*	5,85	89,2	↑	81	Multiple (3)
9.08 Credit gap %*	n/a	n/a		n/a	Multiple (98)
9.09 Banks' regulatory capital ratio % of total risk-weighted assets*	17,77	100,0	=	57	Multiple (74)

 <b>10th pillar: Market size 0-100</b>	-	<b>22,8</b>	=	<b>137</b>	<b>China</b>
10.01 Gross domestic product PPP \$ billions*	4,89	n/a		138	China
10.02 Imports of goods and services % GDP	47,27	n/a		62	Hong Kong SAR
 <b>11th pillar: Business dynamism 0-100</b>	-	<b>60,9</b>	↓	<b>66</b>	<b>United States</b>
<b>Administrative requirements 0-100</b>	-	<b>80,3</b>	↓	<b>38</b>	<b>United States</b>
11.01 Cost of starting a business % of GNI per capita*	27,70	86,2	↓	116	Multiple (2)
11.02 Time to start a business days*	26,00	74,4	=	114	New Zealand
11.03 Insolvency recovery rate cents to the dollar*	n/a	n/a		n/a	Japan
11.04 Insolvency regulatory framework 0-16 (best)*	n/a	n/a		n/a	Multiple (6)
<b>Entrepreneurial culture 0-100</b>	-	<b>41,5</b>	↑	<b>121</b>	<b>Israel</b>
11.05 Attitudes towards entrepreneurial risk 1-7 (best)	3,18	36,3	↓	130	Israel
11.06 Willingness to delegate authority 1-7 (best)	4,10	51,7	↑	87	Denmark
11.07 Growth of innovative companies 1-7 (best)	3,58	43,0	↑	102	Israel
11.08 Companies embracing disruptive ideas 1-7 (best)	3,10	35,0	↓	124	Israel
 <b>12th pillar: Innovation capability 0-100</b>	-	<b>32,7</b>	↓	<b>136</b>	<b>Germany</b>
<b>Interaction and diversity 0-100</b>	-	<b>42,0</b>	↑	<b>59</b>	<b>Singapore</b>
12.01 Diversity of workforce 1-7 (best)	4,01	50,2	↑	106	Singapore
12.02 State of cluster development 1-7 (best)	3,38	39,7	↑	98	Italy
12.03 International co-inventions per million pop.*	n/a	n/a		n/a	Multiple (5)
12.04 Multi-stakeholder collaboration 1-7 (best)	3,18	36,3	↑	111	Israel
<b>Research and development 0-100</b>	-	<b>32,0</b>	↓	<b>57</b>	<b>Japan</b>
12.05 Scientific publications score*	52,00	57,0	↓	134	Multiple (9)
12.06 Patent applications per million pop.*	16,11	7,0	↓	32	Multiple (8)
12.07 R&D expenditures % GDP*	n/a	n/a		n/a	Multiple (7)
12.08 Research institutions prominence 0-100 (best)*	n/a	n/a		n/a	Multiple (7)
<b>Commercialization 0-100</b>	-	<b>24,1</b>	↑	<b>134</b>	<b>Luxembourg</b>
12.09 Buyer sophistication 1-7 (best)	3,25	37,5	↑	85	Korea, Rep.
12.10 Trademark applications per million pop.*	1165,14	10,7	↑	51	Multiple (7)

\* Hard Data

\*\* Scores on a 0 to 100 scale where represents the optimal situation or frontier. Arrows indicate the direction of the change in score from the previous edition if available.

# INTRODUCTION

*Global Developments: Impact of Climate Changes and Rising Environmental Risks on the Economies*

*Towards Budgets with More Local Sources*

## **Global Developments: Impact of Climate Changes and Rising Environmental Risks on the Economies**

Since the start of the crisis with Lehman Brothers, pre-crisis growth figures could not be reached anywhere in the world. Within this last decade world leading central banks injected nearly \$10 trillion to markets however productivity and growth have not increased. Eventhough the many central banks are also applying negative interest rates but neither the investments nor the growth rates are not increasing. Its a kind of “liquidity trap” the World is experiencing. The fact that markets no longer respond to such monetary policies reveals the importance of structural and fiscal policies for sustainable growth. In this period, governments have to turn to fiscal policies and structural policies as a way of increasing efficiency. Although borrowing was cheap in this period, governments also avoided additional borrowing for investment due to their excessive debt structures, which also prevented an increase in productivity.

The slowdown in international trade due to trade wars between China and the USA, and the recent Corona virus outbreak in China slowed down the global economic growth. It is also expected to shrink further with the recession in the Chinese economy as a result of reduction in economic and social activities mainly in China. With the panic and anxiety caused by the epidemic, production and consumption in China have come to a halt. Since all countries have somehow ties with the Chinese economy, the recession is gradually contaminating to other economies. The economies importing many intermediate goods produced in China and the countries that supply to China have also come to a point to cut production. As a result of the this ambiguous situation the global outlook has become quite unclear.

In addition to the negative impact of the epidemic, the world seems to have made a transition to such a period that when we talk about the global economy, it seems that it will not be enough to talk about only economic developments, and we have to talk about the economic and social aspects of environmental developments. As the main theme of this year's Global Competitiveness Report of the World Economic Forum, the environmental factors, indicate the increasing importance of the climate and environment on social and economic life. Global warming and related climate changes caused widespread forest fires, floods, tropical storms and business losses due to drought in different geographies. It is not possible to predict

these results by looking at the historical data, because the latest natural events has no historical data. An important finding is stated in the Global Competitiveness Report and it says “People under the age of 60 are expected to experience more natural (warming), social (migration) and economic (famine) effects due to climate changes in the coming years”. Therefore, it is emphasized that economic policies can no longer be treated independently of social and environmental policies. In recent years, serious flood incidents even in North Cyprus have brought the economic and social costs of environmental effects of climate change to our attention. In addition to the damage caused by the raids on the facilities, equipment and inventories of the enterprises, loss of lives also indicates the need for urgent and serious measures in urbanization as well as infrastructural investments.

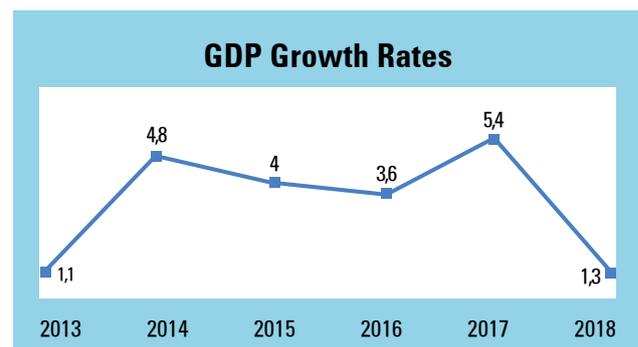
On the other hand, geopolitical tensions and risks prevent the international investment, cooperation and trade potential from being realized properly. Terrorism threatens global stability with immigration creating inequality between regions as well as the global conflict like China and the USA. Regional instabilities in Iran, Yemen, and Somalia and especially in the Middle East and Eastern Mediterranean, can create uncertainties by generating threats both on energy transmission and the flow of maritime trade. For all these reasons, it should be understood that global problems cannot be resolved with individual policies and attempts. More collaboration and coordinated policies are needed in the coming period.

An investment-led growth is very important. With the developing technology and digitalization, there is a need for the transformation of the human capital as well. In this context, fiscal policies should be in place with structural reforms to encourage innovation. In addition policies supporting workforce-transformation, R&D and new technology development supports can trigger dynamic businesses to stimulate growth.

### Towards Budgets with More Local Sources

North Cyprus economy which is partly affected by global developments, is more open to the impacts of the Turkish lira and Turkey's economic performance. For example, excessive depreciation of TL experienced in 2018 caused the inflation rate to increase rapidly, and the inflation rate, which was reached up to 30 percent level, which affected both consumer and producer prices. These developments

in inflation causes other negative macroeconomic impacts as well. North Cyprus economy grew by an average of 3.4 percent in 2013-2018, but growth in 2018 remained below the forecasts of 1.3 percent. Although the estimated growth for the year 2019 was 1.9 percent but a growth below this rate is expected. Depreciation of Turkish Lira also increased energy cost, agricultural support budget and other sectors due to imported input costs. Consumer prices increased sharply during this period as most of the consumer goods are mostly imported.



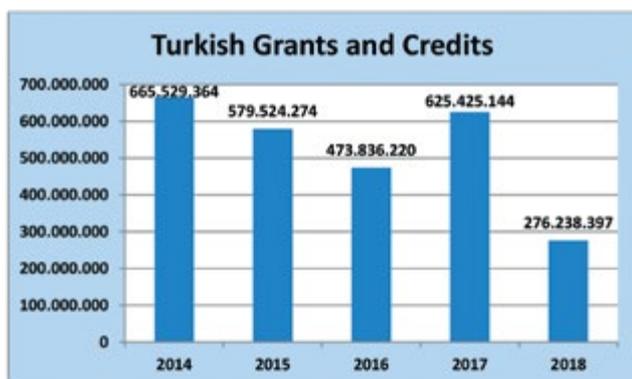
While the export capacity of the economy remains between 100-120 million dollars, the imports are mainly financed through the export of tourism and higher education services. But the fact that this sector's main market is Turkey and the devaluation of the Turkish Lira is affecting the Turkish Household average income and purchasing power negatively as well. However, the devaluation of TL in 2018 has met some of the economy's resource needs through the increased demand for TC services over the Green Line. Mainly the restaurants, entertainment and maintenance services, as well as the fuel which are relatively cheaper in the North, increased the volume of trade between North and South over the Green Line. Highly taxed fuel sales increase have helped to the financing of public expenditures in this period where the supply of funds from Turkey was not transferred fully.

Even though the economy of North Cyprus gave a budget surplus of 53.4 million TL in 2018 ( 0.29% of GDP), investments planned to be implemented through project-based grant programs could not be implemented. This had a negative impact on economic growth. North Cyprus public sector and budget expenditures are an important resource provider due to the insufficient private investments. There is more requirement to use the limited budget resources effectively in this period. Therefore resource allocation should be revised in a way to ensure effectiveness. Public debt stock is around 124 percent of GDP and

it is witnessed that recently, there have been serious increases in debt amounts of municipalities shown with delays in salary payments. Although it is emphasized that public expenditures should be reduced in order to ensure budgetary discipline, it is necessary to search for ways to increase tax revenues together with justice and efficiency.

The public expenditures has to be revised in terms of appropriate allocation. Similarly, there is a need to transfer public expenditures towards investment expenditures rather than current expenditures. It is clear that the infrastructure is not sufficient to meet the growing population and developing needs. From transportation to health and from education to energy, there is serious infrastructural deterioration and serious deficiencies in both the quality and content of the services provided. For these reasons, there is a need to allocate the scarce resources of the public to the suitable areas. In addition, activating the private sector investments to the required areas must be supported with necessary incentive policies. The state should seek ways to address the investment gap with public private partnerships and by putting support and incentive instruments into effect. However, there is great importance in measuring the effects of incentive and support policies to be implemented and adapting them to changing market conditions. While it is obvious that every investment expenditure will not contribute to the economy at the same extent however scarce resources should be directed in the most effective way.

youth employment in the labor market. However, today it is important not only to increase the employment rate or reduce unemployment, but also to improve and diversify the skills of the workforce. Workforce have to be equipped with more technological capacity and awareness. The employment policies implemented in North Cyprus are in line with the necessities of the era. There are also some practices to provide state support to training programs to be provided by the employer for lifelong education. At this point, it should be noted that employment has an important role in productivity and that sustainable economic growth can only be achieved through trained workforce.



\*The grant awarded for defence is not included. Credits are included as supports to public finance.

The economic recession in 2018 caused an increase in the unemployment rate. The unemployment rate, which was 5.8 percent in 2017, went up to to 6.9 percent in 2018. Considering the employment structure of North Cyprus, low labor force participation rate and higher unemployment rate especially among women and youth is noteworthy. For this reason, support programs are implemented to increase female and



# Northern Cyprus and Global Competitiveness

*Global and Regional  
Competitiveness Performances*

*Competitiveness Methodology*

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## **Global and Regional Competitiveness Performances**

The Global Competitiveness 4.0 Index, which was developed last year, was named after the Industry 4.0. The reason behind this is the important role played by the selected components in digital transformation and therefore, indirectly on efficiency. For this reason, countries that have adapted their existing structures and policies to digital transformation achieve higher competitiveness scores.

Among 141 countries, Singapore took the first place in Competitiveness with 84.4 points, and again took the first places in 4 of the 12 pillars (infrastructure, health, labour market and financial markets). Singapore, which is becoming a global innovation centre, is expected to further develop its entrepreneurship and skill bases. Although this small country was in the second place last year and top three for many years it still has aspects to develop despite its high scores. This shows us how the structure of competitiveness is developing but there is a room for progress for each country. USA, the first of last year, took the second place this year. Additionally, it was ranked first in innovation capacity and business dynamism, which are important aspects of competitiveness. Switzerland has fallen from 4th to 5th place, Japan from 5th to 6th place, and Germany from 3rd to 7th place. Among the progressive countries of this year, Hong Kong has ascended from the 7th to the 3rd place and accomplished a significant progress. The Netherlands has ascended from 6th to 4th and South Korea from 15th to 13th. China has shown the best performance among the emerging economies (28th place), while Russia and Turkey have maintained their places as 43rd and 61st and Brazil has moved to 72nd from 73rd place. India, which is one of the fastest growing economies, has dropped-off to 68th place from 58th.

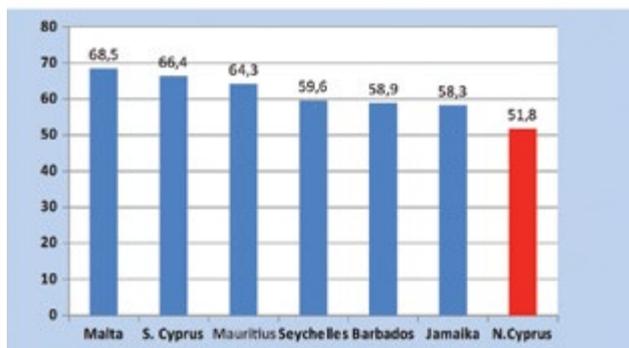
Looking at the regional performances, Far East and Pacific countries have shown the best performances with the influence of Singapore and Hong Kong. Following Far East and Pacific, Europe and North America were ranked as the second best region. The best performance in the Middle East geography was achieved by Israel with 20th place, followed by United Arab Emirates, Qatar and Bahrain as 25th, 29th and 45th respectively. Iran, which ranked 90th last year, has dropped-off to 99th place this year. The most important advantages of the countries in this region have been identified as advanced level of information technology and infrastructure equipment. However, these countries need to diversify their human resources to increase their efficiency. The median score of 39 countries of Europe and

North America region was 70.9 and was the best regional performance following East Asia. Bosnia and Herzegovina has shown the weakest performance in Europe and North America region and took 54.7 points. In 2019, Turkey showed some progress in some Pillars while falling back in some other pillars, however it maintained its 61st place as in the previous year. The biggest improvement of Turkey was in Compliance with Information and Information Technology pillars, with a +4.3 points increase which took the 69th place. In addition, Turkey has increased its score and ranks in infrastructure and labour markets pillars and experienced a drop-off in the pillar 6, Skills.

While Argentina from South America, has the most regressive graphic in the global ranking, it took the 138th place in the macroeconomic stability title with its inflation exceeding 30%. Another country with a regressive trend is India. Although its overall score dropped only 0.7 points, India has fallen from 58th place to 68th when the countries around it partially increased their performances. In addition, it was placed below 100th place in five of the twelve pillars. Mauritius from Africa has shown the best performance and took 52nd place with 64.3 points. Again from Africa, South Africa has risen 7 places and ranked 60th. South Africa has the strongest financial system and transportation infrastructure in the region. However, it took really low scores in labour market and skills pillars.

Performances of small island states is also quite satisfactory contrary to their small domestic markets as well as prone to natural disasters and risks. Malta as a member of European Union had the highest score followed by Cyprus who is another EU member island state. Seychelles as the most striking figure of last years index has fallen two places this year but succeeded to sustain the median score of 60.

Figure 1: Small Island States



The lowest score recorded among all Pillars was in Pillar 12 Innovation Capacity. Even the developed economies achieved the lowest scores in this Pillar. In this Pillar,

only 4 countries were able to get a score above 80 points and only a quarter of the countries were able to get a score above 50 points. This shows how much effort is still needed to improve the innovation capacity of the countries. Furthermore, the development of innovation capacity with technology is considered as the only condition that can increase efficiency. Moreover, governments are expected to develop appropriate measures and regulations, taking into account the impact of technology on the economy, individuals and society. In this context, there is a need for practices that will improve the necessary skills of the labour force. In addition, what needed is well-functioning labour markets and approaches focusing on workers rather than the work itself.

