

Corruption Perceptions in North Cyprus: 2018 Report

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in North Cyprus:
2018 Report**

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April 2019



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ISBN 978-9963-2021-2-6

Page layout and printing: Ateş Matbaacılık Ltd.
Organize Sanayi Bölgesi, 16. Sok. No: 14 Lefkoşa

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Preface

Dear readers,

Across the world, an increase in corruption poses an enormous threat to the well-being of communities and good governance. Both minor and major incidents such as the distribution of public funds as rent and traditions of payment of bribes challenge anti-corruption forces in many countries worldwide. Corrupt governments with little opposition and a trend to tolerate or even engage in corruption within the public sector thereby cause growing frustration towards the government, decision makers and politics overall within the population. It not only causes massive damage to societies as a whole and the common good but also prevents civil society forces from reaching their full potential in supporting their communities.

Especially in Cyprus, where the Cyprus Problem is omnipresent to an extent that public debate on other issues is often underdeveloped or severely limited the strengthening of democracy is vital to the well-being of both entities. In both parts of the island corruption poses serious problems for the respective societies though the situation is worse north of the divide as last year's report clearly showed. A less corrupt and better governed north is not only beneficial to those living there but is also necessary to increase the political, social and economic viability of a hopefully reunified Cyprus.

In the fight against corruption in Cyprus, the publication of the 2017 Corruption Perceptions in North Cyprus Report by the Friedrich-Ebert-Stiftung was a milestone. The most common reference for anyone analyzing corruption worldwide is the Corruption Perceptions Index, annually published by Berlin-based Transparency International. While the index offers relevant and significant data for 180 countries and territories across the globe

including the Republic of Cyprus, it does not include the internationally not recognized entity in the northern part of the island, the Turkish Republic of Northern Cyprus (TRNC).¹ As Friedrich-Ebert-Stiftung, our vision of filling the gap and encouraging decision makers to fight corruption by providing them with scientific findings and much necessary information brought about the study which then led to the publication of the 2017 report. Thanks to the excellent work of its two authors, Ömer Gökçekuş and Sertaç Sonan, it was able not only to draw attention to actors, mechanisms and characteristics of corruption in the northern part of Cyprus, but also to put the findings into the right context by calculating corruption perception scores that can be compared to those of countries such as the Republic of Cyprus, Greece, Turkey and Malta. Moreover, the reports will hopefully contribute to a wider debate on the issue on both sides of the divide and the need for reforms and policies that will combat corruption for the benefit of the citizens of Cyprus.

Despite all efforts, the challenges remain: As the 2017 report showed, corruption is indeed a significant problem in the north which is overall confronted by a lack of good governance. The 2017 report understood itself as a pilot study and a starting point for a long-term endeavor of annual reporting about corruption in the north. Therefore, we, as the Friedrich-Ebert-Stiftung in Cyprus, are proud to be able to publish the 2018 report which again provides important insights into how the level of corruption was perceived by important stakeholders during the past year. It is the second step on a rather long journey and in our view an important contribution towards better governance and a stronger civil society in the north for the sake of all of Cyprus. The Friedrich-Ebert-Stiftung in Cyprus remains committed to support the important work of Sertaç Sonan and Ömer Gökçekuş in the years to come.

Hubert Faustmann

Director of the Office of the Friedrich-Ebert-Stiftung in Cyprus

1) The Turkish Republic of Northern Cyprus (TRNC) is only recognised by the Republic of Turkey. As the government of the Republic of Cyprus remains internationally recognised as the government of the whole of the island, the entire island is now considered to be a member of the European Union. However, the *acquis communautaire* is suspended in northern Cyprus pending a political settlement to the Cyprus problem (see Protocol no. 10 of the Accession Treaty).

Executive Summary

This report is prepared to measure the corruption perception in the northern part of Cyprus and raise awareness with regard to preventing corruption. The report uses the methodology of the Transparency International's (TI) annual Corruption Perceptions Index (CPI), and it is based on a survey conducted with business executives and a workshop conducted with a group of experts. Having said that, the report goes beyond just calculating a score and delivers an in-depth analysis on the corruption perceptions of business executives. Hence, in addition to the questions used by the Transparency International, the business executives were asked particular questions related to the case of northern part of Cyprus as well, and their answers are shared in detail in this report.

There are five main objectives of this report: (1) to understand the opinions of business executives regarding corruption; (2) to measure the corruption perception in north Cyprus by using an internationally recognized methodology; (3) to compare corruption perception in north Cyprus with the rest of the world; (4) to determine the change in the corruption perception in north Cyprus when compared with the previous year; and (5) to make policy recommendations based on the findings that would improve the country's performance in fighting corruption.

Last year, the fieldwork for the questionnaire conducted on the business people was completed in November, 2017. This year, we repeated the fieldwork by using a slightly revised questionnaire in November 2018. The questionnaire that we created based on the methodology of TI-CPI and expanded with the questions exclusive to the north Cyprus was conducted on 373 respondents, who at the time held executive positions in firms on the member list of the Turkish Cypriot Chamber of Commerce. The questionnaire

was administered by Lipa Consultancy.

The selection of sample, which was comprised of 373 respondents, was done in such a way that it represented the business community in terms of sectors, districts, firm size as well as the number of employees and age of company. The confidence level and margin of error of the results is 5%.

In addition to the telephone survey conducted with the business people, some specific questions from the questionnaire were asked to a small group of former high ranking public officials who have wide experience on financial audit, public procurement and the functioning of state mechanism in general during a workshop held in January 2019. One of the remarkable findings of the report is that although the score deriving from the answers of this group, at certain points, completely overlapped with the score of the business people; unlike the last year, the overall score of the experts reflected a more negative image.

In this study, corruption is defined as the abuse by a civil servant of entrusted power for private gain. It is obvious that this is a relationship, a transaction, where at least two actors are involved. To put it more clearly, the civil servant is on one side while the businessperson is on the other. However, due to the methodology of this study, it may look like our results expose only one side's responsibility. This obviously does not stem from a concern to whitewash one side while putting the whole blame on the other. Rather, it stems from the difficulties of analytically capturing corruption, which is a legally and morally sensitive issue.

As elaborated below, our findings show that there is a widespread perception of corruption in the northern part of Cyprus. It is possible to say that corruption is most common in the 'allocation/leasing of public land and buildings' and 'incentives'. The involvement of high level civil servants and politicians in corruption is another common perception.

The results show that the institutional infrastructure in the northern part of Cyprus fail to prevent corruption. Particularly, the respondents expressed their serious doubts about the independence and effectiveness of financial auditing institutions, and judiciary in deterring corruption. Similar to the findings of previous report, it is concerning to see that social media are considered to be more deterring than the courts.

The aggregate TI-CPI 2018 score of the northern part of Cyprus, which combines the answers of business people and experts, has been calculated as 37 out of 100. In the scale between 0-100, zero means a high level of corruption while 100 means no corruption. This score is below the average score of 43 for 180 countries ranked in the TI-CPI 2018, which came out in the beginning of 2019, and places north Cyprus as 93rd in the rankings.

When compared with the previous year, the score of north Cyprus declined 3 points and consequently, it dropped by 12 places in the rankings. The main reason for such downfall is the strong decline in the scores of experts. While the last year's score of north Cyprus was same with its neighbour Turkey, this year it is 4 points behind Turkey. It is way below the score of the Republic of Cyprus, which reached to 59 with a 2-point increase.

In the overall ranking, Denmark ranked highest with a score of 88 and New Zealand comes as the second with a score of 87. The last three countries with the lowest scores are Somalia with a score of 10, Syria and South Sudan with a score of 13.

It is possible to summarise our findings under five headings.

1. Is there corruption in the country?

89% of the business people, who took part in the survey, think that bribing and corruption exist in the northern part of Cyprus. Furthermore, 59% of them think that corruption is “a serious problem”. While 48% of them expressed that corruption did not change in 2018 compared to the previous year, 36% of them stated that it got worse. 38% said that “diversion of public funds, private companies, individuals and groups due to corruption” was 'very common' while 14% said 'not at all'. When asked whether there is “a tradition of payment of bribes to secure contracts from public procurements and gain favours,” 43% said that this was “very common”.

2. Where does corruption take place?

When asked 'how common is it for firms to make undocumented extra payments or bribes connected with' particular business transactions, the respondents' who said 'very common' is listed as follows: 'Allocation/leasing of public buildings and land' (49%); 'Incentives' (48%); 'Borrowing from public banks' (43%); 'Awarding of public contracts and licenses' (43%); 'Customs clearance' (41%); 'Land registry' (39%); 'Town planning' (38%); 'Annual tax payments (38%); 'Import and export procedures' (37%);

'Obtaining favourable judicial decisions' (32%); and 'Public utilities' (27%).

3. Who is abusing power for private gains?

55% of the respondents think that 'misappropriation of public funds by ministers/public officials for private or their party's political purposes' is very common. Furthermore, in their perception, the abuses for 'private purposes' (57%) are slightly more common than the abuse for 'providing funds for political party' (55%).

Politicians (58%) and political parties (54%) were seen as the two groups, which were most deeply involved in corruption followed by high level civil servants (46%). Only 31% of the business people, who took part in the survey viewed corruption as 'very common' among low level civil servants.

4. What is the perception regarding the state of institutional framework for preventing corruption?

50% of the business people expressed the view that '*clear procedures* that govern the allocation and use of public funds and ensure accountability' did not exist. 59% of the respondents think that '*independent bodies auditing the management of public finances*' do not exist. Among the respondents that think there are clear procedures, only 21% said that such procedures are 'very effective' in preventing corruption. Similarly, only 18% of the respondents that expressed the view that there are independent financial audit bodies think that such bodies are 'very effective'.

The courts are not rated any better: When asked whether an independent judiciary with *the power to try ministers/public officials for abuses* existed, only 36% of the respondents said 'yes'. When asked how effective the courts were in preventing public officials from abusing their offices for their private gains, only 21% of those who had perceived courts as independent enough to try abusers, said that the judiciary is 'very effective'.

The trust of respondents in 'mechanisms designed to deter public officials from abusing their offices for their private interests' also turned out to be quite low; depending on the particular mechanism, only 10-19% believed that they were 'very effective'. For example, only 10% of the respondents found 'institutions auditing state spending'; 'regulation of party financing' and 'accountability of officeholders (asset declarations, conflict of interest rules, codes of conduct)' 'very effective'. In a similar vein, while 'citizen and media access to information' was considered as a 'very effective' deterrent by 13% of

respondents, 15% expressed their belief that 'transparent public procurement systems' were 'very effective'. In this category of questions 'effective prosecution of corruption' fared slightly better than the rest with 19% believing in the strength of this mechanism.

