



Functional and Institutional Review of Turkish Republic of Northern Cyprus



Embassy of the Turkish Republic
in Nicosia

tepav

türkiye ekonomi politikaları araştırma vakfı



The Turkish Republic of Northern Cyprus
Prime Ministry



Functional and Institutional Review
of
Turkish Republic of Northern Cyprus

TEPAV Publications TRNC Functional – Institutional Review Study

The views expressed in this book may not entirely the views of the project partners, i.e. the Republic of Turkey, the Turkish Republic of Northern Cyprus and the Economic Policy Research Foundation of Turkey. The report can be quoted in parts or in its entirety with references to the source.

TEPAV
April 2013 – Original version in Turkish
March 2016 – English version

TEPAV
TOBB-ETÜ Yerleşkesi, TEPAV Binası
Söğütözü Caddesi No:43
Söğütözü/ANKARA
Telefon +90 312 292 5500
Faks +90 312 292 5555
www.tepav.org.tr
tepav@tepav.org.tr

Acknowledgments

The present report has been prepared in the framework of the “Project on the Functional-Institutional Review of the State in the Turkish Republic of Northern Cyprus (KKTC-FOKUS)”. The project is part of the studies that were included in the “2010-2012 Programme for the Improvement of the Effectiveness of the Public Sector and Competitiveness of the Private Sector”, signed by the Republic of Turkey and the TRNC in 2010. The study was carried out and completed by the Economic Policy Research Foundation of Turkey (TEPAV) between April 2011 and June 2012.

The report was authored by the KKTC-FOKUS project’s technical support team led by Emin Dedeoğlu and consisting of Osman Yılmaz, Emre Koyuncu, Mehmet Ratip, İzge Arısal and Esen Çağlar.

The recommendations in the report are based on the analyses carried out throughout the project on sectoral and thematic areas. These analyses were conducted by the technical support team as well as a number of researchers, including Ülker Şener, Tunga Koroğlu, Tuncay Teksöz, Bülent Tarhan, Zekeriya Şarbak, Ramazan Güven, Mustafa Gülcü, M. Öner Ekinci, Yüksel Kavak, Emre Üçkardeşler, Kubilay Kavak, Taylan Kıymaz, Hasan Bağcı İ. Çağrı Özcan, Metin Şenay, Savaş Zafer Şahin, Mesut Ünal and Hakan Dulkadiroğlu.

The studies were supported by the Reform Study Group, which brought together representatives from public institutions and organizations. The study group worked on the assessment of the public institutions and organizations and the design of their organizational structure, the planning of field research, the inventory of funds and revolving funds and the organization of meetings at the different departments. The study group consisted of Levent Hızal, Nahide Kayan Eraslan, Mustafa Kendir, Ayşe Ağaoğlu, Aytunç Şirket, Beste Akın Özyavaş, Niyazi Nizam, Özge Yücesoy, Mehmet Uluç, Ece Çelikdal Alas, Kerem Kadiroğulları, Gizem Bahri, Ferda Hacıoğulları, Ayça Palaz, Kasım Erkmen and Kemal Beyaz.

Comparative reports on selected themes and countries were prepared by Lino Briguglio, Zeljko Sevic and Metin Balcı.

Münevver Ebedi and Pınar Kadioğulları provided administrative support to the project.

The Turkish Technical Delegation and the Turkish Cypriot Technical Delegation, which took part in the guidance committee of the project, made valuable contributions for the facilitation and assessment of the study. Turkish Cypriot ministries and officials from affiliated and relevant organizations who were visited in the framework of the project provided considerable assistance for the sound implementation of the study by sharing their assessments and knowledge in a transparent manner.

Table of Contents

INTRODUCTION	11
EXECUTIVE SUMMARY	13
PART ONE: GENERAL VIEW OF PUBLIC ADMINISTRATION IN TRNC.....	17
1. STATE STRUCTURE AND HISTORICAL BACKGROUND	18
1.1. State-building process of Turkish Cypriots and Hybrid Legal Structure	18
1.2. Uncertainties Regarding the International Legal Status	20
2. POLITICAL SYSTEM	20
2.1. Governmental System	20
2.2. Electoral System	22
PART TWO: BASIC PROBLEMS REGARDING PUBLIC ADMINISTRATION	26
1. THE CENTER OF THE STATE AND PROBLEMS IN MINISTRIES RELATED TO POLICY-MAKING AND COORDINATION	27
1.1 Lack of Data	27
1.2. Lack of Political Framework for Medium-Long Term Policies and Inability to Link Budget with Policies.....	28
1.3. Flawed Decision-Making, Coordination Mechanism and Secretariat Services	29
1.4.....	30
1.5. Administrative Capacity and Independence Issues of Regulatory and Monitoring Agencies....	30
1.6. Assistance Committee's "Substitution Effect" Impacts Negatively on Capacity-Building.....	30
1.7. Organization of Ministries and Departments Unfavorable in Terms of Policy-Making and Administrative Capacity	31
2. PROBLEMS RELATED TO PERSONNEL MANAGEMENT	32
2.1 Scope of "Public Service" is Wide and Vague.....	35
2.2. Cadres (positions) and Functions are Defined by Law, Lack Flexibility	36
2.3. Large Number of Public Servants Assigned Based on Political Discretion	36
2.4. Insufficient Capacity of Institutions Preparing and Carrying Out Personnel Policy	37
2.5. Public Sector No Longer Applies Rational Wage Policy	37
2.6. Failure of Staff Performance System	37
2.7. Difficulties to Assign Public Servants According to Service Needs.....	38
2.8. Absence of In-Service Training	39
3. PROBLEMS RELATED TO PUBLIC FINANCE	39
3.1. Narrow Budget Scope.....	39
3.2. Insufficient Financial Management Tools	39
3.3. Unsustainable Budget Deficits.....	39
3.4. Disorganized and Insufficient Auditing System	40
3.5. Unstructured and Inefficient Public Economic Enterprises System	40
4. PROBLEMS OF INEFFICIENCY AND EFFECTIVENESS IN PUBLIC SERVICES	41
4.1. Low Technical and Administrative Capacity, High Prices and Insufficient Quality in Provision of Basic Public Services	41
4.2. Inefficient and Ineffective Service Provision Due To Share of Competencies Between Central and Local Administrations and Scaling Problems.....	42
4.3. Low Citizen Satisfaction and Confidence About Public Services	43