### Competitiveness Methodology

As mentioned in last year's report, the concepts that stand out in the new methodology were determined as flexibility, agility and readiness for the future and the variables were updated to measure these concepts. The update not only affected the content but also the scoring method. Instead of scoring according to the developmental stages of countries, each country is scored with equal weight and out of 100 points from each variable under 12 Pillars. The number of variables included in the index calculation has also been changed this year. 98 variables used last year to calculate the index score were increased to 103 variables this year. In addition, as in previous years, some of the 103 variables used were made with the answers from the managers via the questionnaire and some of them were compiled from the published statistics. While the number of variables obtained through the survey was 34 in the past year, this number was increased to 46 this year. The remaining 57 variables are tried to be obtained from ready data or through calculations. However, because the statistics kept in North Cyprus are mostly conventional data and since there is no memberships in international institutions due to unrecognition, some statistics included in the calculation of the index are not produced and therefore are not included in the calculations.

The number of sections within which the 103 variables are grouped and reviewed under 12 Pillars as in previous years. As a result of the increase in the number of variables, the number of variables under some sections has been renewed or changed. Variables are grouped in four main sections according to their functions. The first section is "Enabling Environment". There are four Pillars under this section. These are Pillar 1-Institutions, Pillar 2- Infrastructure, Pillar

# The Global Competitiveness Index 4.0 2019 Rankings

Difference from 2018					Difference from 2018					Difference from 2018				
Rank	Economy	Score 1	Rank	Skor	Rank	Economy	Score 1	Rank	Score	Rank	Economy	Score 1	Rank	Score
1	Singapore	84,8	+1	+1.3	51	Romania	64,4	+1	+0.9	101	Honduras	52,7	-	+0.2
2	United states	83,7	-1	-2.0	52	Mauritius	64,3	-3	+0.5	102	Mongolia	52,6	-3	-0.1
3	Hong Kong SAR	83,1	+4	+0.9	53	Oman	63,6	-6	-0.8	103	El Salvador	52,6	-5	-0.2
4	Netherlands	82,4	+2	-	54	Uruguay	63,5	-1	+0.8	104	Tajikistan	52,4	-2	+0.2
5	Switzerland	82,3	-1	-0.3	55	Kazakhstan	62,9	+4	+1.1	105	Bangladesh	52,1	-2	-
6	Japan	82,3	-1	-0.2	56	Brunei Darrusalam	62,8	+6	+1.3	106	Cambodia	52,1	+4	+1.9
7	Germany	81,8	-4	-1.0	57	Colombia	62,7	+3	+1.1	107	Bolivia	51,8	-2	+0.4
8	Sweden	81,2	+1	-0.4	58	Azerbaijan	62,7	+11	+2.7	107	North Cyprus	51,8	-18	-3.4
9	United Kingdom	81,2	-1	-0.8	59	Greece	62,6	-2	+0.5	108	Nepal	51,6	+1	+0.8
10	Denmark	81,2	-	+0.6	60	South Africa	62,4	+7	+1.7	109	Nicaragua	51,5	-5	-
11	Finland	80,2	-	-	61	Turkey	62,1	-	+0.5	110	Pakistan	51,4	-3	+0.3
12	Taiwan, China	80,2	+1	+1.0	62	Costa Rica	62,0	-7	-0.1	111	Ghana	51,2	-5	-0.1
13	Korea, Rep.	79,6	+2	+0.8	63	Croatia	61,9	+5	+1.8	112	Cape Verde	50,8	-1	+0.6
14	Canada	79,6	-2	-0.3	64	Philippines	61,9	-8	-0.3	113	Lao PDR	50,1	-1	+0.8
15	France	78,8	+2	+0.8	65	Peru	61,7	-2	+0.4	114	Senegal	49,7	-1	+0.7
16	Australia	78,7	-2	-0.1	66	Panama	61,6	-2	+0.6	115	Uganda	48,9	+2	+2.1
17	Norway	78,1	-1	-0.1	67	Viet Nam	61,5	+10	+3.5	116	Nigeria	48,3	-1	+0.8
18	Luxembourg	77,0	+1	+0.4	68	India	61,4	-10	-0.7	117	Tanzania	48,2	-1	+1.0
19	New Zealand	76,7	-1	-0.8	69	Armenia	61,3	+1	+1.4	118	Cote d'Ivoire	48,1	-4	+0.6
20	Israel	76,7	-	+0.1	70	Jordan	60,9	+3	+1.6	119	Gabon	47,5	n/a	n/a
21	Austria	76,6	+1	+0.3	71	Brazil	60,9	+1	+1.4	120	Zambia	46,5	-2	+0.5
22	Belgium	76,4	-1	-0.2	72	Serbia	60,9	-7	-	121	Eswatini	46,4	-1	+1.1
23	Spain	75,3	+3	+1.1	73	Montenegro	60,8	-2	+1.2	122	Guinea	46,1	+4	+2.9
24	Ireland	75,1	-1	-0.6	74	Georgia	60,6	-8	-0.3	123	Cameroon	46	-2	+0.9
25	United Arab Emirates	75,0	+2	+1.6	75	Morocco	60,0	-	+1.5	124	Gambia	45,9	-5	+0.5
26	Iceland	74,7	-2	+0.2	76	Seychelles	59,6	-2	+1.1	125	Benin	45,8	-2	+1.4
27	Malaysia	74,6	-2	+0.2	77	Barbados	58,9	n/a	n/a	126	Ethiopia	44,4	-4	-0.1
28	China	73,9	-	+1.3	78	Dominican Republic	58,3	+4	+0.9	127	Zimbabwe	44,2	+1	+1.6
29	Qatar	72,9	+1	+1.9	79	Trinidad and Tobago	58,3	-1	+0.4	128	Malawi	43,7	+1	+1.3
30	Italy	71,5	+1	+0.8	80	Jamaica	58,3	-1	+0.4	129	Mali	43,6	-4	-
31	Estonia	70,9	+1	+0.2	81	Albania	57,6	-5	-0.5	130	Burkina Faso	43,4	-6	-0.5
32	Czech Republic	70,9	-3	-0.3	82	North Macedonia	57,3	+2	+0.7	131	Lesotho	42,9	-1	+0.6
33	Chile	70,5	-	+0.3	83	Argentina	57,2	-2	-0.3	132	Madagascar	42,9	n/a	n/a
34	Portugal	70,4	-	+0.2	84	Sri Lanka	57,1	+1	+1.1	133	Venezuela	41,8	-6	-1.3
35	Slovenia	70,2	-	+0.6	85	Ukraine	57,0	-2	-	134	Mauritania	40,9	-3	+0.1
36	Saudi Arabia	70,0	+3	+2.5	86	Moldova	56,7	+2	+1.2	135	Burundi	40,3	+1	+2.7
37	Poland	68,9	-	+0.7	87	Tunisia	56,4	-	+0.8	136	Angola	38,1	+1	+1.1
38	Malta	68,5	-2	-0.2	88	Lebanon	56,3	-8	-1.4	137	Mozambique	38,1	-4	-1.7
39	Lithuania	68,4	+1	+1.2	89	Algeria	56,3	+3	+2.5	138	Haiti	36,3	-	-0.1
40	Thailand	68,1	-2	+0.6	90	Ecuador	55,7	-4	-0.1	139	Congo	36,1	-4	-2.1
41	Latvia	67,0	+1	+0.7	91	Bostwana	55,5	-1	+1.0	140	Yemen	35,5	-1	-0.9
42	Slovak Republic	66,8	-1	-0.1	92	Bosnia and Herzegovina	54,7	-1	+0.6	141	Chad	35,1	-1	-0.4
43	Russian Federation	66,7	-	+1.1	93	Egypt	54,5	+1	+1.0					
44	South Cyprus	66,4	-	+0.8	94	Namibia	54,5	+6	+1.8					
45	Bahrain	65,4	+5	+1.7	95	Kenya	54,1	-2	+0.5					
46	Kuwait	65,1	+8	+3.0	96	Kyrgyz Republic	54,0	+1	+1.0					
47	Hungary	65,1	+1	+0.8	97	Paraguay	53,6	-2	+0.3					
48	Mexico	64,9	-2	+0.3	98	Guatemala	53,5	-2	+0.2					
49	Bulgaria	64,9	+2	+1.3	99	Iran	53	-10	-1.9					
50	Indonesia	64,6	-5	-0.3	100	Rwanda	52,8	+8	+1.9					

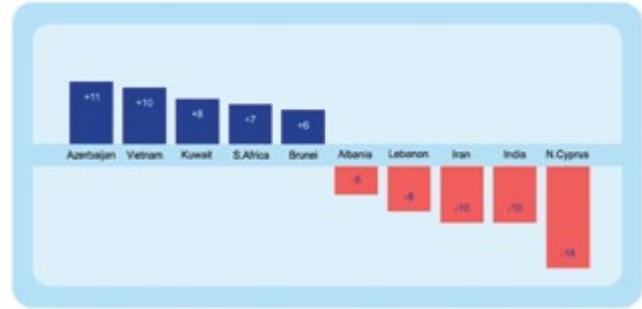
	East Asia and Pacific
	Eurasia
	Europe and North America
	Latin America and the Caribbean
	Middle East and North Africa
	South Asia
	Sub-Saharan Africa

3-Compliance with Information and Information Technologies and Pillar 4-Macroeconomic Stability, respectively. The Second section is the “Human Capital” part. Under this section there is Health in Pillar 5 and Skills in Pillar 6. Under Pillar 5 Health there is only one variable which is the healthy life expectancy. The Third Part is called “Markets” and it includes Pillar 7 Product Markets, Pillar 8 Labour, Pillar 9 Financial Systems and Pillar 10 Market Size. While Pillar 7 Product Markets included 8 variables last year, the Services Trade Openness variable was removed this year. The name of section 4 has been changed as the “Innovation Ecosystem” Administrative requirements and entrepreneurship culture are included in the Pillar 11 Business Dynamism under this part. This part, which includes 8 variables that measure the perceptions of both administrative processes and business people, such as starting a business, bankruptcy processes and attitudes towards risks. Under Pillar 12 Innovation Capacity, a total of 10 variables related to the sub-headings of Interaction and Diversity, Research & Development and Commercialization were used.

### Competitiveness Performance of North Cyprus

The Global Competitiveness score of North Cyprus for the 2019-2020 period was calculated as 51.8 and it ranked 107th among 141 countries. It is observed that there was a significant decrease compared to last year's 55.2 points and 89th rankings. This is considered as a serious drop-off, compared to last year's score of 55.2 and 89th place in the ranking. The reasons behind this rapid drop-off were tried to be analysed and it was identified that there could be more than one factor. The most important of these is that the number of the survey questions (i.e. its effect) has been increased in this year's index. Traditionally, the survey results obtained by interviewing business people in the country have tendency of negative perception than published statistics. In order to test this argument, we tried to see the difference by calculating the general index score using only survey variables and only statistics. The result was quite striking; while the weighted average of the variables obtained through the survey was 17 out of 100, the score was 63 when it was calculated with the ready data. Therefore, it is possible to relate the drop-off in this year's score to the negativity of the perceptions. Although it is claimed that this situation may be valid for other countries, due to the absence of some statistics that may have positive effects on the index average, it is not possible to reduce the impact of these negative perceptions.

Chart 1: Rising and Falling Countries



In order to better understand the downward trend in the country competitiveness, it is also useful to analyse the sub-headings that contribute to the formation of the overall score. The first pillar is the Institutions and is the most comprehensive section of the index. The majority of the variables in this pillar consist of questions to measure the country's culture of doing business. While the number of variables under this pillar has been increased from 20 to 26 this year, some sub-headings have also been changed. Sub-headings in this pillar are security, social capital, audit and balance, public administration performance, transparency and corporate governance. 7 of the 26 variables in the pillar could not be obtained and therefore not included in the calculation. The pillar's score was calculated with a scoring based on the perception of business people and statistics produced in the country in various fields from security to corruption, from property ownership to judiciary. The score of the section which is out of 100 points dropped-off to 46.8 from last year's score of 52.8.

This shows that the negative perception in the culture of doing business has increased. In Pillar 2 Infrastructure, there are 12 variables related to transportation infrastructure such as road, waterways and airways and basic infrastructures such as electricity and water. This pillar score, which examines the infrastructure potentials, which is an important component of the business environment and thus competitiveness, was measured as 55.2 this year, compared to 46.9 last year. When the scores of last year and this year's variables are compared, it is observed that the partial increase in this pillar score is mainly due to perception-based variables related to airways and waterways transportation. The third pillar of this section is Pillar 3 on Compliance with Information and Information Technologies. The variables that are not changed compared to the previous year are predominantly the variables measuring the internet access and telephone usage. The Compliance on Information and Information Technologies score, which is a section in which Northern Cyprus is relatively better than other sections, was

measured as 71.7, almost equal to last year's score. The last part in the "Enabling Environment" is Pillar 4 Macroeconomic Stability. In this section, which includes two variables consisting of Inflation and Debt Dynamics, since the debt dynamics of Northern Cyprus are not calculated, only the inflation variable is included in the calculation like last year. A critical drop-off has been experienced in this part and the score dropped-off to 27.9 from 70.3. The only reason behind this is the inflation rate of 29.96% which is almost doubled compared to last year's rate of 14.68%. Each of the 12 Pillars that make up the Competitiveness 4.0 Index contribute to the overall score with 8.33% each. Therefore, the decrease of the score of 70.3 to 27.9 only from Pillar 4 is reflected to the overall score as a 3.54 point drop-off. This difference is almost equal to the 3.4 difference between North Cyprus's previous year's score of 55.2 and this year's score of 51.8. This shows how negatively a price instability factor such as inflation can affect economies and competitiveness. This also shows that, among other indicators, the countries controlling inflation rates may progress and receive higher scores and ranked among the upper part of the list or to the contrary their score may descend by 10-15 digits as in the examples of North Cyprus, Argentina and Iran.

is measured based on perception via questionnaire) scored 26 out of 100 last year and measured as 34.5 this year. Apart from this, the Average Education Years from Primary School 6.07 to Higher Education (measured by available data) increased from 82.2 last year to 88.9 this year. Education indicators are among the important components of Competitiveness since they contribute to the creation of the workforce of the future.

This year, a total of 7 variables included to Product Markets sub-heading under Markets. Services Trade Openness Rate, which was added to the calculation last year, was excluded from the index this year. While this section score dropped from 54.5 last year to 52.7 this year, the change in the score of the variable of Competition in Services 7.03 in this section, which is measured under the perception-based survey, is important since it shows the differences in perceptions. According to the surveys of last year, the score of this variable was 78.8 out of 100, while this year's score was measured as 40.2. Although the effect of this variable on the total score is very minimal, it is an important indicator showing how volatile can the perception be from one year to another. Pillar 8 Labour Market which is the most comprehensive section of this part, includes 12 variables under the sub-headings of flexibility and meritocracy in the labour market. The variables such as workers' rights, active labour policies and employee-employer cooperation are included in this part and the score is calculated as 59.7 which is above the country score in general. In Pillar 9 Financial System, a total of 9 variables included which are divided into depth and stability sub-headings. This section score was calculated as 60.2 this year with a slight increase compared to the previous year. Pillar 10 Market Size, as in previous years, is a 2-variable section consisting of Gross Domestic Product and import ratio. As the size of the market did not change significantly from one year to the next, this section score remained as 22.8 as in the previous year.

Part 4 Innovation Ecosystem is an area where the preparations towards scientific, legal and institutional transformation are measured. There are only two Pillars in this section. Pillar 11 Business Dynamism and Pillar 12 Innovation Capacity. There are 8 variables under Pillar 11 and two sub-headings namely administrative needs and business culture. Pillar 11 score was measured as 60.9, which can be considered almost the same as last year's score. It can be said that Northern Cyprus ranking is not very off-putting since the score is above the overall country score and is ranking 66th among 141 countries. Under Pillar

Table 1: Best and Worse Performances

BEST PERFORMANCES	SCORE (Rank)	WORCE PERFORMANCES	SCORE (Rank)
2.09 Electrification rate	100 ( 1 )	7.04 Prevalence of non tariff barriers	33.7 (140)
3.03 Fixed broadband internet subscriptions	100 ( 1 )	6.03 Quality of vocational education	29.7 (139)
6.09 Pupil to teacher ratio in primary education	100 ( 1 )	4.01 Inflation	27.9 (138)
6.07 School life expectancy years	88.9 ( 18 )	7.03 Competition in services	40.2 (138)
8.04 Flexibility of wage determination	75.7 ( 24 )	1.17 Strength of financial auditing and reporting standards	31.3 (136)

In Pillar 6 Skills, there are 9 variables in total, covering the duration of the workforce and quality of the graduates, including the current workforce and future workforce sub-headings. This Pillar score increased slightly, compared to the previous year, and was measured as 62.5. For example, the Ease of Finding Skilled Staff 3.06 in this Section (which

12 Innovation Capacity, there are 10 variables in total, as in the previous year. Sub-headings of the Pillar are listed as Interaction and Diversity, Research & Development and Commercialization. This Pillar's score is calculated as 32.7, in which the dynamism of scientific studies is measured with new business models from trademark and patent registration to scientific publications and clustering.