5. How successful are those who are expected to deter corruption?

Finally, we asked the respondents to rate the success of institutions, which are supposed to fight or expose corruption and irregularities. Here too, the survey results drew a bleak picture. Social media were perceived to be the most successful with 28%. The financial audit bodies and Parliament are at the bottom of the list: Council of Inspection (under Prime Minister's Office) (9%), Parliament (10%), Court of Auditors (11%), Council of Inspection and Investigation (12%). The rates that find the other public institutions as 'very effective' are significantly low: Ombudsman (18%), Attorney General's Office (19%), Police (20%) and Courts (22%). Civil society also does not satisfy the respondents: Society (13%), Unions (16%), civil society organizations (18%) and traditional media (20%).

Different than the last year, this year the respondents were asked for the first time about the success of government about the corruption prevention. While only 7% of them found the government as 'very successful', 58% of them found it as 'not successful at all'.

In the last question, the respondents were reminded that recently the immunity of one of the MPs was lifted by the parliament due to the corruption accusations against him, and asked to express their views about the parliament's decision. 50% of the respondents found this decision 'a very positive step' while 34% of them said this was 'an insufficient step'. The remaining 16% described this as a 'partisan' act.

Chapter 1: Introduction

As in many other countries, where economic and democratic development processes have not yet been completed, corruption is an important problem in the northern part of Cyprus in the context of good governance or lack thereof. One needs only to look at the run up to the most recent parliamentary elections held in January 2018 to see how corruption dominated the whole campaign process, and the coverage of corruption within the government program of the four-party coalition government established afterwards.

One of the most prominent reference sources for corruption around the world is the Corruption Perceptions Index², which is annually prepared by Berlin-based international non-governmental organization Transparency International since 1995. The northern part of Cyprus is not included in this index where 180 countries and regions around the world are ranked based on the corruption perceptions in the public sector; therefore, we do not have any comprehensive data with regard to the corruption perception in the northern part of Cyprus. With the vision of filling this gap and providing scientific findings for decision makers and the wider public on the level of corruption, we have started conducting research on the corruption perception in the northern part of Cyprus in 2017 on behalf of Friedrich Ebert Stiftung. This report is the second product of this effort.

This study is planned to be repeated on an annual basis. In the study published in 2018, we said “this study should be seen as the first step or even a pilot study of a long-term endeavor” and stated that our aim is to eliminate the

2) For details, see. <https://www.transparency.org/research/cpi/overview>

important in reaching more accurate findings, which will in turn, render it possible to make better policy recommendations.

Accordingly, we have made some slight changes in the survey form in consideration of our experience during the preparation of previous report as well as the feedback from the parties that we shared the report with. We aimed to keep these changes as limited as possible in order to maintain the year-by-year comparability of findings. Additionally, we revised the method of calculating the TI-CPI score to make it more in line with the methodology of Transparency International. The changes are elaborated together with their reasons under the related section.

What was the motive behind this study?

The starting point was the question 'why don't we have a study on corruption in the northern part of Cyprus similar to the ones included in the Transparency International's annual Corruption Perceptions Index'. TI-CPI not only makes it possible to compare different countries' corruption scores but also provides the opportunity to observe the changes in corruption perception over time in the countries studied. Therefore, the absence of a study on corruption perception in the northern part of Cyprus deprived us of the chance to see how the country fared compared to the rest of the world, and how corruption perception has changed over time. This report aims to fill this gap and to provide scientific findings to the decision makers as well as the wider public on corruption and good governance. Hence, it has the objective to raise awareness about corruption and corruption prevention, and to make policy proposals.

Transparency International uses a composite index when it ranks countries based on their corruption perception scores. Thirteen different sources from twelve different institutions provide perceptions by business executives and experts of the level of corruption in the public sector. These sources do not cover all countries and therefore the score of a country can be calculated if data from [at least] three sources are available.³ None of these sources cover the northern part of Cyprus in their reports. Therefore, while preparing our first report for 2017 we had chosen three of these sources and used their methodology and survey questions to form our own questionnaire. While

3) See. 'Methodology' section from the following link to reach the methodology used by Transparency International: <https://www.transparency.org/cp 2018>

making the decision over which of these particular sources to choose, we tried to make sure that our neighbours, Turkey and Republic of Cyprus were covered by these institutions' studies so that we could compare the results.

For this year's score, we added a question from a fourth source (IMD). We used the following sources:

- 1- IMD World Competitiveness Yearbook (IMD)
- 2- World Economic Forum (WEF) Executive Opinion Survey
- 3- Economist Intelligence Unit (EIU) Country Risk Ratings
- 4- Bertelsmann Foundation's Sustainable Governance Indicators (SGI)

There is only one question from IMD. This question, which was asked to the business community, is general but clear, and questions the existence of corruption and bribes. The questionnaire used by WEF consists of questions that are designed to identify and measure in which specific areas corruption takes place, and similar to the question from IMD, they are only asked to the business community. Bertelsmann SGI and EIU's questions, on the other hand, gauges the effectiveness of institutions and mechanisms designed to prevent corruption. The aggregate country score is the average of the scores coming from these four sources.

The report goes beyond calculating a score. Our questionnaire included some follow-up questions and questions formulated in accordance with the conditions in the northern part of Cyprus. Furthermore, we asked the questions coming from SGI and EIU not only to experts but also to the business people. The responses to these questions are included in the report. However, it is important to note that, these questions were not used in the calculation of the scores.

Some of the questions in the questionnaire may seem to be repetitive. This is because the questions came from four different sources, and for the sake of not distorting the scores we decided to keep the exact wording of the questions.

What was the methodology?

The questionnaire was administered by Lipa Consultancy using the telephone survey method. The respondents were business people holding executive positions at the companies that are members of the Turkish Cypriot Chamber of Commerce. The selection of the sample, comprising of 373

respondents, was done in a way that it represented the business community in terms of sectors, districts, firm size as well as number of employees and the age of the firm. Confidence level and margin of error of the results is 5%.

Similar to the previous year's study, once we finished the administration of the questionnaire, we asked former public officials the questions on effectiveness of the country's institutional framework in deterring corruption (EIU and SGI). Among these experts were retired bureaucrats from Auditor's Office, Council of Inspection and Investigation, Public Procurement Board/Authority and Parliament. Unlike the previous year, we chose to administer the questionnaire on the experts by gathering them at a workshop setting rather than individual administration of questionnaire. By doing so, we first asked them to answer the questions as individuals. Then we evaluated their answers one-by-one as a group together with their reasons. Our aim was to harmonize our methodology as close as possible with the original methodology of Transparency International.

Last year, we shared the result obtained from the answers of experts under a table and only took the answers of business people in the calculation of composite TI-CPI score as our basis. Different than this approach, the answers of experts were directly integrated into the calculation of composite TI-CPI score this year. Thus, IMD and WEF scores that form the composite score were calculated from the survey conducted on the business people. EIU and SGI scores came only from the experts. In other words, the views of business people and experts have equal weight in the calculation of TI-CPI 2018.

As we will explore in detail in the remainder of the report, both business community and former bureaucrats share the view that corruption is widespread and the institutional framework designed to prevent it is insufficient.

The combined 2018 corruption perception score of the northern part of Cyprus has been calculated as 37 out of 100, which is 3-point less than the previous year. The main reason is the strong decline in the score of experts.

This is below the average score of 43 for 180 countries ranked in the TI-CPI 2018, which announced by the Transparency International in the early 2019. This score places north Cyprus at 93rd rank. Although this score is close to the score of Turkey (41), it is way below the score of our neighbor in the south (59).

The report is comprised of five chapters. A brief general theoretical discussion on corruption is given in the second chapter. The third chapter presents the detailed evaluation of answers given by the business community. The components of corruption perception score and the composite score in addition to the comparison of this score with the rest of world are provided in the fourth chapter. In the concluding chapter as the fifth chapter, based on the findings of the report, four specific policy recommendations, which may strengthen the institutional framework against corruption, are suggested. The questionnaire that we have used is provided in the annex.

Chapter 2: About Corruption

In a wide spectrum, from the Pope at the Vatican – the highest authority for the Catholics – to the head of the ruling Communist Party of China in Beijing, authorities across the globe recognize corruption as perilous to the well-being of their communities.⁴ Several international institutions, non-governmental organizations, and even government offices have made eradicating corruption their top priority. Yet, it appears that all their efforts may have been in vain. The indicators that track the level of corruption all draw the same dismal picture: The world is becoming a more corrupt place!

If corruption is increasing despite growing attention and condemnation, should we even care? Is corruption actually a problem worth combatting in a world filled with problems? Simply put, yes. Corruption has a widespread negative impact that reverberates throughout society. Scholars studying the social, economic and political impacts of corruption showed that, among other things, corruption leads to reduction of income of the poor, efficiency losses, misallocation of resources, and deters potential investors from making new investments in the country. Some of such studies are listed in the selected bibliography.

Corruption distorts relative prices, which in turn leads to efficiency losses due to the misallocation of resources. Corruption adds insult to injury, coupling inefficiency losses with increasing inequality and equity problems. Corruption is not an economic good; it is an economic bad for two

4) This chapter is mainly from 'Gokcekus, O. (with K. Bengyak). (2014). *Peculiar Dynamics of Corruption: Religion, Gender, EU Membership, and Others*. Singapore: World Scientific.

fundamental reasons – it diminishes efficiency and creates equity problems. Therefore, when it comes to corruption, less is definitely more. Some of such studies are given under the references chapter.

In terms of economic as well as social and political aspects of corruption, are concerned, two negative points stand out: Corruption affects the efficient allocation of resources and significantly deteriorates the social justice. Corruption distorts relative prices, which in turn leads to efficiency losses due to the misallocation of resources. The relative prices are used as a benchmark by the producers and consumers in making production and consumption decisions. Hence, by distorting relative prices, corruption leads to resource allocation inefficiencies in both production and consumption. This indicates that corruption has a high cost even when we push aside its harmful social and income distribution effects, and just focus on only economic considerations.

Moreover, study after study has shown that corruption disproportionately hurts the poor and people otherwise economically disadvantaged and in doing so deepen inequality and social injustice. This is particularly true in education and health where corruption prevents these groups from getting the proper education and health services they need and deserve. In return, this denial of service restricts their ability to improve their human capital and their chances to advance in life. An environment where the rich becomes richer and the poor becomes much poorer is created where the social fabric is damaged.

In addition to the negative impacts of corruption, the experts also conducted detailed studies on the conditions and circumstances that increase corruption. In the countries with high corruption level, the public sector is relatively large; the governance is weak; the level and quality of transparency are low; the markets are unstable; the legal system is fragile and the political and individual rights are weak.

In the related literature, there are detailed information on the ways that can be used in the mitigation of corruption. However, there is no consensus on the definition of corruption. The definition of corruption is important as it will determine how to tackle it. For example, if corruption is only the money paid to the public officers to access public services and goods that cannot be obtained via legal means, in other words if it is bribe, then reducing the level of corruption would be equal to reducing the bribing. If corruption is defined from a broader perspective as “use of public service for

private gain”, then the things required for the prevention of corruption would be more comprehensive. Some argue that corruption is changing rules by the people with economic and political power for their own personal interests. Similarly, such definition of corruption would require a different type of prevention against corruption.