5. LACK OF CONFIDENCE TO STATE INSTITUTIONS AND POLITICS AND DISPAIR ABOUT THE COUNTRY'S FUTURE IS TURNING INTO A VICIOUS CYCLE	51
PART THREE: REFORM RECOMMENDATIONS	54
1- THE CENTER OF THE STATE SHOULD BE STRENGTHENED, EFFICIENCY OF REGULATION, DECISION-MAKING AND COORDINATION FUNCTIONS SHOULD BE IMPROVED	57
1.1. The Department of Statistics and Research Should Be Restructured and an Official Statistics Program Should be Prepared	57
1.2. A Medium Term Programming Should Be Adopted in Policy-Making and Fiscal Management	58
1.3. The Budget Process Should Be Redesigned Pursuant to the Medium Term Program.....	59
1.4. A Strong Central Body, in Charge of Policy Development and Coordination Should Be Established	61
1.5. Cabinet of Ministers' Policy-Coordination Agenda Should Be Widened.....	62
1.6. Policy-Coordination Functions Should Be Created Within Ministries	62
1.7. The Council of Undersecretaries Should Become Institutionalized	63
1.8. The Process of Legislation and Law-Making Should Be Improved	63
1.8.1. The Central Legislation Department Should Be Strengthened	63
1.8.2. The Legal Department Should Be Organized According to Service Requirements and the Staff Provided with Training	64
1.8.3. Civil Society Should be Ensured to Participate in the Law-Making Process.....	64
1.8.4. A Legal Regulation Should Be Made on the Procedures and Principles to Abide By in Law-Making and a Guideline Should Be Prepared.....	64
1.8.5. Legislative Information Databases Created in Institutions Should Be Merged Under a Single Roof.....	65
1.8.6. The Legislation In Force Should Be Sorted, Simplified, Printed and Published.....	65
1.9. Capacity Problems in Regulatory Boards Should Be Solved by Also Taking into Consideration the Question of Scale	65
1.9.1. The Scale Issue Can Be Solved By Establishing Multifunctional Boards.....	65
1.9.2. An Administrative Capacity Should Be Built.....	66
1.9.3. Independence of Institutions Should Be Ensured	67
1.10. Turkey's Assistance Delegation Should Mainly Assume the Function of Supporting Programs	68
2. THE FINANCIAL MANAGEMENT PROCESS AND TOOLS SHOULD BE MODERNIZED, THE FISCAL POLICY SHOULD BE SUSTAINABLE	69
2.1. The Scope of the Budget Should Be Broadened.....	69
2.2 A Modern Fiscal Management Law Should Be Enacted	69
2.3. The Fiscal Policy Should Be Sustainable	70
2.4. Budget Processes and Tools Should Be Modernized	71
2.5. A Culture of Efficiency and Performance Should Be Fostered in Public Management.....	72
2.6. Human Resource Constraint Should be Alleviated for Successful Financial Management Reform	73
2.7. The Audit System Should be Strengthened.....	74
2.7.1. A Single Audit Unit That Includes Inspection and Internal Audit Should Be Established	74
2.7.2. The Independence of the Court of Accounts Should Be Strengthened and its Capacity Increased	75