Although there was a slight decrease compared to the previous year's 35.7 points, this Pillar has the lowest score of the index. In the study carried out by the World Economic Forum with the participation of 141 countries, the results revealed that all the participating countries recorded their lowest performance in this section and even the number of countries exceeding the score of 50 is below 40.

The competitiveness scores of the countries, which are obtained by examining many variables such as the existing and prospective assets of the countries, their methods of utilization and their ability to adapt to changing conditions, provide important messages to policy makers. This study is an important indicator to study both the strengths and weaknesses of the country and its ranking among other countries. Increasing the competitiveness capacities of countries means a more efficient economy and a faster growing structure with the ability to create employment and gain advantage in foreign markets. All these positive indicators create a manoeuvring area for governments to generate better social, environmental and economic results.

Although the philosophy of Competitiveness is based on the free market economy and the presence of efficient functioning markets, all countries experience from time to time when the markets are not operating effectively and are not able to direct resources. In such cases, governments need to have financial, technical and administrative capacities to effectively settle market disruptions. With these capacities, active policies may be needed for better functioning governments in order to produce more effective results and achieve a stable economic growth with an environment-friendly and egalitarian manner. Ineffective monetary policies reveal the need for more effective use of fiscal policies in the coming period, especially in terms of overcoming the global crisis. In order to capture the digital transformation, the fourth industrial revolution, incentives and structural reforms are needed to allocate more resources in that direction. The topic of this year's theme, Incentives and Government Supports in North Cyprus, is discussed in the next part and the effectiveness

of incentives and government supports as the tools of structural transformation are analysed.

# Incentives and State Support Schemes at North Cyprus

## INTRODUCTION

### INCENTIVES AND STATE SUPPORT SCHEMES IN NORTHERN CYPRUS

#### *i. Investment Incentives*

#### *ii. Agricultural Support and Incentives*

#### *iii. Exports and Foreign Market Supports*

#### *iv. Employment Supports*

#### *v. KOBIGEM Grants and Other Support Schemes*

#### *vi. Technological, R&D and Renewable Energy Incentives*

### ANALYSIS OF SELECTED INCENTIVE AND SUPPORT SCHEMES

### CONCLUSION AND RECOMMENDATIONS

### REFERENCES

## INTRODUCTION

Ensuring economic stability and growth is amongst the economic functions of the government. The free market approach accepts that economic growth is predominantly led by the private sector. According to this approach, while the private sector contributes to the growth of the economy by using resources effectively, the public sector undertakes the infrastructure and superstructure investments to meet and to facilitate the investments of the private sector. In addition, the public sector invests in areas where the private sector does not find economically viable and provide the necessary legal and technical regulations to ensure that certain goods and services are delivered to citizens. For these reasons, in countries where market economy model is adopted, the government is expected to provide legislation and policies that will serve the private sector to achieve economic growth by using resources effectively. In this context, one of the policies utilized by the government is the incentive policy. Although these policies, which encourage the allocation of the resources into investments by the private sector, are considered as the intervention of the government to the economy, they include targets for economic growth, employment opportunities and increased efficiency and competitiveness of the country.

The situation that makes the economical interventions of the government via incentives acceptable, is the market failures in the economy. Public goods, externalities and natural monopolies are examples of market failures. In such cases, the government intervenes the economy in order to ensure efficiency by eliminating market failures by using various tools. Government incentives are one of these intervention tools and affect the market regardless of its purpose. Positive externalities are also considered as situations where the market is not able to achieve full efficiency and government intervention is required. The amount of production of such goods and services is increased with the incentives provided by the government and it is aimed that individual benefit will reach the social benefit level. In recent years, environmentally friendly investments and technologies are seen as priority areas in incentives, as they serve to provide a clean environment, which is accepted as a global public good, in addition to the positive externalities they create. Developed countries provide more incentives to technological investments and research and development (R&D) due to their economic effects.

For all these reasons, this year's theme subject of the Competitiveness Report issued by the Turkish Cypriot Chamber

of Commerce has been set as Incentives and State Support System of Northern Cyprus. With this study various incentive policies of the governments in Northern Cyprus provided at different times in order to develop the economy of the country, increase investment, production, employment, and exports, were analysed and their effectiveness was assessed. Investment Incentives, Tourism Incentives, Agricultural Incentives, Export Incentives, SME supports and Employment Incentives which were effective in that time were assessed. In this process, face-to-face interviews were made with the representatives of the institutions providing incentives and information about the incentives was compiled and the study was prepared with the limited data, reports and statistics provided. In addition, comparisons were made with the practices in the world and in the European Union. As a result, comments and recommendations

on how and in which areas the incentive policies may be implemented in Northern Cyprus, to direct its limited resources in the most effective way and how to increase the competitiveness of the country are presented as a conclusion.

## INCENTIVES AND STATE SUPPORT SCHEMES IN NORTHERN CYPRUS

While every country tries to attract investments in areas suitable for its human and natural resource structure, it often has to compete with other countries as well. Providing incentives primarily refers to the certain advantages provided by the governments in favour of the businesses. These can be either resource allocation or waiver of their income through tax exemptions. Economic development can only

Table 1: Incentive and Support Schemes in North Cyprus

Incentive Program	Responsible Authority	Incentive Instruments
Investment Incentive	Prime Ministry SPO	Investment Discount Tax Reduction / Exemption Interest Support Credit Guarantee / Guarantee Customs Exemption Land Allocation
Tourism Incentive	Tourism Promotion and Marketing	Tourist Accommodation Overnight Support (Premium Payment) Fair Participation Support (Grant)
	Tourism Planning	Tax, tariff and fee exemptions Land and Building Leasing
Export Incentive	Ministry of Economy Department of Industry	Fair Incentive Market Research Support Foreign Market Promotion Support Quality and Standardization Support Overseas Store Support (Rental contribution) Export subsidy on citrus products (Citrus Export Incentive Premium) Export subsidy on industrial products (Industry Export Incentive Premium) and Freight refund in exports (Industry Export Freight Returns)
	Ministry of Economy Department of Trade	Export subsidy on citrus products (Citrus Export Incentive Premium) Export subsidy on industrial products (Industry Export Incentive Premium) and Freight refund in exports (Industry Export Freight Returns)
Agricultural Incentives	Ministry of Agriculture	Direct Income Supports Subsidies Grants
Technological Development Incentives	Ministry of Economy Department of Industry	Land Allocation Patent Support (Tax Exemption, Registration Contribution, Grant) Guarantee, Collateral Support
SME Competitiveness and Entrepreneurship Incentives	Economy KOBİGEM	Grants, Interest Subsidies
Employment Incentives	Ministry of Labour	Salary Contribution Social Insurance Premium Contribution

be achieved through sustainable economic growth. Therefore, it is very important to create the conditions required by economic growth. The limited access to international financial markets for Northern Cyprus economy, as well as the obstacles against the improvement of the investment environment is preventing the country from reaching sustainable economic growth. Although North Cyprus is following the developments in the world, it cannot fully benefit from these developments due to its small domestic market and political non recognition. Incentives have an important role in increasing private sector investments for the economy of Northern Cyprus, which has limited opportunities. Although there are no studies measuring the contribution of incentives to the economy, it can be said that incentives contributed to investments, employment, production, and exports. Tax exemptions are an important part of the incentives in North Cyprus like other countries throughout the world. Besides, grants, interest supports and other supports are included in the incentive system.

### i. Investment Incentives

There are two major instrument for investment incentives in North Cyprus. One of them is the Incentive Law 47/2000 under the responsibility of SPO. The other one is Income Tax Law 24/1982 ruled by Ministry of Finance, which is mainly covering local investments which cannot grant incentive license from SPO.

#### Investment Incentive Law 47/2000

The largest of the incentive programs implemented in Northern Cyprus in terms of volume and scope are the investment incentives implemented under the 47/2000 numbered Incentive Law. Due to the fact that it is regulated by law and targets large investment projects. The largest private sector investments in the country benefit from the incentives provided in accordance with this law. The incentive program managed by the State Planning Organization is available to both local and foreign investors. Although no prioritization has been made for any sector under the law, certain areas that are considered as the driving forces in the development of economic conditions and in the development of the country are given priority from time to time. Incentive certificates are also given to suitable investment projects in other fields such as tourism, higher education, health, manufacturing industry, and transportation.

Incentives provided for investments under the law include

investment discount, tax and fee exemptions as well as subsidized credit opportunities. The incentives offered may provide different exemptions and supports depending on the location of the investment according to the priority development regions set by the Council of Ministers. While İskele - Karpaz and Güzelyurt - Lefke regions are set as the priority development regions. While the investment discounts provided within the scope of the incentive certificate are 200% which is twice the investment value in the priority development regions, in the other areas regions it is 100%. In addition to the investment discount, all projects that receive an incentive certificate are granted customs and all kinds of fees and funds exemption for all inputs imported from abroad during the investment period. Long-term land and building leasing also exempts all kinds of fees such as construction permits, titles, etc., with the possibility of subsidized credits through the Development Bank.

#### Investment Incentive Law 47/2000

Investment  
Exemptions  
+  
Credit Subsidy

Tax Exemptions  
+  
Construction  
License Fee and  
Tariff Exemptions

Lease of Land,  
Plot and Building

#### Implementation Procedures

Investment projects of companies applying for investment incentives are evaluated by the SPO. When applying for the incentive, the applicants must submit all the information about the investment project and explain what the content of the investment, together with a Project Feasibility Form. The applications must be completed within three months at the latest. With the approval of the application, the company receives an incentive certificate and benefits from all tax discounts specified in the Incentive Law and has the right to apply to the Development Bank's credits with special interest rates. SPO issues these certificates to both local and foreign investors. The duration of the investment incentive certificates is determined according to the investment period of the proposed project. If necessary, a maximum of two extensions can be made. The duration of industrial investments is generally 2-3 years and up to 5 years for tourism investment projects.

The application for the incentive certificate is assessed together with the feasibility report and a number of parameters including Environmental Impact Assessment. However, the criteria for issuing incentive certificates are not completely clear. Income-statement and cash flow statements, compliance with environmental legislation, compliance with land development legislation, compliance with the conditions required by the sector to be invested, and financial resources are the other factors considered as part of the evaluation process of the projects. The project feasibility report is the most important factor that determines the result of the application.

The methods and criteria for determining the priority regions and priority sectors are not very clear. In this context, the general production capacity of the sectors is evaluated and a decision is made according to whether excessive production capacity is formed in the relevant sector. However, the methodology and the competent authority are not clear. According to the developments in the economy, SPO can determine new priority investment areas as well as exclude some areas from the scope of incentives. For instance, with the increasing number of foreign students in higher education, incentives were provided for the construction of new dormitories, but these investment areas were excluded from the scope of incentives with the excess supply that occurred after a certain period of time. The criteria for the determination of priority regions in development is not clear however the priority regions are determined by the Council of Ministers.

### Exemptions under the Income Tax Law

Investors who have not received an investment incentive certificate within the scope of the incentive law, can benefit from a 20% investment discount in accordance with the article 7, paragraph 3 of the Income and Tax Law. The investment discount provided by the Ministry of Finance, enables the investors to benefit from a 20% tax reduction in addition to a one-time depreciation discount on the cost of the fixed assets purchased in or imported to North Cyprus. The annual depreciation discount is also defined in the Income and Tax Law and different rates are set according to the product groups. Initial investment discount and depreciation discount are the incentives that are effective in determining taxable income. In order to benefit from the initial investment discount, the cost of ownership should not be less than 20 times the minimum wage applied at the beginning of the relevant tax period.

Within the scope of the amendment proposals on the tax law, the investment discount was also amended. According to the draft amendment, the condition of “the cost of ownership should not be less than 20 times of the minimum wage” will be removed to expand the scope of the investment discount. The figures regarding the investment discounts provided by the Ministry of Finance until today are not available. Therefore, making an estimation of the economic size of such incentives has not been possible. The Ministry of Finance is working on to calculate the size of the investment discount by 2020.

### ii. Agricultural Support and Incentives

The agricultural sector is one of the most supported and protected sectors in Northern Cyprus like any other country in the world. Despite the liberal single market system, even in the European Union, the Common Agricultural Policy is a policy area which includes protection and significant support. In Northern Cyprus, there are three main different support elements applied in the agricultural sector. The first one is the direct income support payments, which are covered by the general budget for producers. The second most common element is the support of producers both in terms of input and product prices through subsidies. The third element is the support of the producers with grants.

Agricultural supports are divided into two headings as animal husbandry and plant production areas. Animal husbandry mainly consists of supports for livestock breeders for milk production. Various supports are given to bovine and ovine breeders based on the number of animals and the amount of the milk produced. Large-scale production is tried to be encouraged through the quotas determined for milk production. Likewise, cold chain milk production is supported more as it is more hygienic. In addition, to support bovine breeding, supports per birth are provided as well. Furthermore, support allowances are provided with regard to the registration of pedigree in order to include producers in the animal registration system and to encourage the use of highly productive breeds. Apart from farm animals, beekeeping is paid directly per hive, while honey products are supported per kilo in order to support the price of honey produced. In addition to beekeeping, limited subsidies for fisheries are provided as direct income support and for fuel and net expenses of fishermen. Furthermore, the state contributes to social security premium payments of fishermen. Support for animal production and the foreseen support and payments for 2020 can be seen in the table below.

Table 2: Animal Products Support

Animal Husbandry Supports	Milk Support Payment	Cold milk max 2000Lt per day Open Milk max. 1000lt per day
		Base Price + Raw milk premium (to the producer) Milk Base Price + SUTEK premium (to Manufacturers)
	Calf support payment	100TL per birth
	Pedigree	100 TL per bovine 25TL per ovine
	Rootstock Ovine Payment	Between 1-350, 150TL Between 351-700, 115 TL Between 701-100, 90TL
	Beekeeping Payments	Per Hive 30TL 2TL/kg support for honey production
	Fishing/fisheries Payments	%50 insurance support 5TL per balloon fish

Plant production supports are mainly planned for grain production, which is the most common agricultural activity. Plant production supports are in the form of direct income support and subsidies for product and input use, as in animal production. Direct income support per acre is provided for planting forage crops such as barley, wheat and oats. In addition, subsidies for seed, fuel and fertilizer use are provided to farmers who crop planting. In addition, quality roughage such as silage and corn are also supported. In fact, no matter what is planted, direct income support per acre is provided regardless of the product. Only the amount of payment/support varies depending on the product, but all plant products are considered within the scope of support. Apart from grains and fodder crops, fruit tree supports are provided per acre or per tree. In addition to direct income support per acre, input supports such as irrigation, hoeing, fertilizing and spraying are also provided to fruit growers such as citrus, which is the traditional export product of Cyprus, almond, peach, pomegranate and plum which are suitable for the climate. In addition, additional supports such as freight support and VAT refund are provided for the export of citrus and pomegranate. Other plant production support area is green housing and organic production. In green housing, direct income support per acre depending on the technical equipment of the greenhouse (air-conditioned,

modern, low tunnel, etc.) is provided. Producers who are certified as organic farmers are also provided with support per acre but with higher support payments. In addition to plant production, animal production in organic conditions is also within the scope of support. Direct Income supports for plant production can be seen in the table below.