Another significant challenge for the students of corruption is measuring it. As it is by definition unrecorded it is not easy to quantify corruption through official statistics. Therefore, researches generally try to capture 'corruption perception' by using survey method; the method adopted in this study. The alternative to measuring corruption perception is looking into the number of corruption convictions. Both approaches have their strengths and weaknesses. However, there is no other generally accepted methodology in the literature.

Indeed, there are a number of surveys conducted by various organizations to determine the level of corruption perception. Some of these surveys measure the perceived level of corruption or the change in the perceived level of corruption over time. Other surveys determine in which sectors or transactions the perceived level of corruption is higher. There are also surveys examining the presence of rules and regulations that make corruption more difficult, or the effectiveness existing rules and regulations. As is explained earlier in the introduction section, we conducted a comprehensive survey to capture different aspects of corruption in the northern part of Cyprus. We present the findings of this survey in the next chapter.

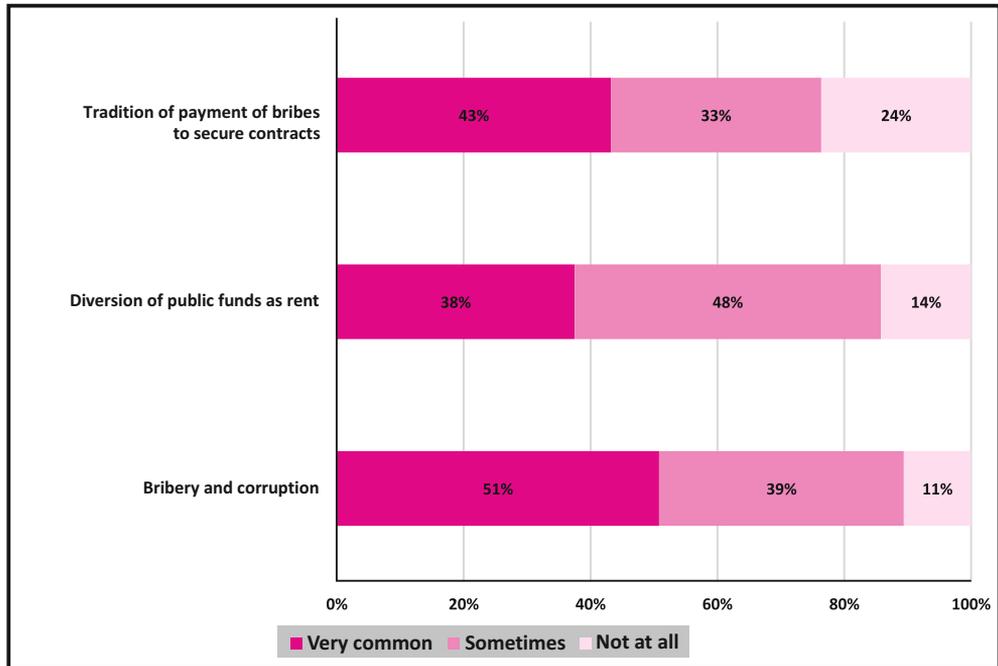
Chapter 3: North Cyprus Corruption Perceptions Survey

The survey that was conducted with the business community representatives is comprised of 18 questions. This chapter includes the details of answers given to these questions. For the majority of questions, the respondents were asked to give their answers in a scale between 1-7. In the evaluation of responses and preparation of graphs, the ranges of 1-2 and 6-7 were considered as clear responses, and the responses between 3-5 were given under a separate category. For example, if the question is about the effectiveness of a given institution in the prevention of corruption, '1-2' was considered as 'very effective,' '3,4,5' average, '6-7' 'not effective at all'.

A. What was the level of corruption perception and how did it change compared to the year earlier?

The questionnaire starts with a question from IMD asking directly whether bribing and corruption exist in the northern part of Cyprus. 51% of surveyees think that corruption and bribing is 'very common' in the northern part of Cyprus while 11% believe that it does not exist. In other words, 89% of surveyees think that corruption, to different extents, exists in the country.

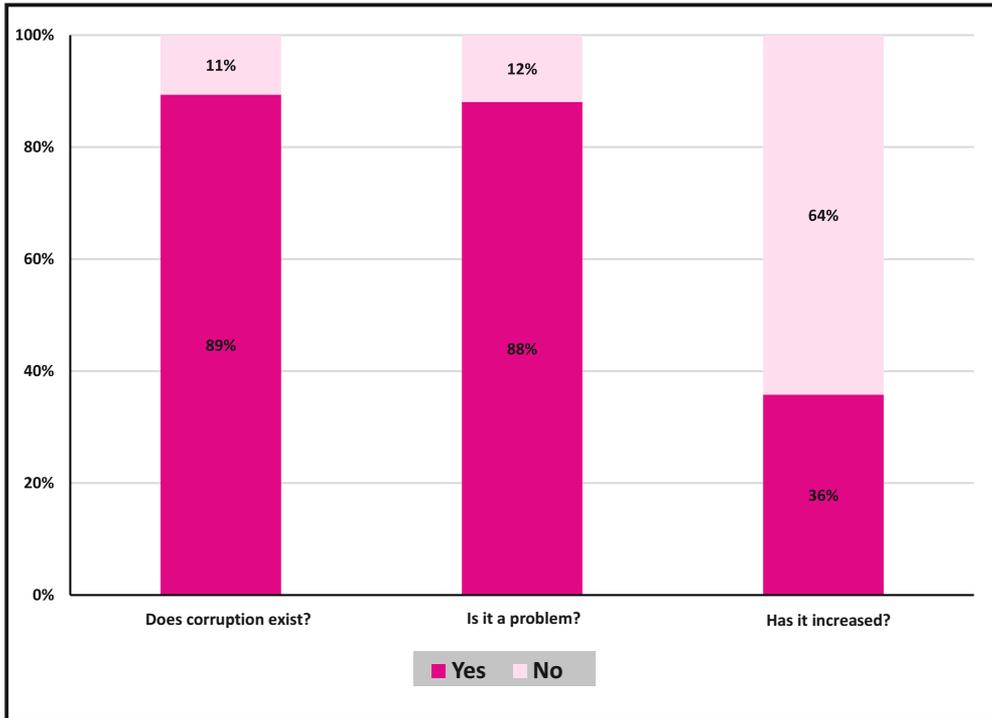
The second and fourth questions, which are formulated in a slight different manner, give similar results. When asked 'How common is diversion of public funds to companies, individuals or groups due to corruption?' 38% of the participants said 'very common' while only 14% said 'not at all'. In a similar vein, in response to the question, 'Is there a tradition of payment of bribes to secure contracts and gain favours?' 43% said 'very common', while only 24% said not at all.

Figure 1: Bribing and corruption in north Cyprus

When the respondents asked to grade the problem of corruption in the country, 59% of them said that it is 'a serious problem' while 12% believed that it is not a problem at all.

In the fifth question, business people were expected to compare the current year's level of corruption to the previous year. Almost half of them (48%) reported no change in the level of corruption, 36% of the respondents thought that it had increased, while only 16% said that it had declined.

Figure 2: Does corruption exist? Is it an important problem? Did it increase compared to the previous year?

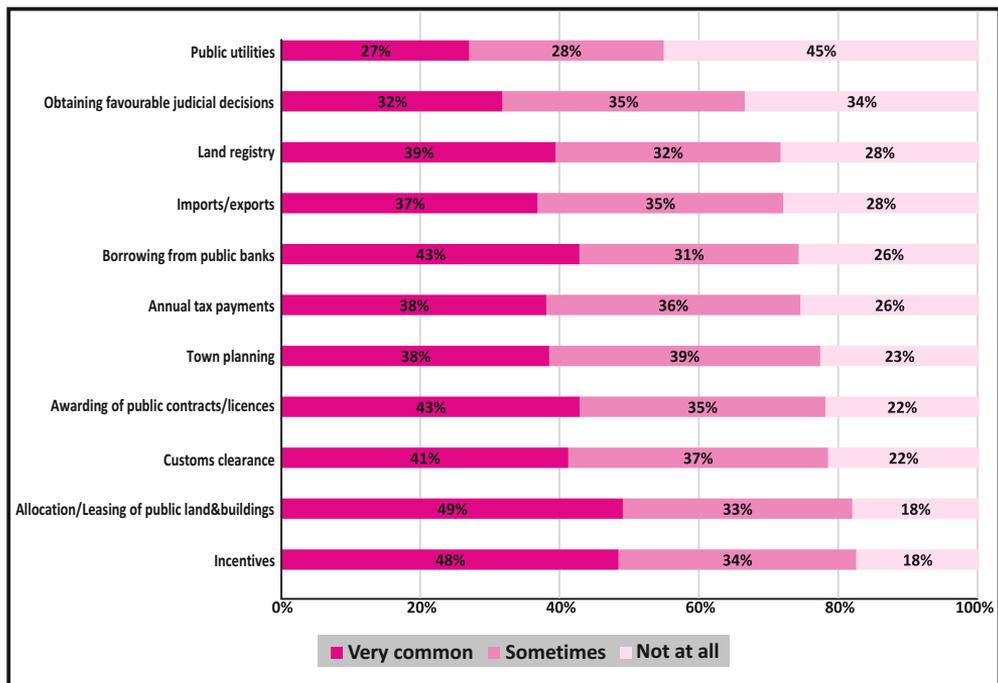


B. In which specific situations is corruption most common?

In the sixth question, we asked 'how common is it for firms to make undocumented extra payments or bribes connected with' various transactions where the business people interact with public sector officials. In last year's study, we had added two transactions specific to the northern part of Cyprus in addition to the original questions from WEF. These were 'allocation and leasing of land and buildings' and 'allocation of credit from public banks'. In accordance with the feedback from the stakeholders, we added four new transactions to our questionnaire i.e. 'incentives', 'title deed procedures', 'customs procedures' and 'town planning'. However, these questions were not used in the calculation of WEF score or aggregate index score as they did not feature in the questionnaires in other countries. Nevertheless, we consider these as important findings, which reveal in which areas bribing is most common in the northern part of Cyprus.

Similar to the previous year, the 'allocation/leasing of public land and buildings' turned out to be the area where the corruption perception was highest. Almost half of the respondents (49%) think that corruption is 'very common' in such areas. 'Incentives' are the second on the list with 48%. On both circumstances, only 18% of the respondents said bribing never took place. 'Awarding of public contracts' (43%), 'allocation of credit' (43%) and 'customs clearance' are the other areas where bribing is considered as 'very common'.

Figure 3: In which areas is bribing most common?



In this context, 'public utilities' and 'obtaining favorable judicial decisions' were the areas where bribing were the least common. 45% of respondents said bribing never took place in the 'public utility transactions' while 34% of them consider this for 'obtaining favorable judicial decisions'.