2.7.3. The Ombudsman Should Be Strengthened and Capacity Should Be Built on Other Areas of Audit	75
2.7.4. A Tax Audit Board Should Be Established.....	76
2.7.5. The Coordination Between Audit Units Should Be Ensured	77
2.8. The Public Economic Enterprise System Should Be Restructured	77
2.8.1. A Framework Legislation Should Be Drafted.....	78
2.8.2. There Should Be an Institution To Follow Up and Coordinate the Policies of Public Economic Enterprises and Prepare their Privatization.....	78
2.8.3. This Institution Should Define Policies That Would Ensure the Efficient, Professional, Transparent and Accountable Management or Otherwise Privatization of Public Economic Enterprises.....	79
3. THE STAFF REFORM SHOULD BE THE INTEGRAL PART OF THE PUBLIC SECTOR REFORM	80
3.1. The Definition of Public Servant Should Be Clarified and its Scope Narrowed Down.....	80
3.2. The Size of High-Level Officials Should Be Limited.....	81
3.3. The Limits to the Employment of Workers and Temporary Staff Should Be Clearly Drawn.....	81
3.4. The Capacities of Institutions in Charge of the Staff Management Should Be Increased.....	81
3.5. The Cadre System Should Be Reviewed	83
3.6. The Wage Regime Should Be Rationalized	84
3.7. Policies on Staff Selection Should Be Rendered Efficient.....	85
3.8. New Staff Positions Based on Specialization and Career Should Be Created	86
3.9. The Supervisory Function of the Public Service Commission on Appointments and Promotions Should Be Increased, Commission Members Should Be Given More Say	86
3.10. Relocations Should Be Used as an Instrument of Management and Career Development	86
3.11. A Performance Assessment System Based on Reward and Sanction Policy Should Be Established	87
3.12. In-Service Trainings Should Be Extended	87
4- PUBLIC SERVICE PROCESSES SHOULD BE MORE EFFICIENT, QUALITY AND CITIZEN-SATISFACTION SHOULD INCREASE	88
4.1. The Provision of Services Should Be as Decentralized As Possible in Parallel With the Scale and Capacity Increase; Transparency and Accountability Should be Increased	88
4.1.1. The Scale of Municipalities Should Be Widened	88
4.1.2. Municipal Assemblies Should Be Strengthened.....	88
4.1.3. The Zone Planning and Its Implementation Should Be Revised.....	89
4.1.4. Financial Management and Audit In Municipalities Should Be Strengthened.....	90
4.1.5. Municipalities' Capacity to Generate Revenues Should Increase; Criteria Other Than Population Should also Be Used in The Distribution of Central Gov't Transfers	91
4.1. 6. The Functioning of Municipalities Should Become Rational and Transparent	91
4.1.7. Central Administrative Tutelage Should Be Rationalized.....	92
4.1.8. Existence of District Governorships Should Be Reassessed	92
4.2. Justice and Equality in Healthcare and Social Security Services Should Be Ensured, Accessibility and Service Quality Should Increase	93
4.2.1. Social Security Programs Should Be Merged Under a Single Roof.....	93
4.2.2. The Automation of Social Security and Healthcare System Should Be Ensured; an Integrated Structure Should Be Established	94
4.2.3. Audits Should Be Strengthened.....	94

4.2.4. The Long Term Savings Account Role of the Prudence Fund Should Be Strengthened	94
4.2.5. A General Health Insurance Policy Should Be Adopted	95
4.2.6. The Provision and the Financing of Healthcare Services Should Not Be Connected with Each Other	95
4.2.7. Payments to Healthcare Service Providers Should Rest on Clear Rules	95
4.2.8. The “Family Doctor” System Should Be Adopted in Primary Healthcare Services	96
4.2.9. An Certain Amount of Autonomy Should Be Ensured for the Secondary and Tertiary Service	96
4.2.10. Regulations Should Be Made For Procurement of Services From Private Hospitals and Clinics.....	96
4.2.11. Emergency Healthcare Services Should Be Improved.....	97
4.2.12. Healthcare Expenses of Turkish Citizens Living in the TRNC Should be Paid By the Turkish Social Security Institution (SGK)	97
4.2.13. Regulations Should Be Made to Make Healthcare Staff Work Full-Time.....	97
4.3. The Public Sector’s Role and Organization Regarding Infrastructure Services such as Telecommunication and Transportation Should Be Redefined, Competition Should Be Ensured ...	97
4.3.1. The Telecommunication Department Should Be Incorporated	97
4.3.2. An Information Society Agency Should Be Established.....	98
4.3.3. A Land Transportation Department Should Be Established.....	98
4.3.4. The Meteorology Department Should Be Attached to the Ministry of Agriculture and Natural Resources	98
4.3.5. The Postal Department Should Be Organized as a Company and the Sector Opened to Competition.....	99
4.3.6. Privileges Given to Dockworkers Should Be Removed and the Possibility of Privatizing the Ports Should Be Analyzed.....	100
4.4. The Energy Sector Should Restructured, the Service Quality Should Be Increased and the Efficiency of Prices Should Be Ensured.....	100
4.4.1. The Sector Should Be Divided, Whereby Privatization Works Should Be Conducted.....	100
4.4.2. Tariffs Should Be Merged	101
4.4.3. Collection of Dues and Subvention Policies Should Be More Efficient	101
4.4.4. Comprehensive Measures That Vary Before and After the Privatization Should Be Adopted to Render KIB-TEK More Efficient.....	101
4.4.5. Policies and Practices Aiming for Security of Supply, Energy Efficiency and the Support of Renewable Energies Should Be Developed	103
4.5. Institutional Organization and Policies in Agriculture Should Be Reviewed Considering the Opportunities Provided by the Northern Cyprus Water Supply Project.....	104
4.6. Demilitarization and Efficiency Should be Increased in Security and Civil Defense Services ..	106
4.6.1. Police’s Workload Should Be Reduced Through Transfer of Competencies and Privatizations and Services Should Be Speeded Up	106
4.6.2. A Private Security System Should Be Adopted.....	107
4.6. 3. Part of the Current Functions of the Civil Defense Department Should Be Transferred and the Organization Downsized	107
4.6.4. Demilitarization Measures Should Be Developed in Parallel with a Permanent and Secure Peace Environment on the Island.....	108
PART FOUR: IMPLEMENTATION STRATEGY	109