Table 3: Plant Production Supports

Plant Production Supports	Grain Support	Barley, Wheat, Oats 50TL/acre up to 4000 acres
		Quality roughage (Hov, Silage) and Legume (fig, plum) 65TL/acre
		Certified seed 0,35TL/kg (to importer company)
		For Sowing Juicy Feed (single year corn, etc. 50TL/acre) (Perennial alfalfa 110TL/acre)
	Citrus Support Fruit Tree Support	325TL/acre on 5 acres Irrigation, pruning, fertilizing (min.100 acres) 15% additional support (150 acres, 30%) (Plum, pomegranate, apricot, olive, walnut, almond) 150TL per acre
	Potatoe and Other Vegetable Production Support	150TL per acre 130TL per acre
	Greenhouse Support	1400TL/acre with air conditioning Modern Greenhouse 700TL/acre Other Greenhouse 600TL/acre Low tunnel 150TL/acre Bee insemination 400TL/colony
Organic Agriculture Support (Certified producers)	700TL per certificate Field plant 200TL/acre Vegetables+potatoes 320TL/acre Fruit 200TL/acre	

In agricultural production, both plant and animal producers are under the protection against natural risks within the scope of General Agricultural Insurance Fund. Within the scope of the Fund, there are risks such as drought, flood or diseases in plant production, while producers are also expected to fulfil the necessary pre-damage conditions before they can be compensated. However, intense criticisms are made that the system does not operate effectively and that the Fund cannot effectively inspect whether the pre-conditions (such as sowing time, necessary fertilization and spraying are done at appropriate times) are met. As a result of inadequate inspections, high number of losses can be caused by natural risks in production. While the island

is experiencing drought problems most frequently as a result of being in an arid climate, the lack of an effective and conscious combat against pests in plant production may threaten public health due to excessive use of chemicals in products as well as product losses. Therefore, in addition to the supports provided for spraying and fertilizing, the social costs of diseases and deaths caused by the use of wrong chemicals in this production must be included in the analysis to be made.

### iii. Exports and Foreign Market Supports

Since North Cyprus is an small island state with a small domestic market, increase the importance of exports and access to foreign markets. There are state support and incentive schemes providing support for businesses access to foreign markets. These are; support for international fairs, support for quality certificates, freight incentives for exports of manufactured products of clothing and dairy product. Freight incentives for citrus exports by Ministry of Agriculture.

### Incentives for Promotion and Access to Foreign Market

The Department of Industry implements an incentive program for promotion and access to foreign markets for the companies in the manufacturing industry. These incentives are regulated with the decision of the Council of Ministers numbered 10.5.2018 and TE (K-I) 506-2018. The government incentives aiming to increase exports of manufacturers and exporters operating in the industry sector are provided in accordance with this decision. The aim of these government incentives implemented under six main headings can be summarized as enabling producers to access to new or existing markets more effectively and increase their export shares. Entry to overseas markets is often a troublesome process which also requires competition with stronger companies in the foreign markets. Therefore, the government incentives provided by the Ministry are an important factor in the foreign operations of Northern Cyprus producers and exporters with limited opportunities.

Incentives for promotion and access to foreign markets provided and regulated by the Department of Industry under the Ministry of Economy are managed under six headings as mentioned above: Standardization/Certification Support, Market research and market entry support, Overseas Fair

Support, Overseas Trademark Registration Support, Overseas Advertisement Support, Overseas Rental Support.

**Standardization/Certification Support:** Within the scope of the program, it is aimed to improve and standardize the product quality, and eliminate the non-standard product set back, which is an important barrier in accessing foreign markets. The program is implemented in six different sub-categories:

- The expenditures to be made to acquire the standards under the scope of TÜRKAK accreditation (ISO 9001, ISO 14001, ISO 22000 and similar documents) are within the scope of the government incentives. The 50% of each expenditure equivalent to 2,000 Euros are subject to government support up to a total amount of 7,000 Euros.
- The expenditures to be made to acquire BRC Global Food standard, which is an advantage in entering foreign retail chain markets are within the scope of the government incentives and 50% of the expenses equivalent to 3,000 Euros are subject to government support.
- The expenditures to be made by the manufacturers to acquire product certificate to increase the quality of their product and to comply with the standards are within the scope of the government incentives and 50% of each expense equivalent to 3,000 Euros are subject to government support up to a total amount of 9,000 Euros.
- The expenditures to acquire CE conformity mark from the institutions approved by the EU in order to achieve compliance with international standards are within the scope of the government incentives and 70% of each expense equivalent to 3,000 Euros are subject to government support up to a total amount of 9,000 Euros.
- The expenditures related with the service competency certificate given by TSE, which is aimed at increasing the quality of the manufacturing facilities, post-production service facilities and ensuring the compliance with the relevant standards, are within the scope of the government incentives up to 1,000 Euros.
- 50% of the cost of the "Halal Certificate" to be obtained under the "OIC / SMIIC 1: 2011 Halal Food General Guide" published by SMIIC to document that the production is in accordance with Islamic rules in order to gain advantage in entering the markets of Muslim countries are within the scope of the government incentives up to 3,000 Euros.

## Market research and market entry support

With this program, it is aimed to increase the exports by supporting the companies to conduct market research and to expand the existing market capacity in order to facilitate their entry into new markets. The government incentives under this heading are provided in five different sub-categories:

- Up to 70% of the expenses of 5 individual market research activities in a year and 5 as a group, or the expenses of a single activity in order to get information about foreign markets and create new export markets are within the scope of the government incentives up to 8,000 Euros.
- If the manufacturers are members of international e-commerce sites of companies, which are not intended for the end consumer but to create new foreign markets, 70% of the membership expenses which should not exceed 2,000 Euros per site and 4 sites in total, up to 8,000 Euros per year are considered as the expenses within the scope of the government incentives.
- 70% of the expenses of the manufacturers and 85% of the expenses of the chambers related to the reports prepared by or purchased from international organizations in order to obtain information about the creation of a new market are within the scope of the government incentives up to 10.000 Euros per year.
- For each foreign market research organized by the relevant chambers for their members are within the scope of the government incentives up to 50.000 Euros.

**Overseas Fair Support:** For the fairs organized abroad, 75% of the expenses of the producers, importer companies and related associations for each participation including stand rent, transportation, accommodation and other related expenses are within the scope of the government incentives up to 8.000 Euros.

- For the fairs organized abroad by the relevant chambers for their members, expenses for each attendance including participation fee, stand rent, transportation cost of the goods, transportation, accommodation and other relevant expenses of the persons to be assigned by the relevant Department and Chambers are within the scope of the government incentives up to 150.000 Euros.

**Overseas Trademark Registration Support:** 50% of the expenses related to the overseas registration and protection of the trademarks, which already have local trademark registration certificate are within the scope of the government

incentives up to 7,500 Euros per year and for four years.

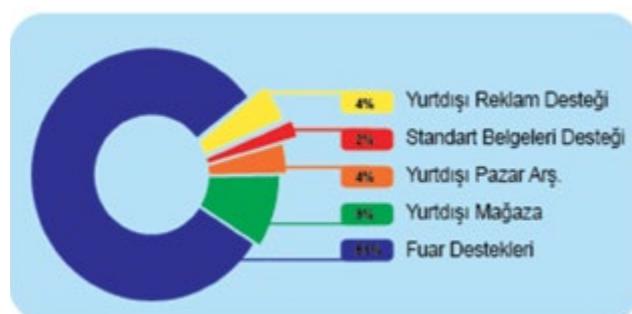
**Overseas Advertisement Support:** 50% of the advertising expenses of the manufacturers, including advertising videos/films, sponsorships, web page design, magazines, catalogs, brochures, promotions, billboards, visual and printed media materials with the aim to promote their products abroad are within the scope of the government incentives up to 10.000 Euros per a calendar year.

**Overseas Rental Support:** 60% of the annual rent of the places/premises rent by the manufacturers who have opened stores, offices, showrooms, warehouses in order to sell with their own name and brand are within the scope of the government incentives up to 20.000 Euros per year and for four years.

- 60% of the annual rent of the places/premises rent by at least 3 manufacturer companies as partners who have opened stores, offices, showrooms, warehouses to sell abroad and in the same sector or complementary activities are within the scope of the government incentives up to 40.000 Euros per year and for four years.
- 60% of the annual rent of the stores, offices, showrooms, or warehouses rent by commercial companies or their branches operating abroad to sell and/or market the industrial products produced in NORTH CYPRUS abroad are within the scope of the government incentives up to 15.000 Euros per year and for four years.

Promotion and Access to Foreign Market incentives budget was increased from 262.833 TL in 2009 to 2.133.802 TL in 2017. While international fair supports had the highest share in all years, their share in total was approximately 80% in 2009 and 2016. It can be said that mostly the chambers and unions related to producers and exporters participating in foreign fairs are benefited from export incentives. Overseas trademark registration incentive is the only incentive heading that is not used within the scope of export incentives.

Figure 1: Distribution of Overseas Market Supports (2016)



## Export Subsidies and Freight Subsidies

The export subsidies like the entire incentive system are not managed by a single centre and are implemented under the responsibility of different institutions by utilizing various instruments. Export subsidy on citrus products, export subsidy on industrial products and freight refund in exports are important instruments exploited in Northern Cyprus incentive system. The export subsidies operated by the Trade Department under the Ministry of Economy are important elements supporting the industrial and agricultural sectors.

Export Supports & Incentives		
Citrus Export Incentive (Changes every year)	Manufactured Export Support (%14)	Export Freight Refund (%100)

## Export Subsidy on Citrus Products

Export subsidy on citrus products that is named as export incentive premiums are operated with the decision of the Council of Ministers dated 22.01.2014 and numbered Y(K-I) 152-2014. Export subsidy on citrus products that are provided to the exports made to EU, Third Countries and the Republic of Turkey are readjusted each harvest season with a Council of Ministers decision. The institution authorized to ensure the implementation of the decisions taken by the Council of Ministers is the Trade Department. The Trade Department announces the documents and criteria required to benefit from these incentives in every citrus season. Some of the criteria required are as follows: The amount of the bank certificate submitted with the export amount has to be at least 60% of the sales invoice amount. In order for a product to benefit from the incentive premium it must be exported to; Third countries or Turkey. Exports to the Free Zones within North Cyprus or within Turkey/Third Countries and exports over the green-line are excluded from export incentives.

TABLE 3: 2018-2019 Citrus Export Incentive Premiums (per tonne)

Product	Export to Turkey				Export to EU and 3. Countries	
	From the garden		Cardboard box/ Plastic crates packed		Cardboard box/ Plastic crates packed	
	Non Packed	Plastic Crates	I. Class	II. Class	I. Class	II. Class
Lemon	100	110	175	135	225	200
Grapefruit	100	110	175	135	225	200
Jaffa	100	110	175	135	225	200
Tangerine	0	100	150	130	250	220
Valencia	0	0	170	130	220	195

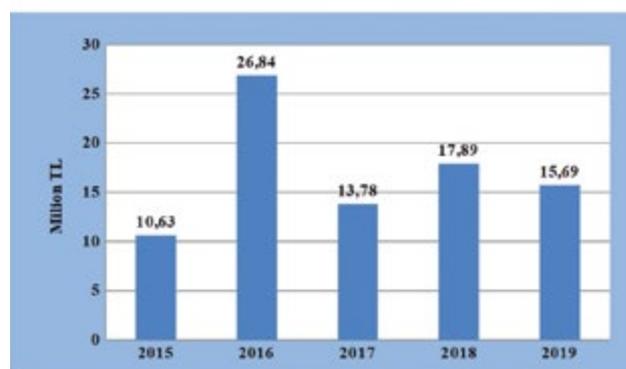
Another criteria is related to the application period. Accordingly, the application must be made directly to the Trade Department, together with the required documents, within one year from the actual export date. In consignment export, the one-year period is calculated from the date of issue of the final sales invoice issued by the exporter. If the goods are abandoned and/or returned to the country after the actual export, no export refunds will be made.

Table 4: Citrus Exports (in Tonnes)

Citrus Products	2014	2015	2016	2017
Lemon	2.600	2.180	2.250	3.000
Grapefruit	4.300	2.500	1.600	2.500
Orange	35.140	54.200	43.300	45.800
Tangerine	16.320	20.500	23.300	26.000
<b>TOTAL</b>	<b>60.500</b>	<b>80.830</b>	<b>71.460</b>	<b>78.420</b>

Citrus Subsidies, which has an important role among agricultural incentives, varies depending on the amount of export over the years. Citrus incentive premium, which was 10.63 million TL in 2015, increased to 26.84 million TL in 2016 and 15.69 million TL in 2019. In addition to the export amount, the amount of premium to be paid per ton determined by the Ministry of Agriculture and Natural Resources also affects the total incentive amount. Incentive premiums to be paid in 2018-19 per ton are determined by the Ministry of Agriculture and Natural Resources as follows.

Figure 2: Citrus Subsidies (Million TL)



## Export Subsidies on Manufactured Products

The Regulation on Export Incentives is operated with the decision of the Council of Ministers dated 30.01.2015 and numbered Y (K-I) 2280-2014. It aims to encourage and sustain production and increase exports. This regulation includes the amounts, rates, scope and implementation criteria and principles of the incentives to be applied to the export of domestic production. In order to benefit from the incentive, it is necessary to apply with the required documents within one year from the actual export date. The products which will benefit from export incentives within the scope of this regulation are domestic industrial products and domestic products produced for tourism purposes. The conditions for benefiting from export support within the scope of the Regulation are as follows:

- Exports to European Union member countries (except exports over the green-line)
- Exports are not made from free zones and the buyer company is not in the free zone of the EU member country,
- Bringing at least 20% of the export to the country,
- Complying with the procedures to be determined by the Ministry (Ministry of Economy)

If the specified conditions are met, 14% of the export price is paid by the Ministry as export subsidy. Export price is calculated in Turkish Liras with the exchange rates of the Central Bank.

## Freight Refund in Export

The regulation regarding the freight refund of manufactured products is implemented by the decision of the Council of Ministers dated 3.11.2014 and numbered Y (K-I) 1922-2014. The Trade Department is authorized with the implementation. Scope and implementation principles of freight refund are as follows:

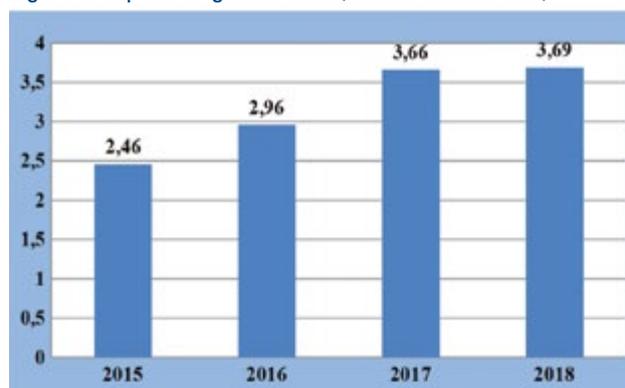
- Freight refunds are paid for the export of manufactured products of NORTH CYPRUS origin with a minimum domestic value added of 30% or a minimum domestic input rate of 40%.
- Milk and dairy products, citrus and citrus concentrate, potatoes, chicken and chicken meat are excluded. Processed chicken products and textile products are within the scope of the freight refund.
- Freight refund covers the NORTH CYPRUS originat-

ed industrial products transported to Turkey or third countries by sea or from airports by road and/or sea or airway(excluding exports over the Green Line, TC, third countries and North Cyprus Free Ports and Zones and exports from North Cyprus Free Ports and Zones, and which the freight is paid by the exporter company.

- If the freight amount (transportation fee) specified in the freight invoice submitted for the freight refund is deemed appropriate by the Trade Department, the total freight amount, if not, the freight amount determined/approved by the Trade Department is paid. However, the amount of the freight refund should not exceed 15% of the export price in the sales invoice of the exporter company in exports made to Turkey, and should not exceed 20% of the export price in the sales invoice of the exporter company in exports made to third countries.
- In order to benefit from these provisions, exporters must apply directly to the Trade Department together with the required documents (determined by the Trade Department) within 1 year from the actual export date.

Although the freight refund in exports is not considered as an important amount in the incentive system, it is a figure above the export-oriented incentives applied to the industry sector. The table below shows the freight amounts paid in 2015-2018.

Figure 3: Export Freight Refunds (Million Turkish Lira)



## iv. Employment Supports

### The Project of Local Employment Support

This support program is carried out under the Regulation to Support Local Labour Employment published on 5.12.2013 by the Ministry of Labour and Social Security, under the Provident Fund Law No. 34/1993. The aim of the Regulation is to reuse the 5% "Contribution to Local Employment Premiums" deducted from employers per em-

ployee in accordance with the Provident Fund Law for the purpose of contributing to the development of local labour employment. The Regulation also authorizes the management of the resource accumulated in this fund and the use of this fund to increase the local labour rate in employment. In accordance with the same article of the Law, an Employment Support Centre was established to evaluate, manage and use the "Contribution to Local Employment Premiums".

All employers, real persons and legal entities operating in the NORTH CYPRUS and all NORTH CYPRUS citizens between the ages of 16-60 can apply to this support managed by the Ministry of Labour and Social Security. Public institutions, public servants, and employer's spouses, children, parents and siblings cannot benefit from this project. The project is implemented at different timeframes, between 18 months and 48 months, depending on age and certain criteria. Other implementation principles in the project are as follows:

- Employer contributions of Social Security and Provident Fund premiums of newly employed NORTH CYPRUS citizens are covered by the Project.
- Social security premiums of young entrepreneurs between the ages of 18-30 and female entrepreneurs, regardless of age, are covered by the Project.
- Vocational education projects and programs can be supported to train qualified personnel in the professions required by the economy.
- Social Insurance premiums and Provident Fund deposits paid by employers for workers are subject to refund 4 times a year; in February, May, August and November.