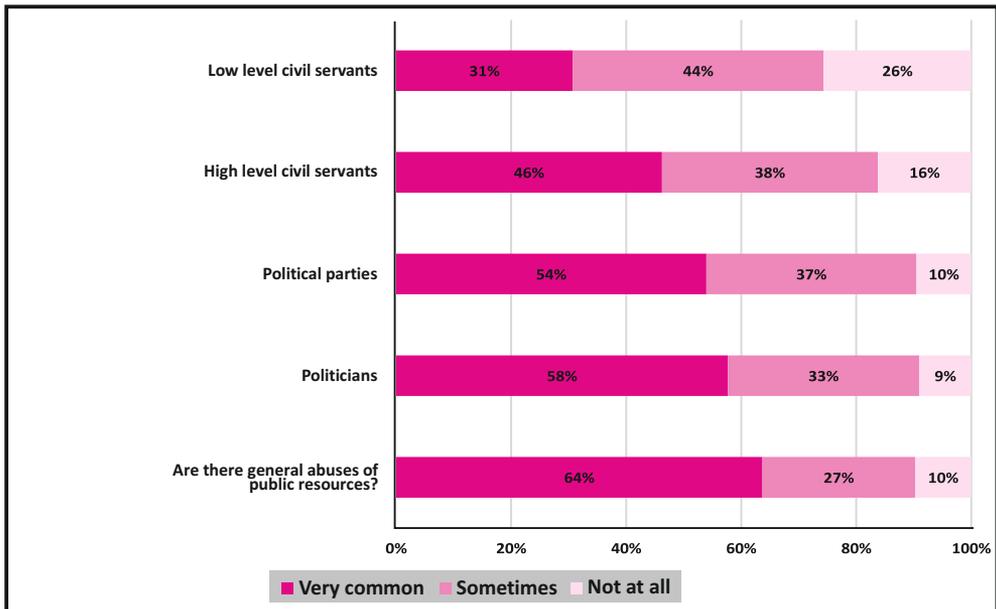
C. Are public resources abused? Which actors are involved?

Pursuant to the responses for the seventh question, 64% of the respondents consider that 'the general abuse of public resources' was 'very common'; only 10% think that the public resources are not abused 'at all'.

The eighth question is a question that we formulated to identify among which groups corruption is most common. According to 58% of the respondents, corruption is 'very common' among politicians, while 54% shared the view that it was 'very common' among political parties. Therefore, it can be said that surveyees did not see much difference between political institutions and individuals.

We found out that a considerable difference appeared when respondents were given the chance to make a distinction between 'high level' and 'low level' civil servants: 46% of those surveyed said corruption was 'very common' among 'high level' civil servants while only 31% said it was 'very common' among 'low level' civil servants.

Figure 4: Who is involved in corruption?



When asked 'whether public funds were misappropriated by ministers/public officials for private or party political purposes', a clear majority of 55% said that this was 'very common'. We followed up on this question, and asked the respondents to separately rate how common it was to misappropriate public funds for political and private purposes. 54% of the respondents said that the misappropriation of public funds for political party purpose are 'very common' while 57% said it is 'very common' for private purposes.

Figure 5: Are public funds misappropriated? For which purposes?

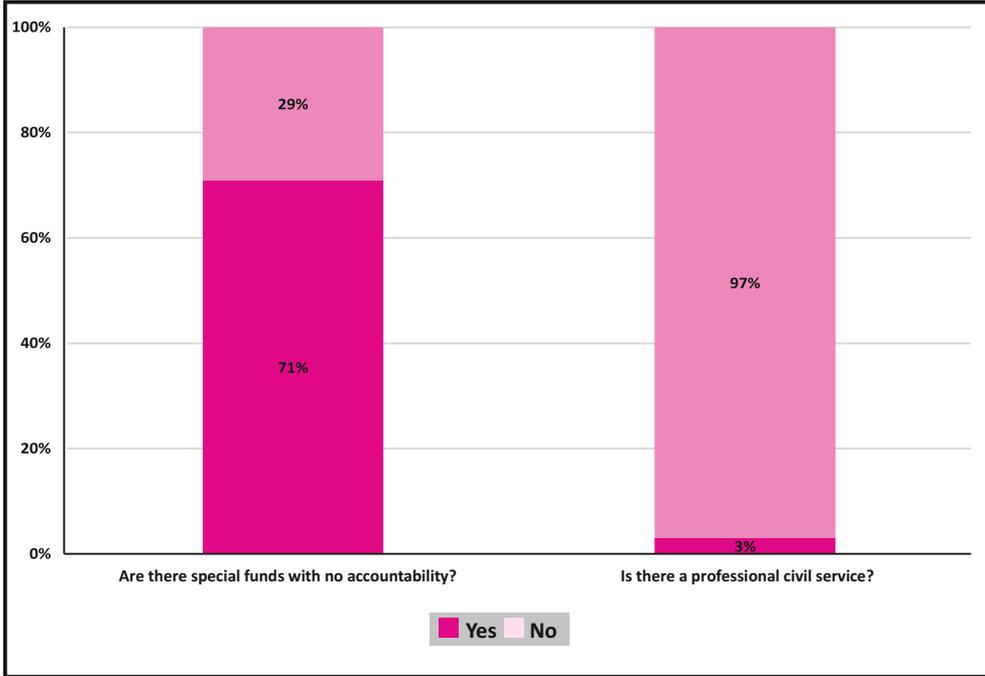
D. Do institutional mechanisms which aim to prevent corruption exist?

The questions from this point on deal with the quality of the institutional mechanisms and units that combat corruption. Questions are designed, first, to identify whether certain practices, organizations and legislations exist or not and then measure the level of effectiveness of these in deterring corruption in the eyes of the participants.

Tenth question asks whether or not there are 'special funds' for which there is no accountability. 71% of the respondents expressed the view that there existed special funds for which there was no accountability.

The eleventh question is about the method of appointment of bureaucrats: 'Is there a professional civil service or are large numbers of officials directly appointed by the government?' 79% of the respondents said all public officials were directly appointed by the government while only 3% thought there existed a fully professional civil service.

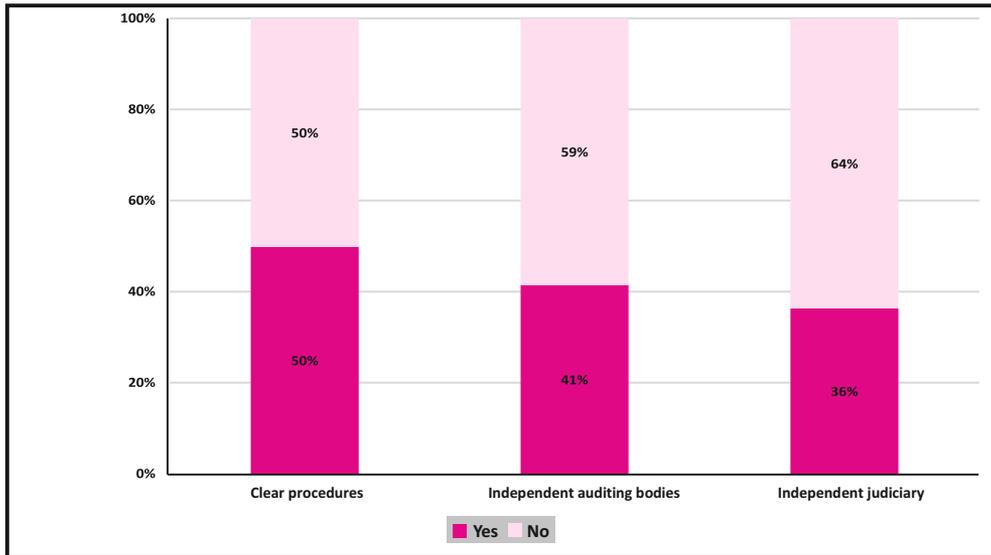
**Figure 6: Are there any special funds with no accountability?
Is bureaucracy politicized?**



The twelfth question asks whether *clear procedures* exists governing the allocation and use of public funds. Half of the respondents answered to this question as yes while the other half said no. The respondents that answered 'yes' were asked to answer a follow-up question about 'the effectiveness of such procedures in preventing public officials from abusing their positions for private gains. Only 21% of those who those who thought there existed clear procedures said these procedures were 'very effective' while 40% of them said they were 'not effective at all'.

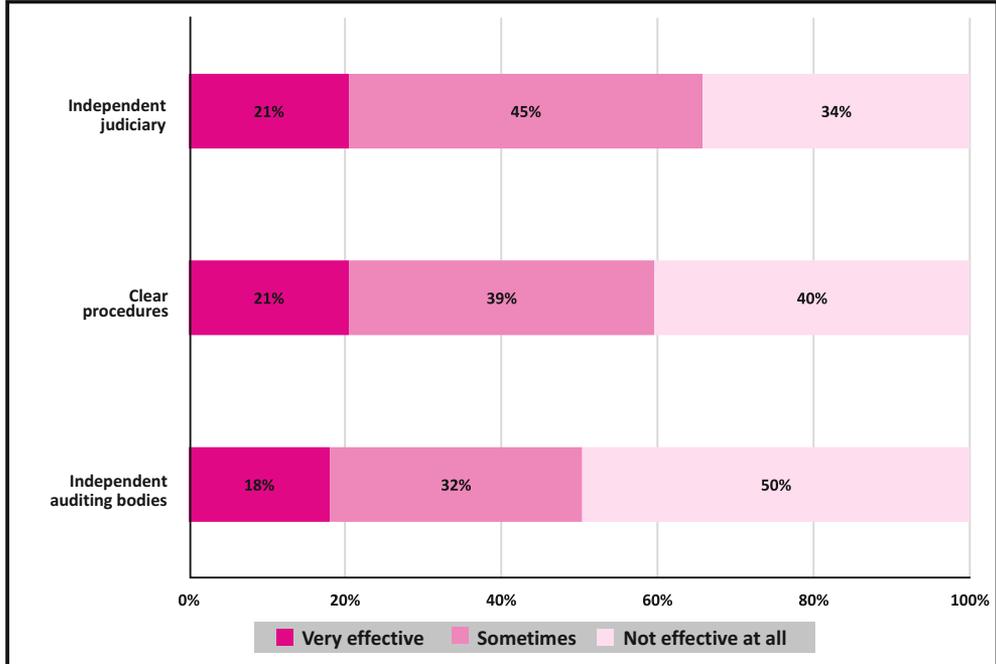
In question thirteen, the respondents were asked whether there are any 'independent bodies auditing the management of public finances'. Similarly, in question fourteen, the respondents were asked whether there is 'an independent judiciary *with the power to try ministers/public officials for abuses*'. The majority of respondents answered both questions negatively. While 59% of them think that the financial audit bodies are not independent, almost two thirds of them (64%) consider that the judiciary is not independent enough to try the ministers/ public officials for abuses.

Figure 7: Do legal framework and institutions to prevent corruption exist?



As in question twelve, we went beyond the original question and asked to those who responded 'yes' to the thirteenth and fourteenth questions to rate the effectiveness of these institutions in preventing corruption. The result was not encouraging. Only 18% of those who said 'an independent body auditing the management of public finances' existed reported that this body was 'very effective' in deterring corruption while 50% said they are 'not effective at all'. The perception regarding the success of the judiciary was slightly better but still far from satisfactory. 21% said that the judiciary was 'very effective' in preventing public officials from abusing their offices for their personal/private interest whereas 34% said it is 'not effective at all'.