1- SELECTION OF PRIORITIES	110
2-REFORM MANAGEMENT	112
3. PUBLIC DEMAND ON REFORM AND PERCEPTIONS REGARDING REFORM PRIORITIES.....	115
4- ENDORSEMENT BY POLITICIANS – LEADERSHIP, POLITICAL MANAGEMENT	118
ANNEX: Charts Showing the Report’s Change Recommendations on the Management Structure of Institutions.....	121
OFFICE OF THE PRIME MINISTRY.....	121
MINISTRY OF FINANCE	122
MINISTRY OF PUBLIC WORKS AND TRANSPORTATION.....	123
MINISTRY OF AGRICULTURE AND NATURAL RESSOURCES	124
MINISTRY OF ECONOMY AND ENERGY	125
MINISTRY OF LABOR AND SOCIAL SECURITY.....	126
MINISTRY OF INTERIOR AND LOCAL ADMINISTRATIONS.....	127

Tables Index

Table 1 Number of Electors per Deputy	23
Table 2 Elections According to Their Types.....	24
Table 3 Population and Weight of Public Employment in Workforce	33
Table 4 Economic Distribution of Expenditures	33
Table 5 Good Governance Indicators (% of I Completely Agree and I Agree).....	45
Table 6 Solution Approaches to Scaling Problem.....	65
Table 7 Reform Level from the Eyes of Households, Public Servants and Businesspeople	116
Table 8 Priorities Regarding the Reorganization of the State (Given as Top Priority)	116
Table 9 Main Factors for Carrying Through the Reform to a Success According to Public Servants (1 st , 2 nd and 3 rd Important Factors).....	117

Figures Index

Figure 1 Framework of Implementation of Public Policies	28
Figure 2 Public Servants' Opinions on Institutional Organization	32
Figure 3 Image of Public Employees in the Eyes of Households	34
Figure 4 Influence of Favoritism for Selection of Employees Hired in Public Administration	35
Figure 5 Reputation of Institutions in the Eyes of Households	44
Figure 6 Good Governance Perception of Public Servants Regarding Their Own Institution	46
Figure 7 Good Governance Indicators TR 2002, TRNC 2011 (% of I Disagree and I Completely Disagree)	46
Figure 8 Influence of Favoritism in Public Employment.....	47
Figure 9 Influence of Favoritism in Public Employment (According to Status of Survey Respondents).....	47
Figure 10 Influence of Favoritism in Public Employment (According to Institutions of Survey Respondents).....	48
Figure 11 Opinions on Public Services (% from negative to positive)	49
Figure 12 Perception of Corruption on Public services (% from lower to higher)	49
Figure 13 Perception of Quality of Central and Local Administrations among Households and Businesspeople.....	50
Figure 14 Satisfaction with Individual Living Conditions and Living Conditions of Families	51
Figure 15 Satisfaction with Cyprus' Current Socio-Economic Situation.....	52
Figure 16 Cyprus' Socio-Economic Situation in Near Future.....	52
Figure 17 Recommended Budget Process.....	59
Figure 18 Fiscal Space.....	71
Figure 19 Opinions of Public Servants on a Potential Reform Programme for 2013 and Beyond.....	118

INTRODUCTION

Institutional structures that constitute the public administration systems of countries, as it is commonly known, bear the traces of the specific historical background of those countries. The current structure of the Turkish Republic of Northern Cyprus (TRNC), founded 1983, was constituted as a result of the experience that accumulated from different political systems and legal traditions. A structure that indicates the effects of British Law due to the experience of the Cyprus Republic was then impregnated by elements peculiar to Turkish legal system after the development of ties with Turkey. This hybrid legal structure has led to the constitution of a distinctive public administration. For instance, while a significant part of the legal and judicial system bears the traces of the British influence, it is possible to see the influence of the relations with Turkey in the other areas, particularly in the process after 1974.

The “2010-2012 Program for the Improvement of the Effectiveness of the Public Sector and Competitiveness of the Private Sector,” laid out in the framework of the protocol signed by the TRNC and Turkey in 2010, corresponds to a new stage in their mutual ties. Both parties have anticipated the restructuring of the TRNC as a self-reliant state vested with the capacity of policy-making and administration. The “Project on the Functional-Institutional Review of the State in the TRNC (KKTC-FOKUS)” has been designed as part of this program and was implemented by TEPAV between April 2011 and June 2012.

The purpose of the “Project on the Functional-Institutional Review of the State in the TRNC (KKTC-FOKUS)” has been defined as “... identifying the kind of institutional structure the public administration in TRNC will acquire in the future and the strategies that will be used for this outcome by exposing the differences between the current structure of the public administration and the ideal one” through the study of the public administration in the TRNC, with the view of finding an answer to the question “What sort of public administration should be designed to provide better fundamental services?”