### Other projects of the Employment Support Centre

- Supporting the Employment of Youth Project
- Supporting Artisans and Small Businesses Project
- Vocational Education-Employment Project in Tourism Sector
- Integrating Women Labour into the Economy Project

Related payments and supports provided within the scope of the above mentioned projects are shown in the graphic below.

Figure 4: Payments done by the Employment Support Centre



### v. KOBIGEM Grants and Other Support Schemes

Within the scope of the incentive system, KOBIGEM (SME Development Centre) grants and subsidies is seen as an important element of the NORTH CYPRUS incentive system. KOBIGEM is a unit established by the Council of Ministers decision dated 14.07.2010 and numbered K-400-2010. The Centre, which was decided to be established under the ministry related with the economic affairs, aims to support SMEs in parallel with the efforts to increase the competitiveness of the real sector. These supports are envisaged as trainings, consultancy services, grant and subsidising credit interests. With these programs, the Centre aims to increase the share and effectiveness of the small and medium sized enterprises as well as their competitiveness and enable their integration in the industry in accordance with the economic developments.

The SME Development Centre is an important element of the incentive system with the grant and credit supports it provides in parallel to its support programmes. SMEs have a significant economic role in most economies. Many developed and developing countries support SMEs with the recognition of their importance in economic growth. SMEs comprise 90% of businesses and 50% of employment worldwide. The role of SMEs in economic growth is especially important in developing countries. Therefore, it is important, in terms of sustainable economic growth to support SMEs and ensure their proper integration to the scope of incentives.

Programmes are predominantly financed with the resources provided by the Republic of Turkey. In this context, "Cooperation Procedures and Principles for the Partial Grant Programmes Projects in NORTH CYPRUS" was signed on 21st October 2010 regarding the financing of the grant programmes. In the 3-year protocol signed with the Republic of Turkey in 2010, the grant provided to the budget was divided into two as project and budget financing and the

resources transferred are linked with the projects which was not the case previously. Therefore, the "Increasing the Effectiveness of the Public Sector and the Competitiveness of the Private Sector" programme covering the years 2010-2012 was the beginning of a new period. The programme included objectives aiming the creation of a highly competitive economic environment by reducing the share of the public sector in the economy and ensuring the sustainable economic growth of the private sector. With this programme, "The Cooperation Protocol on Supporting the Grant Programmes financed by the Republic of Turkey" was published in the Official Gazette and entered into force in 2011. The same year, the Turkey origin Çukurova Development Agency (Çukurova Kalkınma Ajansı) was assigned to provide technical support, supervision and consultancy service throughout the process.

In 2012 and within the framework of the technical assistance provided by Çukurova Development Agency, the grant programmes implemented under three main titles as: "Grant Programme for Tourism Projects" with the Ministry of Tourism, Environment and Culture; "Increasing the Competitiveness Programme" with the Ministry of Economy and Energy; "Agriculture and Rural Development Financial Aid Programme" with the Ministry of Agriculture and Natural Resources. These three programmes are still operated by the related ministries and continue to be implemented subject to the availability of the financial resources.

KOBİGEM implements grant programmes under three main titles since 2011 and in 2016 a new programme called "Entrepreneurship Grant Programme" was added to the grant programmes.

### KOBİGEM Grant Programmes - Main Titles



"Increasing the Competitiveness Financial Aid Programme", which is the first title of the grant support programmes, aims to support projects which aims to increase the share of the real sector in the economy by increasing its competitiveness. In this context, the protocols prepared

in line with the Northern Cyprus Medium Term Programme acts as a guideline. The overall objective of the "Increasing the Competitiveness Financial Aid Programme" is to increase the competitiveness of the private sector and the national economy. Priority areas determined for this objective are:

- To increase the added value and efficiency in production and to provide products with international trade opportunities,
- To ensure the balance of protection and use of the environment and to ensure environmental sustainability.

The overall objective of the "Agricultural and Rural Financial Aid Programme", which is the second title of the grant support programmes, is to increase the efficiency of agricultural markets and to ensure sustainable economic development in rural areas. Ministry of Agriculture and Natural Resources is the implementing authority of the grant programme.

Increasing the Tourism Potential Financial Aid Programme is operated by the Ministry of Tourism and Environment and provides finances to projects aimed at developing tourism potential. Entrepreneurship Grant Programme which was initiated in 2016, is open for the applicants who has new business ideas and born on 1.1.1980 and later. The objectives of this programme are;

- To contribute to the socio-economic development of North Cyprus
- To ensure the establishment of sustainable businesses in the long term
- To support the increase of employment
- To reduce the foreign trade deficit
- To make North Cyprus become a centre of attraction within the entrepreneurship ecosystem in the region
- To increase young entrepreneurship, women entrepreneurship and technological entrepreneurship
- To contribute to the entrepreneurship in disadvantaged areas and regions.

Project evaluation is done within the framework of the criteria of priority 1 and priority 2. Priority 1 criteria is set as; innovation level, technology level, value added potential, and projects which are not included in this context are considered as priority 2. After scoring, business ideas in the priority 1 and priority 2, the business ideas are accepted

into the program according to the ranking and the quota numbers. The maximum grant rate of the entrepreneurship grant programme, which includes training, consultancy and grant support, is 75%. The minimum grant support is 10.000 TL and the maximum grant support is 100.000 TL. Expenditures that the business will make for 12 months from the date of establishment are within the scope of the grant.

When the size of the grant programs approved by KOBIGEM in 2011-2017 is compared, it is seen that there was a total of 9,115,852 TL in 2011 and 16,790,572 TL in 2017. Comparing 2011 and 2017, it is seen that 46% of the total grant amount, which was the amount of the contract in 2011, was allocated to the financial aid programme to increase competitiveness. In 2017, it is seen that the entrepreneurship grant program is included in the total with a low share of 8%. The grant contract, which was signed for tourism title with a rate of 38% in 2017, had the highest share. Considering that the total investment value of the incentive certificates issued by the SPO in 2017, which was 1 billion 245 million TL in total; the contract amount signed by KOBIGEM in the same year, which was 16.790.572 TL seems very low.

## vi. Technological, R&D and Renewable Energy Incentives

Developed countries are forming their incentive systems in a way to support technological investments and investments in research and development areas in order to ensure the efficient use of resources and achieve sustainable economic growth. In addition, environmentally friendly production and investments are within the scope of incentives for sustainable growth. Northern Cyprus incentive system is very difficult to comprehend and analyse in terms incentive structure, purpose and results as it covers a wide range of different incentive elements. As in other incentives, technology and

research and development incentives are explained under different laws and are managed by different institutions. Despite this, it can be said that there are various significant incentives in technology and research and development as in other fields. However, the data showing how much of these incentives are used, and unfortunately insufficient. Incentives in this area are provided under three different laws.

## Technology Development Supports

The purpose of the 42/2018 numbered Law on the Technology Development Zones, which is the amended version of the existing law in 2018, is to make the industry of the country internationally competitive and export oriented by collaborating with universities, research and development (R&D) institutions and organizations and production sectors to produce technological information. The law also includes developing innovations in production methods, making or developing software, improving product quality or standards, increasing efficiency, reducing production costs, commercializing a technological invention or information. The law aims to provide the technological infrastructure which will enable the entry of foreign investors into the country who will provide high or advanced technology and competitive edge in the international arena, by supporting technology-intensive production and entrepreneurship in the country, ensuring the adaptation of small and medium-sized enterprises to new and advanced technologies, creating investment opportunities in technology-intensive areas and helping technology transfer.

The application made by the founders for the technology development zone is evaluated by the Commission comprised of 9 people and the "Feasibility Report on the Zone" is announced by the Ministry of Industry with the approval of the Council of Ministers and the publication of the Deci-

Table 5: Grant Programmes Contract Values 2011-2017

	2011-2012	2013	2014	2015	2016	2017	TOTAL
<b>Increasing the Competitiveness Financial Aid Programme (TL)</b> (Number of contracted projects)	4.200.000 (26)	6.470.460 (40)	4.000.000 (20)	5.000.000 (23)	4.536.465 (25)	5.000.000 (22)	29.206.925 (156)
<b>Agriculture and Rural Development Financial Aid Programme (TL)</b> (Number of contracted projects)	2.675.852 (18)	3.117.181 (17)	4.024.454 (29)	3.177.493 (29)	3.483.327 (29)	4.000.000 (28)	20.478.307 (150)
<b>Increasing the Tourism Potential Financial Aid Programme</b> (Number of contracted projects)	2.240.000 (18)	3.354.205 (23)	2.860.000 (15)	3.598.502 (18)	1.202.310 (6)	6.400.000 (28)	19.655.017 (108)
<b>Entrepreneurship Grant Programme for new Business Ideas</b> (Number of contracted projects)					2.895.605 (41)	1.390.572 (23)	4.286.177 (64)
<b>Total (TL)</b> (Number of contracted projects)	9.11.852 (62)	12.941.846 (80)	10.884.454 (64)	11.775.995 (70)	12.117.707 (101)	16.790.572 (101)	73.626.426 (478)

sion in the Official Gazette. The zone cannot be used for any other purpose. The fund required for the establishment of the zone is covered by the allowance to be allocated in the budget of the relevant Ministry. The investments to be made for the establishment of the zone and the investments to be made by the companies that will operate in the Zone are evaluated within the scope of the Incentive Law. Managing companies of the zones' and production companies can benefit from the Incentive Law and the supports under the R&D Law.

### Research and Development Supports

With the amendments made in 2019, the law establishes the basis of the incentive system in the fields of technology and research and development. The aim of the law is to support and encourage the production of technological information, the improvement of the product and production processes, the increase of product quality and standard, the increase of productivity, the low production costs, the commercialization of technological knowledge, the development of pre-cooperation, the acceleration of the introduction of foreign direct investments in technology, R&D, design and innovation by intensive production, entrepreneurship and investments in these areas, as well as the employment of qualified labour force to make the national economy internationally competitive.

Incentives provided under the Law: Discounts to be made in R&D, design and innovation expenditures made by Technology Development Zones or R&D Centres or within the scope of the projects supported by this Law or the projects supported by international funds are subject to the reduction in Income Tax Law and related articles of Corporate Tax Law.

In line with the legislation on supporting research, development and design activities, 90% of the salaries of R&D personnel and support personnel, the personnel other than public employees working in R&D Centres research, development, design and innovation projects, projects supported by international funds, enterprises benefiting from techno-enterprise capital supports and/or pre-competitive cooperation projects within North Cyprus, are exempt from Income tax. The full-time equivalent number of support personnel cannot exceed the 10% of the total number of full-time R&D staff. However, in order to benefit from the exemption stipulated in this paragraph, businesses must make their personnel payments via a bank operating in accordance with the North Cyprus Banking Law.

Within the same scope, half of the employer's share of the insurance premium calculated over the wages of the employees is covered by the allowance to be put in the Ministry's budget in each R&D, design and innovation project for five years. Activities carried out under this law are exempt from stamp duty in accordance with the Stamp Law. Techno-enterprise capital support covers the grant is provided once and cannot exceed 200,000 TL and a capital support that cannot exceed 8,000,000 TL for each calendar year.

### Renewable Energy Incentives

The purpose of the Law enforced by the Ministry of Energy is to expand the use of renewable energy resources for electricity generation or heating, to provide these energy resources to the economy in a reliable, economic and better quality manner, to increase resource diversity, to reduce greenhouse gas emissions and to protect the environment. The development of the production sector, supporting sustainable energy production, reducing energy imports and ensuring supply security are other subjects regulated under the Law in order to achieve these objectives.

#### *Exemption and Incentive Rules for the Investment Period*

Every year, Ministry of Energy allocates a budget line for the financing of incentives. Within the scope of this law, partial or complete financing of the facility investment, purchase guarantee through off-setting and full purchase guarantee are provided. The incentives provided in addition to these are:

- Projects submitted to the Ministry or the Board for the generation of electricity or heating systems using renewable energy resources are exempt from any taxes, stamp duties, duties and fees and licensing fees.
- The equipment, tools, materials and products to be imported from abroad to be used for the activation of the renewable energy generation system or facility are exempt from all kinds of funds, customs, taxes, duties and fees during the import process. However, VAT is not covered by exemption. When deemed necessary, the Council of Ministers is empowered to promote the use of such equipment and tools as domestic products.
- The investment period covers the first five-year period, including the electricity generation or heating by using renewable energy sources, the preparation and licensing of the system or facility and all preparations until it is operational. However, upon the proposal of the

Ministry, the Council of Ministers may extend the period up to seven years or cut down to three years by taking into account the volume of the investment to be made, the monthly production capacity of the renewable energy sources, electricity generation or heating system.

## ANALYSIS OF SELECTED INCENTIVE AND SUPPORT SCHEMES

States implement incentive policies in order to increase the activity in the economy or allocate the resources to the priority areas and these often create additional burdens on the budget. However, the important thing here is whether such expenditures or revenue foregone has contribute to achieve the targeted outputs or activities. It is possible to measure the most of the incentives and supports provided in Northern Cyprus as they are based on budget expenditures. However, the cost of incentive programs based on tax and similar fee/fund exemptions, in other words, tax expenditures cannot be calculated in our country. In this context, in addition to tax, fund, and customs exemptions provided for incentive projects within the scope of the investment incentive program, income tax exemption is also provided as investment discounts and the total cost of these to the state budget could not be calculated for years. In the meeting held with the Undersecretary of the Ministry of Finance Mr. Özdemir Kalkanlı, it was stated that with a new software and system put into practice these calculations will be made starting from 2020. The success of a policy implementation can be measured depending on whether it has positive results in line with its purpose. However, it is not possible to talk about the success or failure of the policies unless you can make the measurements properly.

Since most of the incentive policies implemented in North Cyprus encourage increase in quantity of production, it creates a constantly increasing burden on the budget as the amount of incentives to be paid increases. Moreover, as the budget has problems in terms of generating income, this creates problems in the payment of the aforementioned incentives. In this study, program based analysis were used to analyse the available data and the effectiveness of the incentives and support policies implemented in North Cyprus. A measurement on the effectiveness of the expenditure items of those based on budgetary resources and their effects and outputs (production, employment, export) were made within the context of the current incentive and support policies. Within the scope of this study, investment incentives granted under the 47/2000 numbered Incen-

tive Law, supports and subsidies provided by the Ministry of Agriculture, grants and project financings with interest support credit programs provided by KOBIGEM were assessed. The table below shows the 2015-2018 figures of the budget expenditures made under these programs.

Table 6: Incentives and State Support Schemes Budgets 2015-2018

Support Scheme	2015	2016	2017	2018
Licensed Investments	1.451.331.835	1.107.189.161	1.245.020.226	1.563.391.261
SME Grants	11.775.995	12.117.707	16.790.572	15.500.000
Subsidized SME Credits	77.387.350	90.458.600	105.293.300	-
Ministry of Agriculture Supports	151.341.812	186.106.959	160.799.113	261.712.886
Fair and Quality Standard Supports	1.740.087	1.517.175	2.133.802	2.307.027
Freight Refunds	2.460.000	2.960.000	3.660.000	3.690.000
Employment Support Payments	25.154.952	25.231.976	16.924.486	27.989.231

### Investment Incentive Scheme

The most comprehensive investment incentive program among the incentive programs implemented in North Cyprus, is managed by the SPO. The incentive program implemented under the 47/2000 numbered Incentive Law is a program designed to incentivize investments. It includes various incentives such as investment discounts, tax and fee/surcharge exemptions and credit opportunities with special interest rates from the Development Bank for the ones with incentive certificates, as well as building and land allocations. In order to receive the incentive certificate, companies present their 'planned investment' projects, investment costs and their objectives to the SPO. SPO decides whether to include the project within the scope of the incentive, depending on the feasibility of the project and the availability of other necessary permissions. Controls of the project that receives an incentive certificate are also carried out by the relevant ministry. In addition, if a credit has been used, the Development Bank also monitors the progress of the project while financing the project on the basis of progress. It is also necessary to check whether the

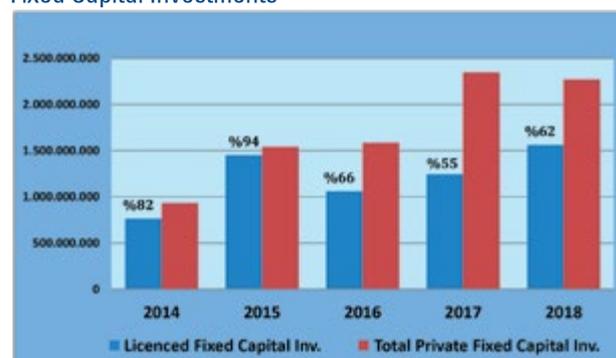
necessary commitments related with the project have been fulfilled. Additionally, the incentive certificate shall become void upon the completion of the project. Within the scope of the Incentive Law, a total of 601 investment projects have been granted with incentive certificates between 2001 and 2017. The number of incentive certificates given and the fixed capital investment costs of these investment projects are shown in the table below.