Figure 8: Are legal procedures and independent institutions effective in preventing corruption?

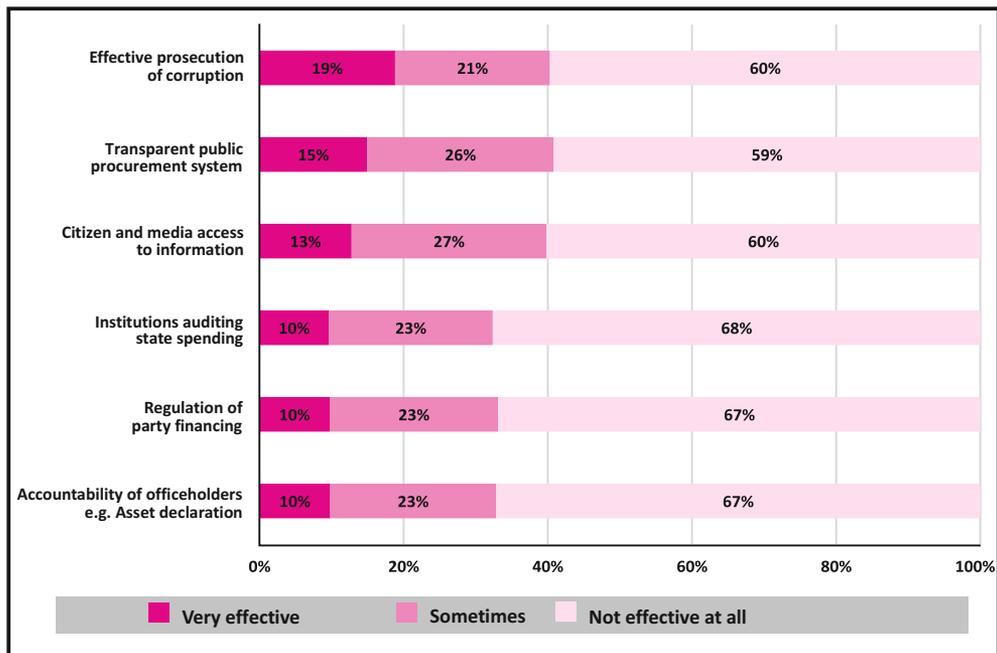


E. To what extent are institutional mechanisms and regulations effective in preventing corruption in practice?

The fifteenth question was taken from Bertelsmann Foundation's Sustainable Governance Indicators. The question aims to evaluate the practical effectiveness of institutional mechanisms and regulations in fighting corruption.

Considering the responses to this question, the respondents did not consider them as effective.

Figure 9: How effective are mechanisms that are expected to deter corruption?



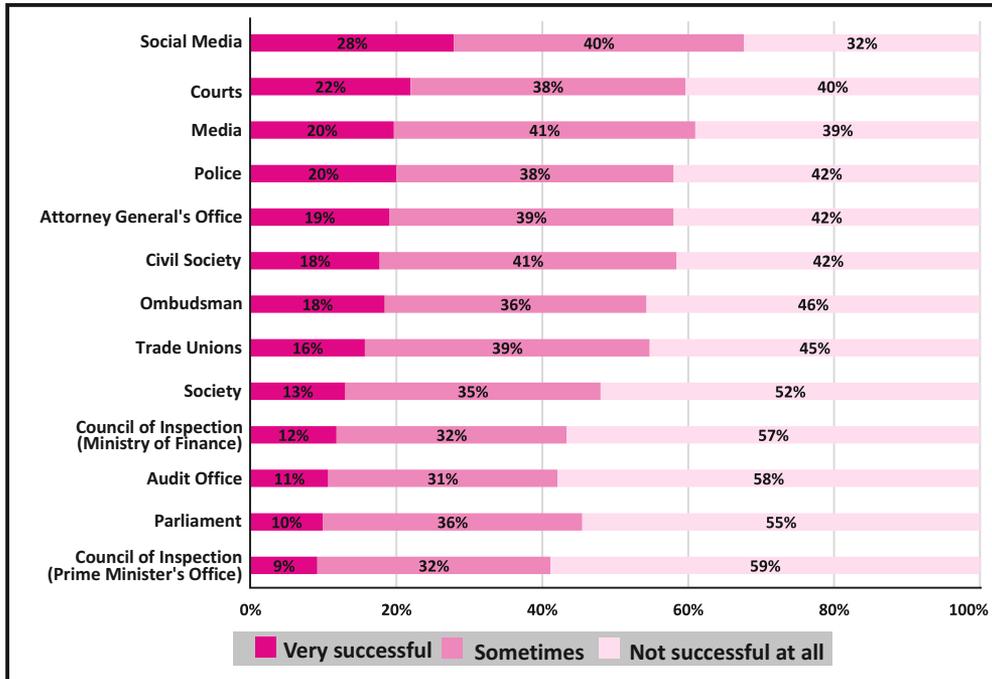
Two thirds of the respondents think regulations to hold officeholders accountable such as 'asset declaration', 'regulation of party financing' and 'institutions auditing state spending' do not deter corruption at all. Only 10% expressed the view that these mechanisms 'fully deterred' corruption.

In a similar vein, around 60% of respondents think that regulations facilitating 'citizen and media access to information' and 'transparent public procurement system' do not deter corruption at all. Although among the mechanisms evaluated in this question, prosecutors or attorney general's office stood out as the most effective one, it is alarming to see that only 19% said 'effective prosecution of corruption' 'fully deter' corruption.

F. How successful are various institutions in preventing corruption?

In question sixteen, we asked the business community representatives to evaluate the success of various institutions and bodies in preventing corruption. Once again, the results are quite disappointing.

Figure 10: How effective are various institutions in preventing corruption?



Interestingly, according to the participants of our survey, social media was the most effective and successful institution in preventing corruption. The courts came as second with 22%.

The number of people finding classic media, the police, attorney general's office, ombudsman and civil society organizations, varied between 20 and 18%. Trade unions follow this list with 16%.

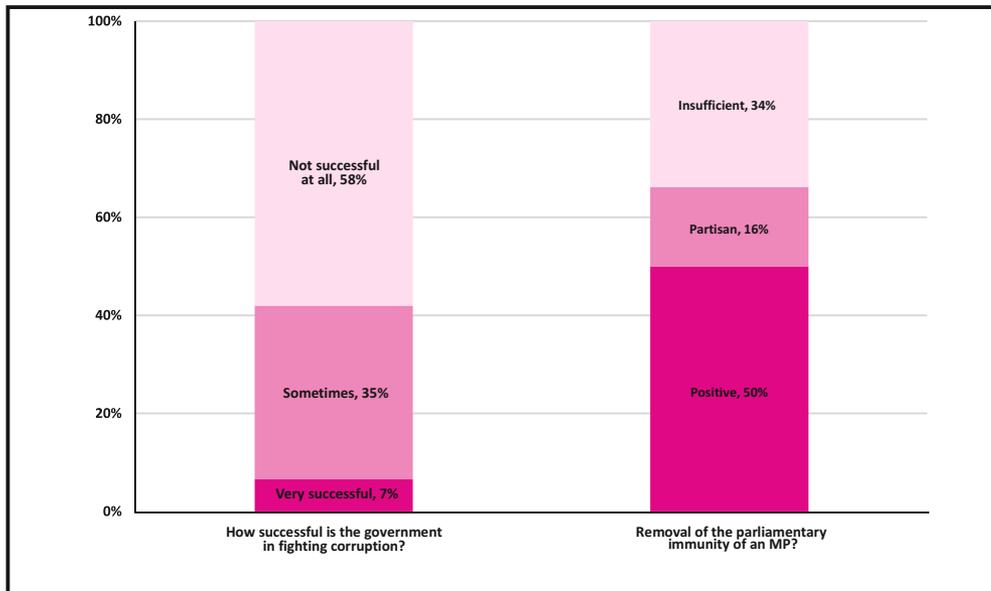
The three auditing bodies in TRNC, namely, Council of Inspection and Investigation (under Ministry of Finance), Audit Office, and Council of Inspection (under Prime Minister's Office) were perceived to be the least successful institutions. The parliament has a similar performance. For all of these four institutions, only around one-tenth of the participants said these were 'very successful/effective'; a clear majority of the participants (55-59% depending on the particular institution) find such institutions 'not successful/effective at all'. More than half of the participants also believe that the society in general is not doing as much as it is supposed to do in deterring corruption.

G. How successful is the government is preventing corruption?

This year, the seventeenth and eighteenth questions were added to the survey. Similar to the sixteenth question, both of these questions were not considered in the calculation of country score; they were added to take the pulse of the Turkish Cypriot business executives.

In the seventeenth question, the respondents were asked about the success of government in preventing corruption. While 58% of them do not find it 'successful at all', 7% of the respondents consider the government as 'very successful'.

Figure 11: How successful is the government in fighting corruption?



In the last question, the respondents were reminded that recently the immunity of one of the MPs was lifted by the parliament due to the corruption accusations against him, and asked to express their views about the parliament's decision. 50% of the respondents found this decision 'a very positive step' while 34% of them said this was 'an insufficient step'. The remaining 16% described this as a 'partisan' act.

H. Do various characteristics of the respondents' firms have any effect on corruption perception?

As mentioned earlier, in the Section A where the level of corruption perception and its change in the last year was discussed, the following findings were reached:

- 51% of the respondents think that corruption and bribing are 'very common' in TRNC while 11% of them said they do not exist at all;
- 38% of the participants said 'diversion of public funds to companies, individuals or groups due to corruption' was 'very common' while only 14% said this did not happen at all;
- 43% of the respondents thought that 'a tradition of payment of bribes to secure contracts and gain favours' existed while only 24% said this did exist at all;
- 36% thought that compared to the previous year, corruption had increased, while only 16% said that it had declined. 48% of the respondents reported no change in the level of corruption.

In this section, we aim to demonstrate whether there was a relationship between the corruption perception of the respondent, and the respondent's firms' (1) years of operation in business, (2) number of employees', (3) registration place, and (4) sector of operation. Finally, we also tested whether being a member of the Turkish Cypriot Chamber of Commerce's Assembly and the gender of the respondent played a role on corruption perception.

The most remarkable finding was that being a member of the Chamber Assembly leads to a higher level of corruption perception. According to 80% of the respondents in this group corruption and bribing is 'very common'; moreover, 78% of this group said tradition of bribing is 'very common'. These results are striking since the rates go down to 50% and 42% respectively among the non-members. The share of respondents with the perception that the diversion of public funds to private companies, individuals and groups

due to corruption as 'very common' is also higher (44%) in this group, compared to the respondents outside of this group (37%). Interestingly enough, not even one person in this group said 'bribing and corruption' or 'diversion of public funds to private companies' do not exist at all. This group's evaluation of the annual change in the level of corruption is also more pessimistic. 40% of the respondent in this group think that corruption increased within a year while the respondents outside of this group agree with this by 36%.