This Report was authored in order to address the fundamental reform recommendations that ensue from the Project on the Functional-Institutional Review of the State in the TRNC with a holistic point of view, enabling to implement them within an historical perspective and a strategic approach. Project studies that have provided an output for the preparation of this final report are the following:

- **Horizontal analysis reports** on areas that involve more than one institution, prepared with the following titles: Policy-Making and Coordination, Financial Administration, Law-Making Process, Public Economic Enterprises (abbreviated in Turkish as KİT), Monitoring, Social Security, Energy, Local Administration System, Regulatory and Monitoring Bodies, Personnel Management, Investment Environment and Economic Policies.
- **Vertical analysis reports** focusing in detail on a single institution in terms of organization, activity and efficiency, prepared with the following titles: Office of the Prime Minister, Ministry of Finance, Ministry of Public Works and Transportation,

Ministry of National Education, Youth and Sports, Ministry of Agriculture and Natural resources, Ministry of Health, Ministry of Labor and Social Security, Ministry of Tourism, Environment and Culture, Court of Accounts, Ministry of Interior and Local Administrations, Civil Defense Organization.

- **Quantitative research surveys** focusing on the views of stakeholders regarding the public administration and the reform as well as their own conditions, conducted with households, public servants and companies.
- Within the scope of **comparative studies with other insular/small countries** 1) a report comparing the TRNC with other small countries in the world in terms of economy, demography, public administration and based on macro data, 2) a report on Malta's physical planning system, 3) a report on the Economic and Financial Administrative System in the Greek Cypriot Administration of Southern Cyprus, 4) and a report on the personnel management system in the Greek Cypriot Administration of Southern Cyprus, Man Island, Iceland and Malta were prepared.
- Within the scope of **studies of self-evaluation**, functions of public institutions have been defined and classified and their functionalities evaluated through meetings held at ministries and the analysis of the legislation so as to provide inputs for the horizontal and vertical analysis reports. The studies were coordinated by the Reform Study Group that includes public employees from different ministries assigned for the project.

Meetings were organized with stakeholders for each of the horizontal and vertical analysis reports, while interim outputs of the studies were shared with the guidance committee, which includes officials from both Turkey and the TRNC, and feedbacks were received. The first draft of the final report was discussed between the 19th and 21st of June, 2012, with the participation of officials from the TRNC and feedbacks were reflected in the final version.

Turning the recommendations made in this report from a “wish-list” into a reform program requires additional work by the TRNC. For that end, the recommendations contained in this report should be put in a program endowed with a strategic approach and converted into an action plan. Our views regarding what this strategic approach should involve are included in the last section of this report.

EXECUTIVE SUMMARY

The factors shaping the direction of changes in public administrations are a) the particular historical development trajectory of the country and the state, b) the society's perceptions about its country and aspirations for its future, c) global trends and standards. That said, in every country, the public administration is intertwined and in interaction with the political culture and political organizations.

All findings stemming from studies regarding the restructuring of public administration conducted throughout the project have suggested the presence of the factors mentioned above. The TRNC has displayed a particularly turbulent dynamics of development. Institutions that constitute the state as well as their functions are the result of this dynamic back-plan.

Accordingly for instance, the fact that the President has important powers somewhat similar to a semi-presidential system in the TRNC's governmental system and the resulting problems within the executive, the isolation and uncertain political environment of the TRNC due to being solely recognized by Turkey, the electoral system based on very narrow constituencies and the relatively busy electoral schedule have all generally had a negative impact on public administration. Surveys show that Turkish Cypriot citizens consider changes in the political system as the main area of reform for improving public administration. Although there is certainly some truth in this perception, the prospect of successful political reforms without a functional public administration is quite poor.

The goal of the Functional-Institutional Review study is to formulate recommendations that would increase the capacities of the state in introducing policies for the development of the country, while ensuring a more functional state apparatus capable of providing the services needed by the population.

The **first part** of the report addresses the main dynamics that affect public administration in the TRNC and the **second part** focuses on the main problems of public administration. The **third part** contains the reform recommendations, formulated in a large extend in the frame of this dynamics of development and the main problems expressed in the first two parts, which anticipate (and favors) a change in the existing institutions through an evolutionary process rather than radical adoption of new and totally foreign novelties, and underscore the need of capacity-building at each stage. The present report's recommendations are inspired by modern principles of public administration that have emerged over the last 20-30 years and advocate a more transparent, participative, sensitive and efficient (result- and performance-oriented) state. All the reform recommendations are based on detailed studies conducted in the framework of the project. Recommendations regarding the administrative structure of institutions are illustrated with organizational charts included in the annex of the report. In any event, we think it will be more helpful if action plans to be prepared on individual reform areas are prepared following a detailed discussion on the thematic and sectoral reports that served as an input to this report. The **fourth and last part** includes assessments on the priorities during the implementation stage. These assessments have been elaborated so as to be taken into consideration in the programs or action plans that will be prepared by the

TRNC. Reform steps regarding public administration are as much, and even more connected to political effectiveness and preferences as they are technical. Therefore, stakeholders should discuss, prioritize and make public the recommendations contained in this report.

The main shortcoming of the Turkish Cypriot public administration is the lack in the center of the state of the capacity to elaborate policies, to identify priorities as well as to coordinate, monitor and control the implementation of the policies elaborated. To make it short, the “administrative” function of public administration is not adequately developed. To begin with, there are problems regarding the “data,” which is the fundamental input of the “administrative” function. Data is either not collected sufficiently and regularly; or the reliability of the collected data is less than satisfactory. The country has no formal document that could orientate the state regarding its medium term and long term policy priorities. The Cabinet of Ministers, which is the decision-making body of the executive, is submerged by details and routine. A body acting as an efficient secretariat (cabinet secretariat) that would advise the Cabinet, provide information regarding the questions on the agenda and ensure the coordination between the relevant public institutions is also absent.