**Table 7 Number of Projects with Incentive Certificates and Total Investment Cost**

	2014	2015	2016	2017	2018
Licensed Investment (Million TL)	765.3	1,451.7	1,107.1	1,245.0	1,563.4
Number of Projects Licensed	22	42	37	34	24

In the table above, it is seen that, although the number of projects that receive investment incentives vary over the years, an average of 30 projects are granted an incentive certificate and the average investment amount of each project is around 30 million TL. Obviously, every project is different in size, but this is an average figure. It seems that especially in 2018, the amount of investment costs increased while the number of projects decreased compared to other years. This shows that the projects with higher investment values received support. Among the projects with incentive certificates, the investments with the highest incentive certificate and the highest investment share are the tourism investments which is accepted as the locomotive sector of the country. While tourism investment projects have the highest share in terms of investment value, the highest number of incentive certificates has been granted to industrial production projects. This shows that the investment costs of tourism projects are higher than the industrial investment projects. Within the investment incentives granted, the tourism investments have the highest share among fixed capital investments with a rate of around 80%. Student dormitory and other educational investments within the scope of Production Industry and Higher Education has the highest rate after Tourism. Manufacturing industry investments with a rate of around 9% and Higher Education Dormitory investments with a rate of around 8% constitutes a fixed investment value of 1.563.391.261 TL. The table below shows the ratio of the investments with incentive certificates to the total fixed capital investments in the country.

**Figure 5: Ratio of Certificated Investments to Private Total Fixed Capital Investments**



As seen in the national development plans and economic data, the tourism is the leading sector of the country. For this reason, the investment projects in tourism sector are considered as priority. Previously, larger capacity hotel projects were prioritised considering the insufficient bed capacity, however Bafra region in Karpaz, which is economically underdeveloped but whose natural structure is suitable for such touristic investments has been designated as Tourism Development area and specific land has been allocated in the region that is suitable for developing touristic facilities and incentive certificates has been provided to promote the projects in the region. However the investments in this sector are not only limited to this region, but also concentrated in Kyrenia although it is not a priority region. If we look at the distribution by regions, the majority of the incentive certificates are given to Nicosia region (40 percent), followed by Kyrenia (21 percent) and Famagusta (18 percent). As it can be seen from the table below, the bed capacity has been nearly doubled in the last decade and the highest sectoral investment figures, as investment value, have been reached.

**Table 8: Tourism Investments supported under Incentive Law**

Years	Tourism Fixed Capital Investment	Total Bed Capacity	Total Employment
2014	725.289.966	19,276	6,346
2015	1.146.720.118	20,393	6,563
2016	909,857,124	21,543	7,985
2017	1,022,615,654	21,845	9,280
2018	1,043,000,000	25,241	10,183

Investments that was supported with incentives brought additional employment opportunities to the economy. In this context, an analysis on how much these investments contribute to employment has been made by comparing the employment resulting from these projects in tourism and

other sectors and the increases in total employment. The table below shows the contribution of these investments to employment and other employment figures.

**Table 9: Contribution of Investments with Incentives to Employment.**

Years	Fixed Capital Investment (Million TL)	Proposed Employment	Actual Employment*
2014	765,294,513	1,729	5,022
2015	1,454,331,835	2,659	8,846
2016	1,107,189,161	1,887	6,128
2017	1,245,020,226	1,771	1,439
2018	1,563,391,261	2,029	10,257

According to the figures in the table above, employment creating potential of the investments were not fully utilised. Although the absence of skilled labour force seems like a justification, it is expected, especially from the foreign companies, to make their research and foresee this reality during their proposal and make their projections accordingly.

The projects that are already in the incentive system do not receive any direct payments, except for interest supported credits provided by the Development Bank and the allocation of buildings and land, if available. However, with the incentive certificate given, state is waiving from the related tax and fee and revenues for an indefinite period of time. Therefore, the amount of resources spent on projects within the scope of investment cannot be calculated properly. Investments in priority development regions are given 200% investment discount (twice the investment amount) and 100% investment discount in other regions. Since there is no time limit on this discount and the payback period of the investment is unclear, it is not possible for the state to make any income prediction based on these investments. In this study, state's tax revenue losses from investments with incentives were tried to be calculated based on certain assumptions. Two different calculations were made and it is assumed that payback period is 5 to 8 years on average for industrial investments and 8 to 10 years for tourism facilities. In these calculations, only 23.5% of corporate tax was taken into account as the tax loss of the state and other customs tax and duties was not taken into consideration as the amounts of the exemptions were not presented. It is assumed that industry investments return in 7 years and tourism investments return in 10 years. Based on these assumptions to be able to calculate the tax loss for the gov-

ernment, corporate income tax is considered as 23.5% and custom exemptions and other tax exemptions assumed to be 6.5% (5% for custom duties and 1.5% for other tax exemptions). Within these assumptions it is estimated that the tax loss for the government is approximately between 120 - 150 million TL per year.

Throughout the world and European Union, investment discounts are provided to attract investments in certain regions. However, the investment discounts provided for such investments are not high as this. In addition, the investment discounts and tax exemptions provided are limited to a certain period of time and within this period the investment is expected to payback otherwise the tax discounts are not applicable. Therefore, the recommended policy change is to decrease the investment discount rates gradually and to set a predefined period for discounts and exemptions. Discounts within the range of 100% and period not exceeding 10 years will bring compliance with the rest of the world as well as the European Union in terms of investment incentives.

### **Analysis of Agricultural Incentives and Supports**

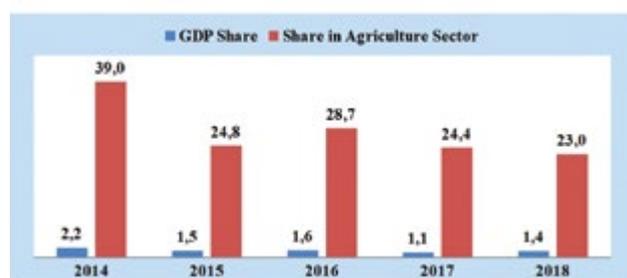
Among other incentives and subsidies, agricultural subsidies has specific importance. The reason for that can be explained with being farmer is difficult and not attractive as an occupation, naturally it is a risky sector compare to others. However the products produced in this sector are basic food which no country can terminate to produce.

Agricultural supports have significance among other state supports. The most known reasons for this can be listed as follows; farming is not an easy and appealing endeavour, the sector is risky due to its nature and the products produced are basic foodstuff (staple food) and because of this, backing-out from production is not an option. The global economic world order has increased the mobility of labour and accelerated migration from rural to urban areas. If no one wants to be a farmer and agricultural production decreases rapidly, this will affect the future of societies. For these reasons, the agricultural sector and farmers have always been at the uppermost of the protected sectors. However, the fact that this sector is benefiting from state supports should not disregard the need for an increased production, increased quality for competitiveness and soundness of adopting an efficient and environmentally friendly production model for sustainable production. Therefore, while the

agricultural sector is supported and subsidized, the sector should be supported not only for its viability but also by treating it like other economic sectors. Within the scope of the EU Common Agricultural Policy, some changes have been made by reconsidering the supports provided to agriculture in time. Despite the substantial support in the agricultural sector, the declining supports compared to the past disturb the EU farmers and threaten governments with protests. Once more, being a farmer is not easy both economically and socially and even a slightest change in the substantial supports generally causes protests. In a sense, the agricultural sector continues to exist as a sector based on supports throughout the world.

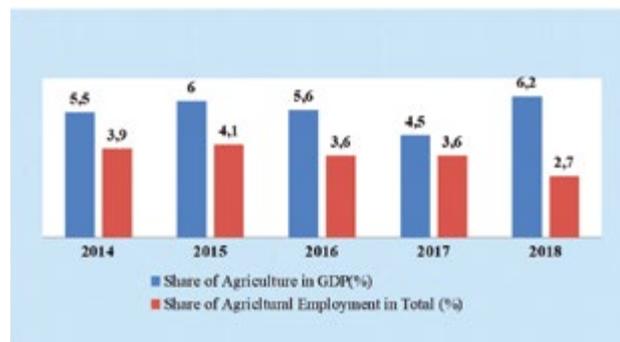
In North Cyprus, the agriculture sector is one of the sectors that receive the highest support. The main difference of agricultural incentives and supports from other sector incentives is that they are based on direct budgetary payments rather than tax and fee exemptions used mainly in other incentives. Since the agricultural incentives and supports in question are not based on productivity and directed towards the increase in production, they put an ever-increasing burden on the budget with the inflation pressure and the motivation of the producers to benefit more from the incentive. The inability to increase budget revenues creates a resource shortage and results in an unsustainable agricultural support program. The OECD Total Support Estimate (TSE) which makes comparison between countries by looking at the GDP share of agricultural supports and allows countries to compare their agricultural supports. According to OECD calculations, the share of agricultural supports in terms of GDP is 0.7% in the EU, 2% in Turkey and 1.4% in North Cyprus. Although this rate may not seem like a high rate, it is way above the EU average which is 0.7% (This rate is 0,4% in South Cyprus). Apart from the high rate, they are inefficient and are not result oriented and they constantly increase budget expenditures.

Figure 6: Share of Agricultural Supports in GDP and in Agriculture Sector (%)



Although the GDP share of the supports is important, the effect of the support on the agricultural sector is also very important. This significant amount of support is expected to positively affect the productivity of the farmers as well the welfare of the farmers. Furthermore, ensuring that the beneficiaries of this significant amount of support are real farmers is also important in terms of the impact of the support on the sector. In 2018, the share of the agriculture sector in GDP was 6.2% in North Cyprus, 1.1% in the EU and 2.2% in South Cyprus. Although the sector's share in general production varies from year to year depending on the weather conditions, it is around 4-6% on average. For example, after the 2016-2017 period, which was a year of drought and lower agricultural supports, the GDP share of the sector increased from 4.5% to 6.2% with a relatively rainy year and higher supports. However, it can be said that the average share in recent years is around 5-6%. However, the parallel trend in production is following a downward trend in the sector's share in employment. The share of the sector in the total was 4.1% in 2015, and this ratio is decreased to 2.7% in 2018.

Figure 7: GDP and total employment shares of the agricultural sector



Under normal circumstances, a decrease in sectoral employment parallel to increase in production may be considered as productivity however, this change may be related with factors such as unrecorded employment and part-time agricultural occupation. In order to increase productivity in a sector such as agriculture, automation, training or product diversification is required. However, the data of the last 5-6 years shows that the fixed capital investments which shows the automation in the sector are at very low rates and the shares allocated for training and new product development remained at very low shares compared to other support payments. However, it is also a fact that with the incentive system implemented, an increase in production can be achieved without fixed capital investments.

Figure 8: Fixed Capital Investment Amounts (in Million TL)



Although there is no tax exemption program specifically for agricultural businesses or farmers, in some input purchases, VAT or custom tax/duties exemptions are provided. However, most of the agricultural supports are far from encouraging the improvement of productivity and quality as the supports are provided based on the field size and number of animals. Furthermore, there is not enough reward or support for innovation or quality standards and the fixed investment amounts are very low. Nevertheless, there are couple of support policies (such as cold milk chain, organic production) focusing on yield and quality.

## Milk and Dairy Supports

In Northern Cyprus, milk and dairy products have an important place in agricultural production and agricultural supports. This sector is supported with various levels of state supports at every stage including feed production, income support per animal, milk purchase, discount sale to the manufacturer and export. As these supports are adjusted every year depending on inflation, they create an increasing burden on the budget. The total support provided under the Ministry of Agriculture and Natural Resources for the agricultural sector and the milk sector as a sub-sector is around 40% with some changes over the years. When it is considered within the scope of direct income support, the direct income support paid for milk was the highest in 2014 with a rate of 58% and was 46% in 2018.

Table 10: Milk Subsidy Shares (%)

	2014	2015	2016	2017	2018
Share of Milk Support in Total Agricultural Support (%)	41,0	47,2	37,7	42,1	43,1
Share of DIS for Milk in Total DIS for Agriculture	58,7	52,1	47,4	50,4	46,3

As a result of such a comprehensive support policy, milk and dairy productions are constantly increasing. Additionally, the export of the surplus product is also supported. As a result of these supports provided in the recent years, milk products has become the leading export product of Northern Cyprus. Until the ECJ Decision, a significant amount of hellim/halloumi was exported to other European countries, especially to the UK and some to the Middle East. With the closure of the European markets after ECJ decision in 1994, the main market for hellim/halloumi has shifted to Middle East and kashar cheese exports mainly to Turkey. Hellim/halloumi is registered geographically as Protected Designation of Origin product and this status is well known especially in Middle East and Turkey markets. Hellim/halloumi is marketed under its real price as a result of the incentives and supports provided. As can be seen from the table below, approximately 11 million kilograms of dairy products are exported annually. Dairy export revenue has reached approximately to 40-50 million USD. Considering the subsidies provided for the purchase of animal feed, for the purchasing price of milk, subsidized supply to manufacturers and export incentive payments are included, the total support amount provided is calculated around 50% of the total export value. The price of 1 kilogram of the product is calculated as 4 USD approximately by dividing the export value to the export amount. Almost half of this price is provided by the government as support within the different stages of the sector.

Table 11: Milk Export and Subsidy Ratios

	2015	2016	2017	2018
Export Value (\$)	49,695,473	49,374,851	43,478,776	42,933,608
Milk Product Supports (\$)	33,317,259	26,708,108	23,696,930	23,969,352
Export Amount (kg)	11,078,919	11,503,757	10,752,154	10,533,145
Price/Kilogram	\$4.49	\$4.29	\$4.04	\$4.08
Price Support Ratio	67%	54%	55%	56%

While the registration process of the hellim/halloumi product in the European Union continues, it was understood that the production composition of the product will need to be changed. According to 2017 data, the largest share in milk production belongs to cow milk with 86%. Sheep milk takes the second place with 11%, followed by the lowest share of goat milk with 3%. In Southern Cyprus, 80% is cow milk,

10-11% is sheep milk and 9-10% is goat milk. Currently, the milk content of hellim/halloumi is mainly cow milk, however the goat and sheep milk content will need to be increased. In order to be able to enter to the European Market in the future, it will be necessary to increase ovine breeding in order to make this change in the milk content. In this context, partial supports provided (such as milk base price and support for ovine breeding) need to be improved over time. In order to ensure the compliance with the norms of the European Union that apply high standards on health and food safety and animal diseases, the standards of the milking facilities of the farms and the milk storage and transportation processes need to be upgraded and the supports for the necessary investments need to be reorganized.

### Citrus Products Supports

Citrus production is the sector receiving the highest support after milk and dairy products and is second runner in exports and is affecting a large population. Citrus products, which are among the traditional products of both the island and the Mediterranean region, have an important market in the world. As in milk production, additional support payments are made for the maintenance of the orchards (hoeing, pruning, fertilizing) as well as the support given to the growers for the production of citrus. In the light of this, export incentive premium payments are made in varying amounts depending on product type and quality. Citrus trees and cultivation areas, produced mainly in the Güzeilyurt region and have been decreasing over the years due to salinization in the water and urbanization. The production area decreased from approximately 130,000 acres to 30-35 thousand acres today. The orange orchards that are consisting of predominantly Valencian type orange trees, renewal studies are carried out for either rejuvenation or change of species over time.

Table 12: Citrus Supports

	2015	2016	2017	2018
Citrus supports for new species and rejuvenation pruning	255,655 TL	255,655 TL	1,339,207 TL	661,690 TL
Supports for GlobalGap certification	79,000 TL	79,000 TL	483,418 TL	575,493 TL

In addition to the decrease in cultivation areas, there is a decrease in the product quality as a result of the deficiencies in the maintenance of the orchards, especially on the grounds that many farmers do not get satisfactory price for the product and the yield per donum decreases. Product prices, which are generally categorized as 3 different quality, may also vary. The product can even find buyers at different prices from different countries. Among the Lemon, Grapefruit, Orange and Tangerine products, as also seen from the table below, while the grapefruit and tangerine are getting the highest prices, the grapefruit cultivation area as well as the yield has decreased.