There are also some variations based on the gender of respondents. While 46% of women consider the tradition of bribing as 'very common', this rate goes down to 42% among men. The responses about the change in corruption compared with the previous year also show a significant difference. While 34% of men indicate an increase in corruption, this rate is 41% among women.

The results showed that there is a systematic relationship between the age of the company and the answer given to the question about 'bribing and corruption'. This is to say, the higher the age of the company, the higher the rate of those who said bribing and corruption is 'very common'. 54% of the respondents whose companies were in business for more than 15 years, said this was very common while 36% of those whose companies were in business for less than 1 year said so. While 43% of the respondents whose companies were in business for more than 15 years think that the diversion of public funds to private groups is 'very common', this rate goes down to 15% among the representatives of companies that are in business for less than 1 year.

A systematic relationship can be observed between the respondents' corruption perception and her/his firms' size in terms of number of employees. The respondents from the companies with more than 100 employees seem more optimistic than the others. In terms of whole sample, the rate of respondents that think 'corruption and bribing' is 'very common' is 51%, this rate goes down to 41% among this group. On the contrary, this rate is at the highest with 57% among the representatives of companies with 1-5 employees. In terms of the questions regarding diversion of public funds as rent and tradition of giving bribes too, the perception of group with the highest number of employees is relatively positive. While the rate of those saying 'very common' to these questions in the whole sample is 38% and 43% respectively, it is only 26% and 29% within this group. Finally, the respondents thinking that the corruption increased in the previous year are relatively less in this group (25%). This rate is 39% among the company representatives with the least number of employees.

Table 1: Characteristics of the respondents and corruption perception

	Do bribing and corruption exist?		Are public funds diverted as rent?		Is bribing to secure contracts common?		Corruption compared to last year:	
	Very common	Not at all	Very common	Not at all	Very common	Not at all	Increased	Decreased
Age of the firm:								
Less than 1 year	0.36	0.07	0.15	0.23	0.31	0.31	0.42	0.08
1-5	0.49	0.09	0.40	0.09	0.48	0.24	0.26	0.17
6-10	0.48	0.11	0.33	0.13	0.37	0.22	0.21	0.11
10-15	0.50	0.11	0.27	0.11	0.41	0.25	0.38	0.15
15 +	0.54	0.11	0.43	0.16	0.47	0.24	0.41	0.18
Number of employees:								
1-5	0.57	0.10	0.44	0.15	0.47	0.23	0.39	0.14
6-10	0.41	0.07	0.28	0.13	0.51	0.18	0.37	0.17
11-20	0.47	0.12	0.35	0.12	0.33	0.20	0.36	0.22
21-50	0.56	0.11	0.34	0.11	0.44	0.34	0.29	0.11
51-99	0.47	0.18	0.47	0.24	0.53	0.18	0.35	0.18
100 +	0.41	0.11	0.26	0.17	0.29	0.38	0.25	0.18
Sector:								
Agriculture	0.50	0.33	0.50	0.17	0.50	0.50	0.20	0.20
Manufacturing	0.52	0.16	0.40	0.12	0.34	0.24	0.26	0.17
Construction	0.38	0.06	0.38	0.13	0.31	0.25	0.19	0.25
Retail/ Wholesale	0.54	0.11	0.37	0.18	0.45	0.23	0.38	0.15
Hotels/ Restaurants	0.54	0.08	0.46	0.15	0.62	0.15	0.38	0.15
District:								
Nicosia	0.51	0.09	0.36	0.15	0.44	0.27	0.36	0.17
Famagusta	0.53	0.14	0.46	0.13	0.51	0.22	0.40	0.14
Kyrenia	0.46	0.13	0.27	0.12	0.38	0.24	0.33	0.13
Morphou	0.48	0.06	0.44	0.18	0.30	0.15	0.31	0.09
Trikomo	0.58	0.08	0.58	0.08	0.58	0.08	0.25	0.42
Gender:								
Female	0.50	0.11	0.36	0.13	0.46	0.23	0.41	0.14
Male	0.51	0.10	0.38	0.15	0.42	0.24	0.34	0.16
Member of the Chamber Assembly:								
Yes	0.80	0.00	0.44	0.00	0.78	0.11	0.40	0.20
No	0.50	0.11	0.37	0.15	0.42	0.24	0.36	0.16
North Cyprus	0.51	0.11	0.38	0.14	0.43	0.24	0.36	0.16

The results also show that the place of registration of the respondent's company plays a role on corruption perception. Trikomo has the highest corruption perception. 58% of the respondents whose firms were registered in Trikomo thought bribing and corruption is 'very common', while among the respondents whose companies were registered in Morphou, the same ratio was 48%, and 46% in Kyrenia. According to 58% of Trikomo-registered companies' executives 'diversion of public funds to companies, individuals or groups due to corruption,' was 'very common', while 27% of respondents from Kyrenia-registered companies and 36% of respondents from Nicosia-registered companies thought so. When it comes to the question on whether a tradition of payment of bribes to secure contracts and gain favours existed, again, it is seen that a majority of participants (58%) from Trikomo-registered firms thought it was very common while this ratio went down to 30% among respondents whose companies were registered in Morphou and 38% in Kyrenia. Whereas the general average is 36%, only 25% of participants, whose companies are registered in Trikomo, said the corruption increased compared to the previous year. The most negative response for this question came from the representatives of Famagusta-registered companies; 40% of this group considered that corruption has increased.

When we look into the relationship between the respondents' firms' sector of operation and corruption perception, the most striking result is that the respondents from the construction sector have more positive perception than the respondents from other sectors. In terms of whole sample, the rate of respondents, who think 'corruption and bribing' is 'very common', is 51%, the rate among this group is 38%; this rate is 54% both for trade and accommodation sectors. The perception of this group is again relatively positive with regard to the question about the tradition of giving bribes. While the general average is 43%, it is 31% among this group and increases up to 62% in the accommodation sector. Finally, the percentage of respondents that consider an increase in corruption within the last year are relatively lower (19%) in this group. This rate is 38% among the representatives of trade and accommodation.

Chapter 4

Transparency International – Corruption Perceptions Index (TI-CPI) and its Components

As mentioned earlier, Transparency International's – Corruption Perceptions Index is a composite index; it is constructed using data from various independent data sources, which quantify perceptions of corruption in the public sector in different regions of the world. Unfortunately, none of these sources cover the northern part of Cyprus. In the absence of independent data sources, we decided to come up with a survey using questions from four of these data sources. We chose IMD; WEF; EIU; and Bertelsmann Foundation's Sustainable Governance Indicators (SGI). In this chapter, first, we will show the north Cyprus' scores for each set of questions based on our survey results. Then, we will show the ranking of the country for each score. Finally, we will demonstrate the composite score and where this score would put us in TI's Corruption Perceptions Index.

Pursuant to the respondents' answers to the first question, the IMD score of the northern part of Cyprus is 41 for 2018. As it is in the methodology of TI, our score is based on the survey conducted with business executives .⁵ The south Cyprus' score is 50, which is way below the European Union average of 65. There is not any score for Malta. The scores of Turkey and Greece are 48 and 38 respectively.

5) Although we asked this question last year, we use it for the first time in the calculation of composite score this year as last year it was asked as 'yes-no' rather than in a scale. IMD question is asked with a scale of 1-6 in 63 countries.

Based on the second and sixth questions in the survey, we calculated the 2018 WEF score of the northern part of Cyprus as 51. In compliance with the TI methodology, this score is only derived from the survey conducted with business executives.

Table 2: North Cyprus-WEF 2018 Score and the Questions Used in the Calculation of the Score

Question	Scale	Average Score	Average Score (Out of 100)
How common is diversion of public funds to companies, individuals or groups due to corruption?	1, 2, 3, 4, 5, 6, 7 1: Very Common 7: Not at all	3.35	48
How common is it for firms to make undocumented extra payments or bribes connected with the following?	1, 2, 3, 4, 5, 6, 7 1: Very Common 7: Not at all		55
• Imports and exports		3.69	
• Public utilities		4.46	
• Annual tax payments		3.68	
• Awarding of public contracts and licences		4.02	
• Obtaining favourable judicial decisions		3.40	
North Cyprus - WEF 2018 Score = 51			

The 2018 WEF scores of countries with similar characteristics with our case such as our southern neighbor Republic of Cyprus was 60; Malta's score was 51. The Republic of Cyprus' score is exactly the same as the average score of the European Union countries. When we look at our other neighbors, we see that Greece's score was 41 and Turkey's score is 55.

Table 3: 2018 North Cyprus Corruption Perceptions Scores in Comparison to the Scores of Selected Countries

	North Cyprus	Republic of Cyprus	Turkey	Greece	Malta	EU
WEF	51	60	55	41	51	60
EIU	34	72	37	37	55	63
Bertelsmann-SGI	22	44	26	53	53	67
IMD	41	50	48	38		65
TI – CPI	37	59	41	45	54	65
Ranking	93	38	78	67	51	29

According to the document, where the Transparency International describes the sources and questions it uses to form the composite index, EIU determines this score relying on teams of experts based in its headquarters who also collaborate with in-country specialists. Following a similar procedure, we took the answers of experts as our basis in the calculation of this score. The EIU score of the northern part of Cyprus is calculated as 34 based on the answers of experts given during the workshop.

Table 4: North Cyprus - EIU 2018 Score and the Questions Used in the Calculation of the Score

Questions	Scale	Average Score	Average Score (Out of 100)
Is there a tradition of payment of bribes to secure contracts and gain favours?	1, 2, 3, 4, 5, 6, 7 1: Very common 7: Not at all	2.00	29
Are public funds misappropriated by ministers/public officials for private or party political purposes?	1, 2, 3, 4, 5, 6, 7 1: Very common 7: Not at all	1.67	24
Are there special funds for which there is no accountability?	0, 1 0: No, there is not 1: Yes, there is	0.67	33
Are there general abuses of public resources?	1, 2, 3, 4, 5, 6, 7 1: Very common 7: Not at all	1.67	24
Are there clear procedures and accountability governing the allocation and use of public funds?	0, 1 0: No, there is not 1: Yes, there is	1.00	100
Is there a professional civil service or are large numbers of officials directly appointed by the government?	1, 2, 3, 4, 5, 6, 7 1: All of them are professionals 7: All of them are political appointees	6.33	10
Is there an independent body auditing the management of public finances?	0, 1 0: No, there is not 1: Yes, there is	0.33	33
Is there an independent judiciary with the power to try ministers/public officials for abuses?	0, 1 0: No, there is not 1: Yes, there is	0.33	33
North Cyprus - EIU 2018 Corruption Score = 34			

This score is less than half of the score of our southern neighbor, whose score was 72, and far behind the score of the small island nation of Malta, whose score was 55. Our score also falls far behind the EU average of 63. It is close to the scores of Turkey and Greece, which is 37.