The same situation is valid for the ministries as well. The basic institutional structure in the TRNC is the “department,” established by law according to the Constitution. The departments can modularly switch between ministries, which are established by decree. There are no units within the ministries that could supervise the institution as a whole, advice relevant high-level officials and the minister on policy matters, ensure the coordination in the ministry, establish internal control systems and carry out monitoring activities. As a result, **there is a lack of accumulation of capacity in ministries, with merely an institutional memory at the departmental level at best.** The legislative process is slow and inefficient.

The public administration employees in the TRNC are not in a disadvantaged position both in terms of headcount and remuneration. Nevertheless, a serious capacity problem remains. There are problems in the legislation related to public service as well as structural problems in institutions.

The fiscal administration is far from meeting the current expenditures with domestic revenues. The scope of the budget is narrow and financial management tools are insufficient. The tax policy and its monitoring are inadequate. The State Economic Enterprises system includes institutions each with their own separate legislation. Institutions holding a *de facto* monopoly position are organized vertically and are not sufficiently transparent.

Public services that affect a majority of Turkish Cypriot citizens are narrow in scope and have poor accessibility and low quality. Municipalities have technical and administrative capacity issues as well as serious effectiveness and efficiency problems.

As a result of all this deficiencies, the confidence of citizens to the public administration and the political staff is rather low. There is an established belief that a widespread favoritism exists among public administration employees. A comprehensive reform is the most important medium that could change this perception.

The first priority of the reform is to build an administrative capacity within the core of the state. To start with, an official statistical program should be launched with the technical support of Turkish Statistical Institute (TÜİK) and the Statistical Department should be restructured as a relatively independent institution attached to the Office of the Prime Minister. A practice of designing policies and applying a medium term program should be implemented, the budget process should be redefined in this framework and the Assistance Delegation should provide support to the process by assisting the implementation of the programs instead of the individual projects. Accordingly, the institutional structures of the Office of the Prime Minister and ministries should be strengthened and the legislative process improved.

The fiscal reform should be undertaken by first enlarging the scope of the budget. Funds and institutions that remain outside of its scope should be included. A fiscal control system should be established and the culture of performance should be developed. The audit system should be gathered under a single roof while the capacity and the independence of the Court of Accounts and the Ombudsman should be improved.

Efficient, professional, transparent and accountable management of the State Economic Enterprises should be ensured through a new framework legislation.

The personnel reform should be an inherent part of the public administration reform. A framework legislation is necessary in order to make a clear definition of public service employment, restrict political nominations and establish a merit system. Furthermore, capacities of institutions related to the personnel administration should be reinforced.

Improvements are necessary in all areas of public services. The capacities of municipalities should be increased while the municipal assemblies should be strengthened. The functioning of municipalities should be rationalized and rendered transparent as urgent improvements are particularly required regarding financial management and audit.

Justice and equality should be ensured in healthcare and social security services. Accessibility should be improved and service quality should be increased. It is recommended that social security institutions be gathered under a single roof and a general health insurance be applied. The automation of healthcare and social security services should be ensured. Regulations should be made to ensure full-time work of healthcare staff.

The tasks and the organization of the public administration in services such as telecommunications and transportation should be redefined. As regards energy, sector should be reorganized into production-transmission-distribution, the tariffs simplified and the policies of receivables collection and subsidies rendered more efficient and transparent. Privatization can be an option to be considered in cases where there is a possibility of competitiveness. However, before engaging in privatizations, practices regarding security of supply should be improved and a capacity of monitoring and regulation should be built.

Demilitarization and efficiency in security and civil defense services should be increased. Services should be provided faster while the load on the police should be reduced through the

transfer of competencies. The private security system should be adopted. Some of the current functions of the civil defense organization should be transferred, while scaling down the structure of the organization and increasing its efficiency.

There is no doubt that this report's findings and recommendations needs to be translated into an action plan and prioritizing them requires additional studies from the Turkish Cypriot government. However, **it is necessary that a reform program of this dimension is designed with a strategic approach and undertaken through a separate institution established for the purpose of managing the reform process, while ensuring that it enjoys support from the public by the means of an efficient communication policy.** Surveys conducted show that there is a strong support for the reform from all segments of society.

PART ONE: GENERAL VIEW OF PUBLIC ADMINISTRATION IN TRNC

1. STATE STRUCTURE AND HISTORICAL BACKGROUND

1.1. State-building process of Turkish Cypriots and Hybrid Legal Structure

It should be acknowledged that uncertainties caused by the international legal status – particularly due to the embargoes and isolation that have seriously prevented the TRNC's capacity of international trade and joining global markets – are, alone, insufficient to explain the state structure in the TRNC and structural problems surrounding the conception of public administration. It is not possible to understand wholly the structure of the TRNC, which was founded in 1983 and whose constitution was accepted by referendum in 1985, without taking into consideration the important details of modern Cypriot history.

Indeed it is still possible to see the traces of the Ottoman (1571-1878) and British (1878-1960) rule in the island, both in the political systems of the southern and northern part of Cyprus. In addition to this, recent history that took place following the collapse of the Republic of Cyprus, founded in 1960 in the context of the global process of decolonization and based on a partnership rule, in a mere three years is also among the primary factors that shaped the state structure in the north of the island.