As a result of the aforementioned rejuvenation and change of species, many manufacturers switched to the planting of king type tangerines and it is visible that the product has a better price in the international markets. In recent years, as an alternative to citrus cultivation, pomegranate cultivation is adopted by the producers, which is a product that consumes less water and can find much higher prices than citrus products in international markets. This product, which can find buyers for almost 3 times more than citrus products, can be marketed at very high prices, especially in Northern European countries with high-income levels. The Ministry provides support for obtaining Global Gap certification in order to market such table products more easily in foreign markets. There is a need for additional supports such as marketing support and training support in order to increase similar supports for the production of organic products with high potentials of finding markets such as pomegranate.

Table 13: Average Unit Export Prices

	Average Price( \$ / ton )		
	I. Class	II. Class	III. Class
Lemon		260	240
Grapefruit	380	200	140
Orange	240	190	150
Tangerine	360	300	250
Pomegranate	900		

## Analysis of Export and Foreign Market Access Support Schemes

### Foreign Market Access Support Schemes

The incentive programs under the Department of Industry for the companies operating in the industrial sector are provided in two categories. One of these are the incentives provided for the companies to participate to fairs organized overseas in order to access to foreign markets and promote their products and the other is provided to improve the standards of their product. In addition, the Technology Zones Development Law and the Research and Development Law, which are adopted in 2019 but waiting for the enactment of secondary legislation, include incentives and supports which can be considered as R&D incentives. In this section, the incentives to participate to fairs in order to access to foreign markets and supports towards the improvement of product quality are included.

The incentive program which is implemented in six different headings, is designed to improve the product quality and standards of the industrial companies in order to facilitate their access to foreign markets and start exporting activities. These headings are: supports for standards and certification, supports for market research and market entry, supports for participation to overseas fairs, supports for overseas trademark registration and overseas advertisement and supports for overseas rent. Within the incentive programs, a part or all of the expenditures of the companies in relevant areas up to a certain amount are financed as grants. The support instruments utilized are financing all the processes of a company that is entering into a foreign market. In this regard, the program is properly set-up and is compliant with the international incentive formations. Furthermore, the EU regulations on State Aid demands certain requirements from an aid programme in terms of measurability, specific budget, aid criteria and defined thresholds and the program in this respect is also compliant with the EU norms.

Incentives for the quality and standard certificates, which are important factors in accessing foreign markets, includes ISO, BRC, Halal and CE certificates etc. Within the program, 50% of the application fee of the certification is supported as grants up to €3,000. In the light of the data obtained from the Department of Industry, it is observed that, from 2015 to 2019, 28 companies applied to receive support for at least one of the aforementioned certification and standards and benefitted from the supports.

Market Research and Market Entry supports covers the 70% of the foreign market research expenses of the companies up to €8,000. In addition, the membership expenses to e-commerce sites which should not exceed 2,000 Euros per site and up-to 4 sites in total are also supported. According to the data of the Department of Industry, a total of 45 companies applied for this support package between the years 2014-2018. However, the number of applications for market research and the number of applications for e-commerce sites is not available individually.

Trademark registration support, which is an important element in foreign markets from time to time and is important for innovation, has not been used by any companies within the specified time period. This shows that local companies is not experiencing any obstacles in terms of brand registration in foreign markets. The support program for rent expenses of showrooms, warehouses and offices only received application from few companies and for a limited period of time. This period of this support is limited to 4 years.

The incentive program for the companies to participate to fairs organized overseas, is the support program which attracts the most interest. For the international fairs, 75% of the expenses of the producers, import companies and the representatives of the producers' union, including renting of the stands, transportation, hostess/attendant and translator expenses are within the scope of the government incentives up to 8.000 Euros for each participation. The fairs attended by the local companies under the organization of the Chamber of Industry are generally food fairs and mainly on fresh fruit-vegetables, information technology and recently construction materials and commercial fairs on local products organized in Turkey. In addition, Dubai Gulf Food, Abu-Dhabi SIAL, London general food fair and the Berlin Fruit Logistica which is the largest fair in the world on fresh fruits-vegetables, are the fairs regularly attended by the Turkish Cypriot companies. Furthermore, in the recent years organizations are made to attend Middle East North Iraq, Jordan and Lebanon construction materials fairs and the international informatics fair and expo CEBIT.

The most important outcome of international fair supports is measured by how many contacts are made by the participating companies and how they contribute to exports. In this context, an analysis was made based on the periods before and after 2010. In this analysis, the foreign trade statistics published by the Trade Department and the number of enterprises participating in the fair organizations listed

by the Turkish Cypriot Chamber of Industry were taken into consideration. Since the economy of Northern Cyprus is an island economy and available natural resources are limited, overseas revenue generation is mainly from trade in services as in other similar economies. However, in addition to trade in service, there are some export revenues from the export of industrial products. The total export value of Northern Cyprus has been around 50-60 million USD for many years. When the export composition is analysed, it is observed that the main export items are mostly agricultural and processed agricultural products. Until the mid-nineties and the famous decision of the Court of Justice of the European Union, textile, citrus and potato were the leading export products. After the ECJ decision in 1994, textile exports decreased day by day and the citrus exports shifted from European Union countries to Turkey, Russia and other Commonwealth of Independent States and the Gulf countries.

In order to observe the effect of the incentives on exports, the export volume between 2004 and 2018 and the change in the patterns were analysed. As it can be seen in the table below, while the total export value in 2004 was 62 Million USD, this value reached to 100 Million USD in 15 years by 2018. In 2004, 25 products were exported to 27 different countries and in 2018, 40 different products were exported to 36 different countries.

Table 14: Composition of Exports

Years	Export Value	Number of Export Countries	Number of Exported Products	Number of export products with a volume of \$1 million
2004	\$62 million	27	25	9
2018	\$100 million	36	40	13

Export patterns shows variations both in terms of volume and composition. The number of exported products with a value above \$1 million USD per year is increasing parallel to the increase in the number of countries exporting from the country and the number of exported products. Although the dairy products and citrus are the main export products constituting almost half of the total exports, some diversification is observed recently in terms of export products. In order to better understand the reasons behind this increase in terms of volume and variations, an observations needs to be done on the development of the companies attending the overseas fairs. Based on the fairs organized by the Chamber of Industry, the structure of the

companies attending these fairs between the years 2014-2018, the following outcomes are attained and presented in the table below.

As it can be seen from the table, the foreign market access incentives are decreasing both in TL and foreign currency. As the incentives decrease, the export of the products other than citrus and dairy that are supported with incentives also decrease. This shows us the direct effect of the foreign market incentives on the export. Furthermore, as the incentive amounts decreases, the number of beneficiary companies also decrease implying that some of these companies might already quit the export market. The number of companies benefiting from fair incentives for the first time shows a decrease in the recent years, however it is also known that the number of companies attending a fair for the first time and starting export activities is increasing. While the table above is showing a decrease in total exports the export over the green-line on the other hand is showing an increasing trend in the latest years.

Table 15: Foreign Market Access Incentives and Export Patterns

Years	Total Amount of the Foreign Market Access Incentives	Total Number of Companies Attending Fairs	Number of Companies Attending a Fair for the first time	Export Products other than Citrus and Dairy Products (\$ million)	Export over the Green-line (\$ million)	Total Exports (\$ million)
2014	\$750,000	38	13	65,6	3.4	134.0
2015	\$720,000	47	8	47,4	2.6	118.0
2016	\$650,000	25	6	40,0	4.3	105.5
2017	\$580,000	36	7	40,1	4.6	105.6
2018	\$600,000	24	4	32,5	5.5	100.9

Except the fair supports, the supports provided contribute to the improvement of the quality and standards of the companies, therefore facilitates and increases the exports over the green-line which accepts European Union standards. In addition to the traditional products such as citrus products and dairy products, export of new products such as coffee, ice cream, tahini, artichoke and pomegranate has been started in the recent years. Exports to new markets such as India, Pakistan, Mongolia, Japan, Canada and Sweden has also started and these markets have been accessed recently even tough in small quantities. It is also understood that the access to these new markets was

facilitated with the aforementioned supports. Based on these findings and the indicators in the table above, the supports to improve the quality and standard of the products act as preconditions to facilitate the access of the local products to foreign markets. Today it is very important for the companies, fulfilling these requirements, to participate to organizations such as fairs and more importantly to e-commerce platforms in order to find new markets and customers. For this reason, it is important to provide this support to new companies for a certain period of time (at least 5 years). On the other hand, in order to have positive results and efficient use of resources, the supports should be terminated for companies which failed to develop new networks and enter to new markets after participating to a number of fairs.

### Employment Support Schemes

Employment support programs have different forms of implementation. One of the common implementation is the payment of all or part of the social security payments of the employee by the state. In this category, the employer can benefit from the support in case the employee is within the target group as specified in the Law. Another form of implementation is that the company benefits from tax exemption if the employees are covered by the incentive.

Employment support programs are implemented in many countries like other incentives. Although there are some employment supports in North Cyprus, the program gained a different importance with the adoption of the Regulation on "Support Local Employment" in 2013. The program is managed by Labour Support Centre which is also managing different employment support programs. Employment of youth is also encouraged within this context.

The objective of this incentive is to decrease the unemployment rate of a certain group or increase the employment rate overall. While unemployment is a significant problem, the youth unemployment rate is much higher than the unemployment rate in general. For this reason, many countries implement such employment support programs to encourage youth employment. This kind of support programs is an important factor that enables young people to enter the labour market. As there will be similar supports for the employment of disadvantaged groups, the provision of certificate programs that will provide access to the labour market is also considered as employment support. Without a doubt, the increase in employment means in-

crease in production. However, employment support programs do not always increase employment or decrease unemployment. These incentives provided for a certain group directs the employer's preferences such as; hiring low-cost youth who have no experience rather than hiring experienced personnel. Nevertheless, the expectation from these programs is the increase in the number of workers to be employed by decreasing the cost of workers.

These incentives, which are generally funded by the budget, are financed by a fund established within the Ministry of Labour and Social Security in North Cyprus. According to the Provident Fund Law, the 5% "Local Employment Premium Contribution" deducted from employers per foreign worker they employ creates a source for supporting the local employment. It is not possible to say whether this program has achieved its purpose, since the local employment rate or local unemployment rate is not calculated. North Cyprus employment data subdivides unemployment data by region, gender and youth unemployment.

Table 16: 2015-2019 Unemployment Rates

	2015	2016	2017	2018	2019
General Unemployment Rate	7,4	6,4	5,8	6,9	6,3
Male Unemployment Rate	6,5	5,5	4,6	5,7	5,3
Female Unemployment Rate	8,9	7,9	7,8	9,0	8,0
Youth Unemployment Rate	19,6	17,0	18,7	22,0	19,4

Projects supported by Labour Support Centre such as; Supporting Youth Employment Project, Supporting Small Tradesmen and Small Businesses Project, Vocational Education-Employment in Tourism Sector Project, Integrating Women Labour to Economy Project are projects implemented to support employment. While the number of people covered by employment support constituted 19.5% of total employment in 2010, this rate increased to 37.6% in 2018.

Table 17: Beneficiaries of the Project to Support Local Employment

	Men	Women	Total	Age group 18-35	Age group 35-60	Total
Project Scope	12.975	14.174	27.149	17.055	10.094	27.149
Ratio	47,8%	52,2%	100%	62,8%	37,2%	100%

Table 18: The share of the employment via Labour Support Centre in total employment

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of people Under Labor Support Schemes	18.279	19.499	24.489	26.358	29.296	32.733	38.714	46.451	49.753
Number of Employment	93.498	97.103	96.359	97.867	103.149	112.811	118.387	120.999	132.411
Employment via Scheme/ employment rate	19,6%	20,1%	25,4%	26,9%	28,4%	29,0%	32,7%	38,4%	37,6%

The gender analysis of the program shows that 52.2% of the beneficiaries of the project for supporting local employment were women. According to age groups, it is observed that young people between the ages of 18-35 benefit more with a rate of 62%. Therefore, the project for supporting local employment also contributed to support projects for women and youth employment.

There is no research study that measured the impact of employment support programs in North Cyprus. Therefore, an assessment can be made by considering the current unemployment rates to see whether employment support has an impact on unemployment rate, especially on the rate of youth unemployment. However, current data shows that mostly young people and women benefit from employment support programs.

As stated in the workforce report of the World Bank, the high level of youth unemployment and low labour force participation rate are noteworthy negative indicators in the labour market of North Cyprus. Especially, the high unemployment rate of youth and women and the low participation rate of women in labour force are stated as negative indicators of the labour market. Although there have been some improvements in these rates in certain years, it is still behind developed countries. Therefore, employment support policies should include measures targeting the problems in the labour market. The figures above show that the employment support policy being implemented is somewhat responsive to these problems. It should also be noted that the supports for the improvement of the skills of the employees carried out by the Labour Support Centre are included in the recommendations of the World Bank report. The table below compares the unemployment and labour force participation rates of North Cyprus with other countries.

Table 19: Labour Force Participation and Youth Unemployment Rates in some countries (2018)

	Labour Force Participation Rate			Youth Unemployment Rate		
	Total	Men	Women	Total	Men	Women
Finland	66,9	69,5	64,3	17,3	18	16,7
Singapore	67,7	76,3	60,5	8,6	-	-
Estonia	76,7	67,7	66,9	11,8	12,3	11,4
Malta	60	70,1	43,2	10,2	11	9,4
Poland	56,3	64,9	48,5	11,4	11,5	11,2
South Cyprus	62,4	67,8	57,2	18,1	22,8	13,6
North Cyprus	50,9	60,1	40,3	22	18,3	27

## CONCLUSION AND RECOMMENDATIONS

Various incentive and support policies implemented in North Cyprus have been analysed within the scope of this report. The purpose of the incentives and supports implemented as included in the report is to mobilize resources and investors to a specific sector or region in order to increase economic growth, production, employment and exports. The success of the incentives are measured to the extent whether they have achieved the targetted objectives or not. Especially in small economies such as North Cyprus, where both natural and financial resources are limited, efficient use and allocation of resources become more important. For this reason, it is important to measure whether the supports and incentives implemented meet the targetted objectives. In this context, each incentive policy should primarily have a measurable objective. There is a need to review or update the objectives at certain periods or revise the incentives, even if the objectives do not change, when the incentive instruments are not allocating resources to

the predefined objectives. Therefore, the management and administration of incentive policies are very important. It is important to assign a single authority in charge of incentives for effective management in this respect. The fact that the incentive policies in North Cyprus are managed by different ministries, the overall coherence and impact of the policies weakens. For this reason, there is a need for incentive policies with measurable objectives in line with local strategies that are supervised and administered by an authority to ensure coordination.

The fact that many of the incentive policies implemented in North Cyprus are based on tax exemptions but tax losses never calculated, which makes the success of the related incentive policies questionable. In recent years, it is known that a new legislation has been enacted that provides long-term or even indefinite tax reduction or exemption to new investors. The success of incentive practices around the world is attributed to the benefit resulting from the incentive exceeding the resource (cost) allocated to incentive. However, the tax loss on state budget resulting from tax, surcharges and customs exemptions and investment discounts provided for projects with incentives in North Cyprus has not been calculated. Based on the fact that it is not possible to manage if it's not measured, it is necessary to calculate the income losses as a result of such exemptions and include in the budget as tax expenditures. What is recommended here is not refraining from such exemptions or discounts but adjusting the exemption rates and duration according to certain analysis. Incentives should be linked to a specific objective as much as possible, there should be upper limits for resource use, or the time limit should be predefined and should not be indefinite. Reducing tax rates and exemptions in order to encourage investments, increases the tax losses incurred and increases the burden of other taxpayers. This can demotivate the ones that are planning to invest without incentives. In addition, it also puts pressure on taxpayers to either declare their income low in order to pay less tax or to benefit from a tax incentive program. Such situations also include tax evasion or tax avoidance practices. Excessive tax exemptions or reductions may have ill-treating effects to include other earnings and expenses of the businesses in these discounts.

Another aim of investment incentives is to close the gap between the capital and skill in the economy by attracting foreign investments to the country. In this context, some results have been obtained from the incentive practices

in the world. For example; Incentives are often not very effective, especially if investments are made to access a natural resource (sea, sand, sun). Temporary incentives are more effective in the short term than long-term incentives. While incentives were less sensitive to tax changes, incentives for exports (or foreign markets) were found to be more sensitive to tax rates. Another issue that is agreed upon is that investments all over the world are affected by the positive investment climate rather than the incentive policies implemented. The "investment climate" expressed here is addressed in a wide range from economic stability to social and political stability. Going further, the reliability of the judicial system also includes issues related to the superstructure, which can reach up to the protection of property rights. In fact, this situation is so important that, in various studies conducted by the World Bank, it is found that the appropriate investment climate is 5-6 times more effective than the incentives. It is determined that the investment climate is more effective than investment incentives especially in attracting foreign investor from developing countries.