Finally, Bertelsmann SGI score, which was based on question fifteen in our survey was calculated as 22. This means that the mechanisms, which are designed to ensure the integrity of officeholders and to prevent public servants and politicians from accepting bribes, are in practice, far from being deterrent. The score of our southern neighbor is 44 while this score is 53 for Malta and Greece. The average score for EU countries is 67; Turkey's score is 26.

Table 5: North Cyprus - Bertelsmann SGI 2018 Score and the Questions Used in the Calculation of the Score

Questions	Scale	Average Score	Average Score (Out of 100)
To what extent do the following mechanisms deter public officials from abusing their offices for their private interests?	1, 2, 3, 4, 5, 6, 7 1: Does not deter at all 7: Fully deter		
• Institutions auditing state spending		1.33	19
• Regulation of party financing		1.67	24
• Citizen and media access to information		1.33	19
• Accountability of officeholders (asset declarations, conflict of interest rules, codes of conduct)		2.00	29
• Transparent public procurement systems		1.67	24
• Effective prosecution of corruption		1.33	19
North Cyprus – Bertelsmann-SGI 2018 Score = 22			

The aggregate corruption perception score of north Cyprus, which was the average of all scores, was calculated as 37.

Table 6: North Cyprus TI-CPI 2018 Score and its Components

IMD Corruption Score = 41
EIU Corruption Score = 34
WEF Corruption Score = 51
Bertelsmann-SGI Corruption Score = 22

North Cyprus TI-CPI 2018 Score = 37

Transparency International's CPI 'uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean'. In 2018's ranking, the cleanest two countries were Denmark and New Zealand, whose scores were 88 and 87 respectively, while the three most corrupt countries were civil-war-torn Syria, South Sudan and Somalia with scores of 10, 13 and 13.⁶

The north Cyprus' score of 37 ranks it at the same spot on 93 as Gambia, Guyana, Kosovo, North Macedonia, Mongolia and Panama. This score is lower than the scores of other four countries selected for comparison. The Republic of Cyprus is 38th, Malta 51st, Greece 67th and Turkey 78th in the ranking. Even more concerning is the fact that the score of 37 is below the average of 180 countries and territories, which was calculated as 43.⁷

⁶ <https://www.transparency.org/cpi2018>

⁷ <https://www.transparency.org/cpi2018>

Table 7: North Cyprus' ranking in TI-CPI 2018

Country	Score	Ranking
China	39	87
Serbia	39	87
Bosnia and Herzegovina	38	89
Indonesia	38	89
Sri Lanka	38	89
Swaziland	38	89
Gambia	37	93
Guyana	37	93
Kosovo	37	93
North Cyprus	37	93
North Macedonia	37	93
Mongolia	37	93
Panama	37	93
Albania	36	99
Bahrain	36	99
Colombia	36	99
Philippines	36	99
Tanzania	36	99
Thailand	36	99
Algeria	35	105
Armenia	35	105
Brazil	35	105
Ivory Coast	35	105
Egypt	35	105
El Salvador	35	105
Peru	35	105
Timor-Leste	35	105
Zambia	35	105

Table 8: 2018 TI-CPI: The best 20 and the worst 20 countries

	The Best 20	TI-CPI	Ranking	The Worst 20	TI-CPI	Ranking
1	Denmark	88	1	Cambodia	20	161
2	New Zealand	87	2	Democratic Republic of the Congo	20	161
3	Finland	85	3	Haiti	20	161
4	Singapore	85	3	Turkmenistan	20	161
5	Sweden	85	3	Angola	19	165
6	Switzerland	85	3	Chad	19	165
7	Norway	84	7	Congo	19	165
8	Netherlands	82	8	Iraq	18	168
9	Canada	81	9	Venezuela	18	168
10	Luxembourg	81	9	Burundi	17	170
11	Germany	80	11	Libya	17	170
12	United States	80	11	Afghanistan	16	172
13	Australia	77	13	Equatorial Guinea	16	172
14	Austria	76	14	Guinea Bissau	16	172
15	Hong Kong	76	14	Sudan	16	172
16	Iceland	76	14	North Korea	14	176
17	Belgium	75	17	Yemen	14	176
18	Estonia	73	18	South Sudan	13	178
19	Ireland	73	18	Syria	13	178
20	Japan	73	18	Somalia	10	180
	<i>Average</i>	80			17	

Chapter 5: Policy Recommendations and Concluding Remarks

The results from survey and workshop showed that corruption perception among business executives was quite high. Regardless of how the questions were formulated, the proportion of respondents who said corruption was 'very common' was at least twice as large as the ones who said 'not at all'. For instance, when asked how common 'diversion of public funds to companies, individuals or groups due to corruption' was, 38% said that it was 'very common', while only 14% said this was not common at all. When asked whether 'general abuses of public resources' existed or not, the difference becomes even more striking: The proportion of those who said 'very common' went up to 64%, while those who said 'not at all', went down to 10%. Moreover, only 16% of the participants expressed the view that corruption decreased compared to the previous year.

'Allocation/leasing of public land and buildings' and 'incentives' stood out as two instances where corruption was most common, whereas provision of public utility services and judiciary were recorded as the cleanest ones. Respondents particularly held the politicians and political parties responsible for corruption. Furthermore, participants' trust in the effectiveness of institutions and mechanisms designed to combat corruption is quite low; particularly, various bodies responsible for auditing the management of public finances are largely distrusted. Evidently, both business executives and experts surveyed seriously doubt the autonomy of these institutions from political influence in practice.

Judging by the answers of the respondents regarding the effectiveness of institutions responsible for deterring corruption, it is possible to say that things have deteriorated in 2018 compared to the year earlier. The institutions responsible from the detection of corruption up to the penalization are far from satisfying the expectations of the business community.

For example, pursuant to the answers given to the question sixteen, all of the public auditing institutions responsible for detecting corruption have lower scores than the previous year. The rate of the respondents that find such institutions as 'very successful' is not more than 10%. The institutions that should refer the detected corruption cases to judiciary (Parliament, Police, Attorney General's Office) did not show a promising performance either. With regard to the responses given to the question fifteen about the effectiveness of prosecution of corruption in deterring it, the rate of respondents that said 'very deterrent' declined to 19% when compared with the rate of previous year, which was 23%. The rate of respondents that find courts 'very successful/effective' in fighting corruption dropped to 22% from 29% (Question 16). Similarly, among the respondents who said that an independent judiciary with the power to try ministers/public officials for abuses exists, the rate of respondents that find the judiciary 'very effective' dropped to 21% from 38% compared with the last year (Question 13). In this context, the only good news is that the rate of respondents answering the question whether it is common to make undocumented extra payments or bribes connected to obtaining favorable judicial decisions as 'very common' went down to 32% in 2018 from 45% in 2017 (Question 6).

Overall, in respondents' perception, the performance of the institutions has deteriorated compared to the previous year. The results of the study are alarming but not surprising given the fact that corruption has lately been dominating the agenda of the public.

What can be done to change the situation? Is it possible to alleviate corruption by introducing certain institutional reforms or effectively enforcing existing institutional framework? Based on the findings of our study, we decided to make four specific proposals. In choosing these four policy recommendations, we had two specific considerations in mind. The first one was the sensitivities and expectations of the wider public. The second was the practicality and relative easiness of introducing them. If all these reforms are implemented, not only our institutional framework to combat corruption will improve, but also as a result of this, the CPI score of the country and the ranking will go up

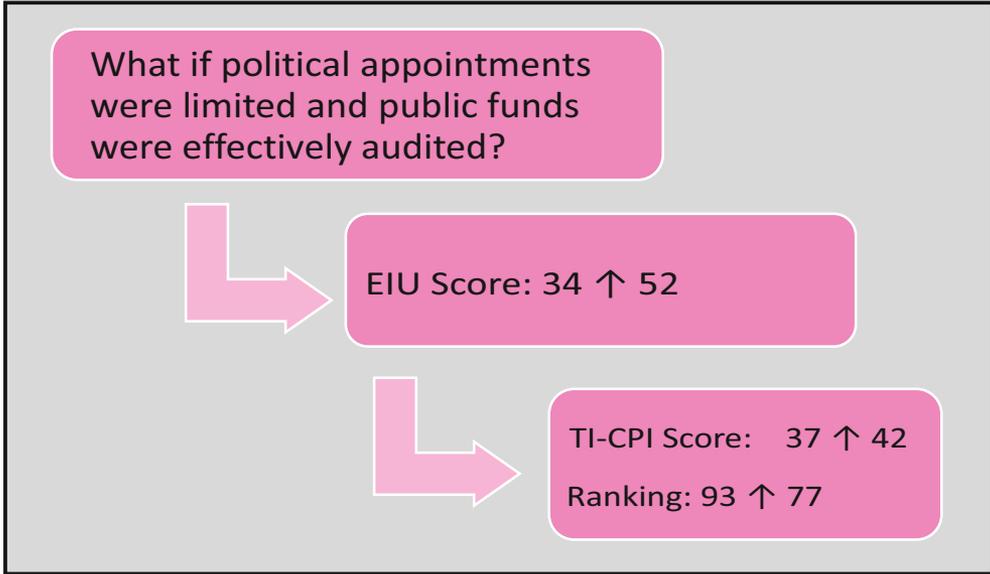
considerably.

Our first proposal is limiting the number of political appointments to the high-level posts in the public service only to the undersecretary level. Limiting the number of political appointments to only one undersecretary position in each ministry to serve as a bridge between the elected officials and career public officials could improve the public's perception regarding the suspended officials who continue to receive their full salaries as well as professionalize the public sector.

Our second policy recommendation is about discretionary or 'special funds for which there is no accountability'. Our discussion with experts revealed that although there were certain discretionary funds under the disposal of ministers and the president, by law, these were also subject to auditing and control by the finance ministry. Therefore, in this case rather than passing a new legislation or designing a new mechanism, what needs to be done is to enforce the existing rules as well as effectively implement the existing mechanisms.

If these two proposals are implemented, the EIU score will go up from 34 to 52, which will translate into a rise in the TI-CPI score from 37 to 42. This would mean an upward move in rankings to 77th place.

Figure 12: What if political appointments were limited and management of public funds were effectively audited?



Making the process of declaration of assets fully transparent and opening it to the access of public while complementing it by declaration of liabilities, would be another major step in combatting corruption. Similarly, the effective enforcement of existing regulations facilitating citizen and media access to information would make things better. The implementation of related reforms would increase our Bertelsmann-SGI score from 22 to 48 and make our TI-CPI score 44. Such change in the score would move us to 70th place in the ranking.

Figure 13: What if asset declaration was made fully transparent and regulations facilitating access to information was effectively enforced?