As a result of the ethnic conflict between Greek Cypriots and Turkish Cypriots, both societies have experienced a separate process of “state-building”. The beginning of this separate “state-building” processes can be attributed to the attempt by the then-President of the Republic of Cyprus, Makarios, in 1963 to amend some constitutional provisions having a huge significance for Turkish Cypriots and to the resulting establishment of the “Provisional Turkish Cypriot Administration” in 1967 as the ethnic conflict intensified.

Turgut Turhan explains the impact of the different legal systems that took shape amid separate state-building processes as follows:

What could be said without a doubt when looking to the legal order of the Republic of Cyprus is that this country's legal system is entirely based on British Law. ... The legislative preferences adopted ... by the British Administration have played the most important role in the emergence of such basis. Indeed, the Article 188 of the Constitution of the Republic of Cyprus bases clearly the structure of the state upon British Law by stating that laws enacted under British sovereignty that are not contrary to the constitution and have not been removed will remain in force verbatim. Moreover, the fact that the “state” property of the Republic of Cyprus was not interrupted [according to Greek Cypriots] despite all the incidents that took place, in other words Greeks who remained alone as the constituent people of the state haven't sought a new organization as a state, led the current system [in Southern Cyprus] to being much more influenced by British law than the legal order in the TRNC. Since... even though the Turkish Cypriot system is based on British Law, at least in certain areas and to a certain extent, it has steered away from British Law due to the fact that Turkish Cypriots have experienced a forced “state-building process”.¹

What should be noted here is that the current structure of the Turkish Republic of Northern Cyprus founded in 1983 consists of different political systems and legal traditions. A legal order that bore the influence of British Law due to the experience of the Republic of Cyprus

¹ Turgut Turhan, “Tarihsel Bakış Açısıyla Kıbrıs Türk Hukuk Sistemi” (“Turkish Legal System Through Historical Perspective”), Ankara Üniversitesi Hukuk Fakültesi Dergisi, 2008, 268-9.

was gradually pervaded by elements that are specific to the Turkish legal system as ties with Turkey developed throughout the years.

Although under the “Provisional Turkish Cypriot Administration”, which is the first of these separate state-building processes, the development of an administration started that was based at a large extent on the legal system of the Republic of Cyprus and the characteristics that this system took from the British law, Turkish Cypriots had in those years begun to conduct their own legislative activities and established specific executive, legislative and judicial bodies in compliance with the principle of separation of powers.²

This period was followed by a short interval referred as the “Autonomous Turkish Cypriot Administration” (1974-1975). As both societies began to live in an order with two separate regions after the 1974 Cyprus Operation, the state-building process continued more clearly and unequivocally pursuant to the symbolic importance of the geographical border separating two different pieces of land and two societies from each other. It is in this context that the “Turkish Cypriot Federal State”, which is probably the most important stage of state building in Turkish Cyprus, was founded (TCFS, 1975-1983).

It should be stressed that the TCFS was designed as a “federal” state and a preparative stage for a prospective independent federal order, in which the Turkish Cypriots would be part of with their constituent will, without entirely abandoning the idea of a common republic with two societies. In spite of this, it should also be noted that due to being founded unilaterally by the will of a single party and involving an organization and activities which are the result of being a separate state, the effort of institutionalization that extends to the foundation of the TRNC also began at the same stage.

Indeed, The Turkish Cypriot legal order became much more open to the influence of the legal system of the Turkish Republic during the TCFS than in the previous state-building stages.³ In this period, both the preservation of legislations at a large extent under the influence of the British legal system that dated before the TCFS and the preparation of new laws based on the example of the Turkish Republic have determined the hybridity of the legal system of the TRNC that would be founded in 1983.⁴ In short, the foundations of the state structure of the TRNC were to a great extent laid during the TCFS period.

² Some of the laws enacted during the Provisional Turkish Cypriot Administration phase are the following: “Law on Courts of Justice”, “Law on the Control at the Entrance and Exit to the Turkish Areas”, “Law Forbidding the Sale of Real Estate for Non-Members to Turkish Community”, “Law on Election of the Assembly of Representatives and Assembly of Community”, “Law on Firearms”, “Law on Turkish Cypriot Armed Forces”, “Law on the Department of Religious Affairs”, “Law Regulating Working Conditions of Turkish Cypriots in Turkey”, “Law on Military Punishments and its Procedure”, Turhan, “Tarihsel Bakış Açısıyla,” 271.

³ Some of the laws enacted by the Turkish Cypriot Federal Assembly during the TCFS era that were highly inspired by the then laws of the Turkish Republic are the following: “Referendum Law”, “Law on Political Parties”, “Law on Land Registry and Cadaster”, “Law on Motor Vehicles”, “Real Estate Law”, “Law on Money and Foreign Exchange Transactions”, “Law on Public Servants”, “Law on Military Zones”, “Banking Law”, “Social Security Law”, “Law on the Establishment of Security Forces”, “Law on Pensions”, “Law on Reserve Officers”, “Law on the Payment of Public Dues”, “Law on the Court of Accounts”, “Law on Rents”, Turhan, “Tarihsel Bakış Açısıyla,” 274.