In addition to the investment climate, it is important that the incentive system is simple, transparent and easily applicable. Primarily, it is important that the programs implemented are open in order to be accessible by the relevant stakeholders or potential entrepreneurs and to be transparent and simple (in terms of bureaucratic procedures). It is also important that the information sought is easily available and questions can be answered in a timely manner. In the screenings carried out during the study, it was observed that most of the institutions that provide incentives in North Cyprus do not actively use social media, there is no hotline that can answer questions in the form of a customer hotline and even the websites of most institutions are not up-to-date, informative and user-friendly.

In addition to incentive practices, there are many support policies implemented in North Cyprus. Due to the fact that most of these support policies encourage an increase in quantitative production, continuous production creates an ever-increasing burden on the budget. To the extent that sufficient income is not generated in the budget, problems arise in the payment of these supports. It is important to design such supports to eliminate the externalities caused by more market disruptions, rather than to depend on the quantity without selectivity. For example, implementations such as freight support for the negative effects of isola-

tions and interest rate subsidies to eliminate the effects of the negative costs of limited financial integrations are important in this context. Governments should take care the areas they will support and encourage practices that create positive externalities such as employment, education-skills, environmental friendliness and technological innovation.

Supports should not be granted to areas that have a potential to create environmental pollution, crime and similar social costs (such as casinos, petro-chemistry, agricultural products that consume excessive water).

Finally, as mentioned above, the insufficient resources of the country dictates best use of available and scarce resources and allocation of these to the most appropriate areas. In this context, the incentives and supports granted and to be granted must be compatible with the general strategic goals of the country and they must be measurable, supervised and accessible.

There is a need for incentive and support policies to be designed to improve the competitiveness capacity of North Cyprus and to serve medium and long term objectives. In particular, in this global digital transformation era, there is a strong need for implementing incentive and support policies to prepare the North Cyprus economy for the future. This transformation should be planned in a way to eliminate infrastructural deficiencies and to support the transformation and development of infrastructures in areas such as education and health and to serve the creation of skilled human capital.

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# ANNEX I

## Annex 1: Macroeconomic Indicators

	2011	2012	2013	2014	2015	2016	2017	2018
Real Growth Rate (% change)	4	0,5	1,3	4,9	4	3,6	5,4	1,3
GDP (Million TL)	6.508	6.955	7.607	8.858	10.226	11.601	14.544	18.324
GDP per capita (Current prices. US\$)	15.285	15.123	15.357	15.140	13.737	13.897	14.187	13.277
Consumer Price Index (CPI, %)	14,7	3,6	10,2	6,5	7,8	10,2	14,7	30
Exchange Rates (TL/€)	2,06	2,30	2,53	2,91	3,02	3,34	4,12	5,67
Exchange Rates (TL/\$)	1,51	1,80	1,90	2,20	2,73	3,02	3,65	4,83
Total Deposits (Million, TL)	8.403	9.284	10.684	11.774	13.951	14.067	17.480	26.442
Total Deposits / GDP (%)	133	132	140	133	136	121	120	144
Total Loans (Million, TL)	5.402	6.288	7.870	9.557	10.399	10.352	12.341	18.906
Total Loans / GDP (%)	85	90	103	108	102	89	85	103
Loan / Deposit Rate (%)	64	73	78	81	75	74	71	68
Balance of Public Budget / GDP (%)	-14	-8,8	-7,2	-4,8	-3,7	-1,7	-0,7	29,7
Public Debt Stock / GDP (%)	141	139	154	149	157	165	142	151,8
Foreign Trade Balance ( Surplus + / Deficit -) (Million US\$)	-1.547	-1.583	-1.579	-1.650	-1.383	-1.452	-1.672	-1.715
Foreign Trade Balance / GDP (%)	47,8	47,3	45,7	48,6	43,2	43,3	47,3	49,8
Current Account Balance (Surplus + / Deficit -) (Million US\$)	-173,1	-125,1	-44,7	-12,6	271,6	289,9	294,4	131,9
Current Account Balance / GDP (%)	-4,5	-3,2	-1,1	-0,3	7,2	7,6	7,4	3,5
Total Employment	97.103	99.117	101.181	103.149	112.811	118.387	120.999	132.411
Public Administration Employment	29.695	27.141	30.266	31.276	32.218	32.236	34.043	35.474
Active Insured Persons	71.144	74.869	77.334	79.711	84.793	92.917	102.944	111.626
Number of Unemployed	10.411	9.174	8.929	9.320	9.043	8.075	7.453	9.873
Minimum Wage (TL)	1.300	1.300	1.415	1.675	1.730	1.834	2.175	2.620



Statistical Institute

Calculated using data from the Statistical Institute.

TRNC Central Bank

Calculated using data from the Statistical Institute and TRNC Central Bank.

Çalışma ve Sosyal Güvenlik Bakanlığı

## ANNEX II

## Annex 2: Technical Notes and Sources for Competitiveness Report Hard Data

	Unit	Source / Method of Calculation	Amount	Implied GCR Rank	Comments / Reliability of Estimate
<b>Homicide Rate</b>	per 100,000 population / 2018	Calculated by using data from Police Headquarters	2	64	2018 Number of homicide occurrences: 9
<b>Terrorism Incidence</b>	0-100 (no incidence)	Estimated by Economists	100	1	
<b>Social Capital</b>	Legatum Prosperity Index 0-100 (highest)		n/a	n/a	
<b>Budget Transparency</b>	Open Budget Index 0-100 (high transparency)		n/a	n/a	
<b>Freedom of Press</b>	World Press Freedom Index 0-100 (worst)	World Press Freedom Index / 2018	29,67	62	
<b>E-participation</b>	E-participation Index 0-1 (best)	E-participation Index	n/a	n/a	
<b>Incidence of Corruption</b>	Corruption Perceptions Index 0-100 (very clean)		n/a	n/a	
<b>Quality of Land Administration</b>	Quality of land administration 0-30 (best)	Cyprus Turkish Investment Development Agency (CTIDA)	15,50	73	
<b>Conflict of Interest Regulation</b>	Conflict of interest regulation 0-10 (best)	Cyprus Turkish Investment Development Agency (CTIDA)	6,00	53	
<b>Shareholder Governance</b>	Shareholder governance 0-10 (best)	Cyprus Turkish Investment Development Agency (CTIDA)	3,70	112	
<b>Energy Efficiency Regulation</b>	0-100 (very conducive)		n/a	n/a	
<b>Renewable Energy Regulation</b>	0-100 (very conducive)		n/a	n/a	
<b>Environment-related Treaties in Force</b>	Total number of ratified environmental treaties 0-29 (best)		n/a	n/a	
<b>Road Connectivity</b>	Road Quality Index 0-100 (excellent)		n/a	n/a	
<b>Railroad Density</b>	The World Bank Group		n/a	n/a	
<b>Airport Connectivity</b>	Scheduled per week originating in the economy (in millions) / 2018	Calculated using data from the Ministry of Public Works and Transportation.	19,21	127	This estimate is based on all scheduled flights from Ercan Airport plus %20 off the available seat km in the Greek Cypriot community since Turkish Cypriots use those airports too.
<b>Liner Shipping Connectivity</b>	Linear Shipping Connectivity Index 0-100 (best)		n/a	n/a	
<b>Electricity Access</b>	percentage of population	Estimated by economists	100,00	1	
<b>Electricity Supply Quality</b>	electric power transmission and distribution losses	Cyprus Turkish Electricity Agency	6,66	35	electricity loss rate (2018): %6.66
<b>Exposure to Unsafe Drinking Water</b>	0-1 (worst)		n/a	n/a	
<b>Mobile-cellular Telephone Subscriptions</b>	per 100 population / 2018	Calculated using data from Information Technologies and Communication Authority	131,38	42	Registered number of mobile phone subscriptions (2018): 489.361, population (2018): 372.486
<b>Mobile-broadband Subscriptions</b>	per 100 population / 2018	Calculated using data from Information Technologies and Communication Authority	96,80	35	Number of mobile-broadband subscriptions (2018): 360.640, population (2018): 372.486
<b>Fixed-broadband Internet Subscriptions</b>	per 100 population / 2018	Calculated using data from Information Technologies and Communication Authority	56,50	1	Number of fixed-broadband Internet subscriptions (2018): 210.478, population (2018): 372.486
<b>Fibre Internet Subscriptions</b>	per 100 population / 2018	Calculated using data from Information Technologies and Communication Authority	0,02	102	Number of fibre Internet subscriptions (2018): 72, population (2018): 372.486
<b>Internet Users</b>	internet users / population 2018	Calculated using data from Information Technologies and Communication Authority	56,51	91	Internet users (2018): 210.483, population (2018): 372.486
<b>Inflation</b>	Annual percentage change in consumer price index / 2018	Statistical Institute	29,96	138	Inflation rate (2018): %29.96

## Annex 2: Technical Notes and Sources for Competitiveness Report Hard Data

	Unit	Source / Method of Calculation	Amount	Implied GCR Rank	Comments / Reliability of Estimate
<b>Debt Dynamics</b>			n/a	n/a	
<b>Healthy Life Expectancy</b>	at birth years / 2018	Statistical Institute	66,30	56	Average life (2018) in men: 81.3 in women: 84.0
<b>Mean Years of Schooling</b>	25 years and older population		n/a	n/a	Completed school years of population 25 years and older
<b>School Life Expectancy</b>	enrollment rates / years of education 2018	Calculated using data from Statistical Institute	16,00	18	Primary school: 5 years Secondary school: 3 years High school: 4 years Higher education: 4 years
<b>Pupil-to-teacher Ratio in Primary Education</b>	in primary education	Statistical Institute	8,60	1	
<b>Trade Tariffs</b>	Average tax per unit value imported / 2018	Calculated using data from the Ministry of Finance.	1,11	34	Calculated based on total tariff revenue divided by total value of imports for that period. Total tariff revenue at current prices (2018): 95.803.442, Total Imports (2018): 8.662.243.139 TL
<b>Complexity of Tariffs</b>	1-7 (not complex)	International Trade Center	n/a	n/a	
<b>Border Clearance Efficiency</b>	1-5 (best)		n/a	n/a	
<b>Redundancy Costs</b>	weeks of salary	The data in article 19 (2) of Labor Law No. 22/1992 was used.	5,00	13	22/1992 Labour Act - Article 19(2): Employees who work more than 5 years will get 5 weeks of salary amount redundancy payment
<b>Workers' Rights</b>	ITUC Global Rights Index 1-7 (highest)		n/a	n/a	
<b>Ratio of Wage and Salaried Female Workers to Male Workers</b>	ratio to men / 2018	Calculated using data from Statistical Institute	0,57	89	Female participation in labor force (2018): %40.3 Male participation in labor force (2018): %60.1
<b>Labour Tax Rate</b>	Sum of social insurance rate and provident fund rate	Calculated using data from Ministry of Labor and Social Security and Statistical Institute.	14,00	61	Social insurance rate: 9%, provident fund rate: 5%
<b>Domestic Credit to Private Sector</b>	as a percentage of GDP / 2018	Calculated using data from TRNC Central Bank	75,45	42	Total domestic credit to private sector: 13.826 millions TL, GDP: 18.324 millions TL
<b>Market Capitalization</b>	as a percentage of GDP / 2018		n/a	n/a	
<b>Insurance Premium</b>	as a percentage of GDP / 2018	Calculated using data from Ministry of Labor and Social Security and Statistical Institute.	1,77	61	Total number of insurance premiums (2018): 982,837,319 TL, GDP (2018): 18.324 millions TL
<b>Non-performing Loans</b>	total amount of non-performing loans / total amount of credits 2018	Calculated using data from TRNC Central Bank	5,85	81	Total amount of non-performing loans (2018): 1.045 millions TL, total amount of credits (2018) : 17.861 millions TL
<b>Credit Gap</b>			n/a	n/a	
<b>Banks' Regulatory Capital Ratio</b>	Average of 24 months	Calculated using data from TRNC Central Bank	17,77	57	Banks' regulatory capital ratio (moving average 2015-2017)
<b>Gross Domestic Product</b>	billion dollars / 2018	Statistical Institute	4,89	138	GSYIH (TL): 18.324.165.339,2
<b>Imports of Goods and Services</b>	as a percentage of GDP / 2018	Calculated using data from Trade Office	47,27	62	Imports (2018): 8.662 millions TL, GDP(2018): 18.324 millions TL
<b>Cost of Starting a Business</b>	Expressed as a percentage of the economy's income per capita.	Cyprus Turkish Investment Development Agency (CTIDA)	27,70	116	
<b>Time to start a business</b>	number of procedures	Cyprus Turkish Investment Development Agency (CTIDA)	26	114	
<b>Insolvency Recovery Rate</b>	cents / \$		n/a	n/a	
<b>Insolvency Regulatory Framework</b>	0-16 (best)		n/a	n/a	
<b>International Co-inventions</b>	per million population		n/a	n/a	
<b>Scientific Publications</b>	Scopus data base		52,00	134	
<b>Patent Applications</b>	applications/million population / 2018	Calculated by using data from Official Receiver and Registrar	16,11	32	Number of patent applications (2018): 6
<b>R&amp;D Expenditures</b>			n/a	n/a	
<b>Research Institutions Prominence</b>	Reserach Institutions Prominence Index		n/a	n/a	
<b>Trademark Applications</b>	applications/million population / 2018	Calculated by using data from Official Receiver and Registrar	1165,14	51	Number of trademark applications (2018): 434

# ANNEX III

## Annex 3: How to Read the Economy Profiles

### PAGE 1

#### Performance overview

This section details the economy's performance on the main components of the Global Competitiveness Index 4.0 (GCI). The chart in this section presents an economy's score on the overall GCI and on each of its 12 pillars. The economy's rank (out of 140 economies) on each category is reported at the bottom of the chart. At the top of the chart, the three-letter code (ISO-3) of the best performer is reported (note that there are 31 best performers on the Macroeconomic stability pillar and four best performers on the Health pillar). To the right of each bar the performance of relevant benchmarks is reported: the economy's score in the 2017 backcast edition (diamond); the average score of the economy's income group, based on the World Bank's classification (triangle); and the average score of the region to which the economy belongs (square). See the At a Glance section on page xi for regional classification.



#### Contextual indicators

This section presents a selection of contextual indicators, as well as selected indicators of social and environmental performance, to complement the GCI. These indicators are: Population (millions, 2017 or most recent year available, source: International Monetary Fund, World Economic Outlook Database, April 2018); GDP per capita (US\$, 2017 or most recent year available, source: International Monetary Fund, World Economic Outlook Database, April 2018); 10-year average annual GDP growth (% real terms, 2017 or most recent year available, source: International Monetary Fund, World Economic Outlook Database, April 2018); Share of GDP in World total (% , 2017 or most recent year available, source: International Monetary Fund, World Economic Outlook Database, April 2018); Unemployment rate (% , 2017 or most recent year available, source: International Labour Organization, ILOSTAT database, via the World Bank's World Development Indicators database); 5-year average annual FDI inward flow (% of GDP, 2017 or most recent year available, source: United Nations Conference on Trade and Development, FDI/MNE database); Environmental footprint network (global hectares, 2014 or most recent year available, source: Global Footprint Network, National Footprint Accounts dataset); Inclusive Development Index (score/rank, 2018 or most recent year available, source: World Economic Forum, Inclusive Development Report 2018); Global Gender Gap Index (score/rank, 2017 or most recent year available, source: World Economic Forum, The Global Gender Gap Report 2017); Income Gini coefficient (0–100, 2015 or most recent year available,

source: World Bank, Development Research Group, via the World Bank's World Development Indicators).

### PAGES 2–3

#### The Global Competitiveness Index in detail

These pages detail the country's performance on each of the 98 indicators that compose the GCI 4.0. Indicators are organized by pillar. Refer to Appendix C for the detailed structure of the GCI, the definition of each indicator, and computation methodology.

For each indicator, the following information is reported:

1. Number, title and the units of measurement
2. Indicator value for the economy under review
3. Economy's progress score on a 0 to 100 scale following normalization (see Appendix C for details)
4. Arrow indicating the direction of the change in score since the previous edition, or the "=" sign if the score has remained the same
5. Economy's rank (out of 140)
6. Name of the best performer; that is, the economy attaining the best performance

#### ONLINE RESOURCES

Interactive profiles and sortable rankings with detailed meta information, as well as downloadable datasets, are available at <http://gcr.weforum.org>