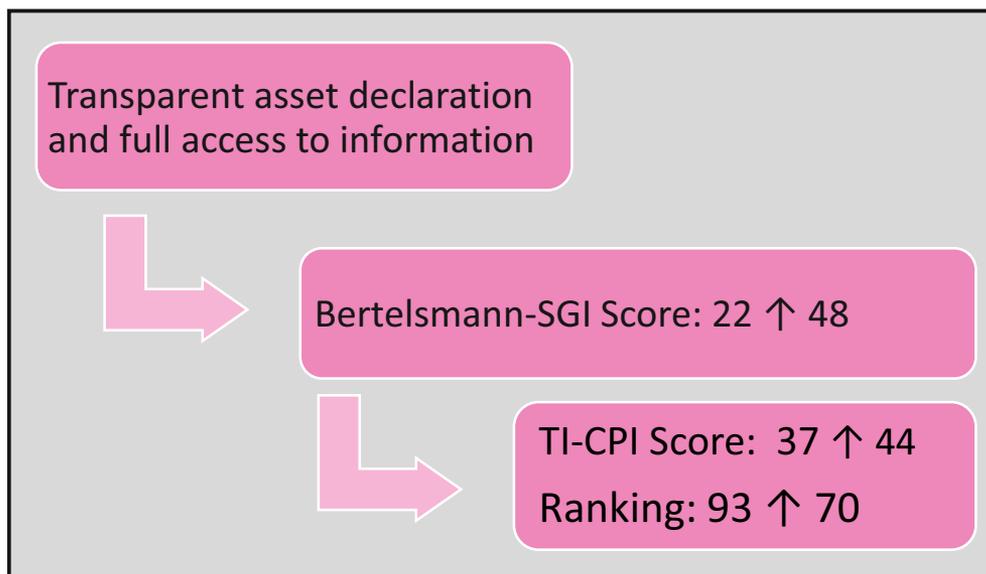


Table 9 summarizes the changes in scores and ranking if each of these four recommendations is implemented. If all four proposals were implemented, the score of northern part of Cyprus would go up to 48 and the ranking would be 60th; a significant improvement. While this score takes us 5 points above the average, the place of northern part of Cyprus would be same with Croatia and just above Romania and Hungary.

Table 9: How would scores and ranking change if these four recommendations were implemented?

Reform	Improvement in score/ranking		
	Rise in the score	Rise in the composite score	Change in ranking
• Limited number of political appointments (EIU)	+ 10	+ 3	+ 8
• No special funds without accountability (EIU)	+ 8	+ 2	+ 6
• Full transparency in asset & liability declaration (SGI)	+ 12	+ 3	+ 8
• Full access to information (SGI)	+ 14	+ 4	+ 15
• If all four reforms are implemented	+ 44	+ 11	+ 33

Apart from these relatively easy to implement measures, strengthening the autonomy and capabilities of bodies crucial in detecting and punishing corruption such as audit office, attorney general's office, the police and judiciary are other medium to long-term measures to be taken. This requires, among other things, a complete depoliticization of these institutions.

We hope this report will contribute to the public debate about combatting corruption in the Turkish Cypriot community...

Annex: Survey Form

The North Cyprus Corruption Perceptions Questionnaire

Good day! My name is I call you from Lipa Consultancy. We would like to get the views of business executives, like you, for our 'corruption perception' study that we are conducting for the second time in the northern part of Cyprus.

The most prominent reference source about corruption worldwide is the Corruption Perceptions Index, which is annually published by Berlin-based Transparency International. Our country is not covered in this index; therefore, there is no data available regarding corruption perception in our country. For the sake of starting a debate informed by scientific findings, a group of Turkish Cypriot academics has started a similar research on this with the German Friedrich Ebert Stiftung.

Your answers will be kept strictly confidential. Your or your company's name will not be used for any document regarding this survey. We thank you for accepting to take part in this survey.

Note: The survey will be conducted with business executives!

1. Do bribing and corruption exist in TRNC?

1-Very Common	2	3	4	5	6	7- Not at all
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2. How common is diversion of public funds to companies, individuals or groups due to corruption?

1-Very common	2	3	4	5	6	7- Not at all
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3. How do you grade the problem of corruption in TRNC?

1-Not a problem	2	3	4	5	6	7-A serious problem
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4. Is there a tradition of payment of bribes to secure contracts and gain favours?

1-Very common	2	3	4	5	6	7- Not at all
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5. Has corruption decreased, stayed the same or increased compared with one year ago?

Decreased	1	Same	2	Increased	3
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6. In TRNC, how common is it for firms to make undocumented extra payments or bribes connected with the following

	1-Very common	2	3	4	5	6	7-Not at all
a. Imports and exports	1	2	3	4	5	6	7
b. Public utilities	1	2	3	4	5	6	7
c. Annual tax payments	1	2	3	4	5	6	7
d. Awarding of public contracts and licences	1	2	3	4	5	6	7
e. Obtaining favourable judicial decisions	1	2	3	4	5	6	7
f. Taking a loan from public banks	1	2	3	4	5	6	7
g. Allocation or leasing of public land and buildings	1	2	3	4	5	6	7
h. Incentives	1	2	3	4	5	6	7
i. Land registry	1	2	3	4	5	6	7
j. Customs clearance	1	2	3	4	5	6	7
k. Town planning	1	2	3	4	5	6	7

7. Are there general abuses of public resources?

1-Very common	2	3	4	5	6	7-Not at all
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8. How common is corruption among the following groups?

	1-Very common	2	3	4	5	6	7-Not at all
a. Politicians	1	2	3	4	5	6	7
b. Political parties	1	2	3	4	5	6	7
c. High level civil servants	1	2	3	4	5	6	7
d. Low level civil servants	1	2	3	4	5	6	7

9. Are public funds misappropriated by ministers/public officials for private or party political purposes?

1-Very common	2	3	4	5	6	7-Not at all
					1-Very common	2 3 4 5 6 7-Not at all
a. How common is misappropriation for party/political purposes?						
b. How common is misappropriation for private financial gains purposes?						

10. Are there special funds for which there is no accountability?

No, there is not	0	Yes, there is	1
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11. Is there a professional civil service or are large numbers of officials directly appointed by the government?

1-All of them are professionals	2	3	4	5	6	7-All of them are political appointees
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12. Are there clear procedures and accountability governing the allocation and use of public funds?

No, there is not	0	Yes, there is	1				
If yes: To what extent are these procedures effective in preventing public officials from abusing their offices for their personal/private interest?	1 (very effective)	2	3	4	5	6	7 (not effective at all)

13. Is there an independent body auditing the management of public finances?

No, there is not	0	Yes, there is	1				
If yes: To what extent is this body (or bodies) effective in preventing public officials from abusing their offices for their personal/private interest?	1 (very effective)	2	3	4	5	6	7 (not effective at all)

14. Is there an independent judiciary with the power to try ministers/public officials for abuses?

No, there is not	0	Yes, there is	1				
If yes: To what extent is independent judiciary effective in preventing public officials from abusing their offices for their personal/private interest?	1 (very effective)	2	3	4	5	6	7 (not effective at all)

15. There are mechanisms, which are designed to ensure the integrity of officeholders and to prevent public servants and politicians from accepting bribes. I'm going to mention some of them. In practice, to what extent are these mechanisms successful in preventing corruption. In other words, to what extent do these mechanisms deter public officials from abusing their offices for their private interests?

	1-Does not deter at all	2	3	4	5	6	7	8	9	10- Fully deter
a. Institutions auditing state spending	1	2	3	4	5	6	7	8	9	10
b. regulation of party financing	1	2	3	4	5	6	7	8	9	10
c. citizen and media access to information	1	2	3	4	5	6	7	8	9	10
d. accountability of officeholders (asset declarations, conflict of interest rules, codes of conduct)	1	2	3	4	5	6	7	8	9	10
e. transparent public procurement systems	1	2	3	4	5	6	7	8	9	10
f. effective prosecution of corruption	1	2	3	4	5	6	7	8	9	10

16. How effective/successful are the following institutions in fighting corruption and irregularities or in exposing them?

	1-Not successful/effective at all	2	3	4	5	6	7-Very successful/effective
a. Audit office	1	2	3	4	5	6	7
b. Council of Inspection (under Prime Minister's Office)	1	2	3	4	5	6	7
c. Council of inspection and investigation (under Ministry of Finance)	1	2	3	4	5	6	7
d. Ombudsman	1	2	3	4	5	6	7
e. Courts	1	2	3	4	5	6	7
f. Parliament	1	2	3	4	5	6	7
g. Media	1	2	3	4	5	6	7
h. Social media	1	2	3	4	5	6	7
i. Civil society	1	2	3	4	5	6	7
j. Trade unions	1	2	3	4	5	6	7
k. Attorney general's office	1	2	3	4	5	6	7
l. Police	1	2	3	4	5	6	7
m. Society	1	2	3	4	5	6	7

17. How successful is the government in fighting corruption?

1-not successful at all	2	3	4	5	6	7-very successful
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18. Recently, a member of parliament’s immunity was lifted because of corruption allegations. How do you evaluate this move?

1- Very positive	2- Partisan	3- Insufficient
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Information about the company:

D1-District where the company is active? Can be more than one.

- 1.Nicosia 2. Famagusta 3. Kyrenia 4. Morphou 5.Trikomo 6. Lefka

D2- Head office?.....

- 1.Nicosia 2. Famagusta 3. Kyrenia 4. Morphou 5.Trikomo 6. Lefka

D3- How long has this company been in business?

1. less than 1 year 2. 1-5 years 3. 6-10 years 4. 11-15 years 5. 16 and above

D4-Number of employees?

1. 1-5 2. 6-10 3. 11-20 4. 21-50 5. 51-99 6. 100

D5-Gender of the respondent

1. Female 2. Male

D6-Member of the chamber assembly

Thank you for taking the time to take part in the survey.

Name of the surveyor:

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This report is prepared to measure the corruption perception in the northern part of Cyprus and raise awareness with regard to preventing corruption. The report uses the methodology of the Transparency International's (TI) annual Corruption Perceptions Index (CPI), and it is based on a survey conducted with business executives and a workshop conducted with a group of experts. Having said that, the report goes beyond just calculating a score and delivers an in-depth analysis on the corruption perceptions of business executives. Hence, in addition to the questions used by the Transparency International, the business executives were asked particular questions related to the case of northern part of Cyprus as well, and their answers are shared in detail in this report.

There are five main objectives of this report: (1) to understand the opinions of business executives regarding corruption; (2) to measure the corruption perception in north Cyprus by using an internationally recognized methodology; (3) to compare corruption perception in north Cyprus with the rest of the world; (3) to determine the change in the corruption perception in north Cyprus when compared with the previous year; and (5) to make policy recommendations based on the findings that would improve the country's performance in fighting corruption.

The aggregate TI-CPI 2018 score of the northern part of Cyprus, which combines the answers of business executives and experts, has been calculated as 37 out of 100. When compared with the previous year, this score corresponds to a decline of 3 points. This score is below the average score of 43 for 180 countries ranked in the TI-CPI 2018, which came out in the beginning of 2019, and places north Cyprus as 93rd in the rankings. Although this score is close to the score of Turkey (41), it is way below the score of the Republic of Cyprus (59).

ISBN 978-9963-2021-2-6