⁴ It is useful at this point to remind Turhan's following warning: “It should however be stressed that the observation according to which the Turkish Cypriot legal system is evolving into having a specific characteristic

1.2. Uncertainties Regarding the International Legal Status

Public administration in the Turkish Republic of Northern Cyprus (TRNC) has developed under a very specific state structure. As shown by the comparative study based on 108 small countries across the world conducted in the framework of the KKTC-FOKUS project⁵, although the TRNC should mainly be considered as a “partially recognized de facto state” as regards to its specific international legal status, the country still has some particularities that enable it to be compared with small states which enjoy different statuses.

To begin with, the TRNC aims to be recognized as an independent sovereign state internationally, and even an independent sovereign state with a membership to the EU, and has policies as well as institutions elaborated for this purpose. This particular political vision of the country reflects to political discourses as well as normative expectations and partially influences the functioning of institutions.

In addition to this, it is understandable that the economy of the TRNC is partially seen as dependent to Turkey due to several factors such as the cultural and historical references of the Turkish Cypriot society, the international relations that developed within the context of the Cyprus issue, the economic organization that emerged in the northern part of the island after 1974 as well as, to a certain degree, the isolations⁶.

2. POLITICAL SYSTEM

2.1. Governmental System

The governmental system in the TRNC is a semi-presidential system. The main complementary element of this system is the presence of a President elected through popular vote. In addition to the election of the President by the people, another characteristic that enables to classify the government system as a semi-presidential one is the fact that the President, whose legitimacy is not merely symbolic and emanates from a democratic election,

as the result of being a mix between the Anglo-Saxon and Turkish legal systems is an observation that focuses on the norms composing the infrastructure of the material law, rather than the norms that compose the infrastructure of the procedural law of a state's legal system. In other words, the shift to Turkish law from an Anglo-Saxon law occurred in the area of material law rather than the procedural law. On the contrary, the Federal State Assembly continued to abide by the jurisprudence that was constituted during the period of the Republic of Cyprus in terms of procedural laws and laws on the organization of the judiciary, with its procedural laws dating back to the British period that it recognized as being in force and other laws that it brought into force such as the “Law on the High Judiciary Board”, the “Law on the Justice Department” and the “Law on Courts”. Those who today say the Turkish Cypriot legal system is based on the Anglo-Saxon legal system are, in our opinion, making this conclusion by taking into account the organization of the judiciary and the judicial procedure that come to the forefront during the practice of the law,” Turhan, “Tarihsel Bakış Açısıyla,” 274-5.

⁵ “Kıyaslama Çalışması: Dünya Genelineki Küçük Ülkeler Işığında Kuzey Kıbrıs Türk Cumhuriyeti” (Comparative Study: Turkish Republic of Northern Cyprus in the Light of Small Countries Across the World”), KKTC FOKUS projesi, 2011.

⁶ Another point that shouldn't be overlooked is that the relations between the TRNC and Turkey entered a new stage in 1994. After the European Court of Justice required the certificates of origin and health certificates for products exported to EU countries were given by “the authorities of the Republic of Cyprus” following the initiative of the Greek Cypriot Administration of Southern Cyprus, the exports of the TRNC, particularly important on garments and citrus fruits, took a major blow and the economy of the TRNC started to integrate more intensively with the Turkish economy.

is an authority figure vested with significant powers. The first President of the TRNC, Rauf Raif Denktaş, was a figure that suited this definition due to “his charismatic authority arising from being a social leader for over 40 years”. The second and third presidents who followed him have proven their strength as they “performed their function with governments led by the parties they had been chairing for long periods”.⁷ In short, the governmental system of the TRNC is topped – along with a Prime Minister who is elected from the Parliament and leads the government – by a strong President.

What certainly ensures the strength of the President of the TRNC is, beyond factors such as his charismatic authority and chairing a political party for a long period of time, are the President’s competencies as defined in the Constitution. Perhaps the most important of these competencies is the “the power to dissolve the Parliament”.⁸ The President of the TRNC has the power to dissolve the Republican Parliament by deciding to renew the Republican Parliament elections if (1) “there is no possibility to nominate a Cabinet based on the majority of the Republican Parliament after 60 days” and (2) “the Cabinet has been removed three times within a year due to failing to garner a vote of confidence or as a result of a motion of confidence.”⁹

Among other important powers of the President figure “chairing the Cabinet when considered necessary,” “signing the appointment decrees of public servants who hold high-level positions,” “approving the appointments of the chairman and judges of high courts” and “before the enforcement of any law and any provision within a law or any decision of the Parliament ... submitting it to the High Court demanding it to rule whether those comply or conflict with any of the provisions of the Constitution.”¹⁰ Other than these competencies defined in the Constitution, the President of the TRNC is also the chief negotiator for the resolution of the Cyprus issue and conducts foreign relations as a result of practice, which also put him in a position of strength within the system.

Lastly, although the article 99 of the constitution states that the President of the TRNC is elected for a tenure of five years, there is no limit set in the constitution on the number of times that a person can present its candidacy for the Presidential elections and be elected. Therefore, there are no provisions in the Constitution of the TRNC, which entered into force in 1985, which limits the number of tenures of the President. Thus, the President eludes from being subject to the limitation of tenure, which enables him/her of positioning himself/herself as the center of the power within the system. The second complementary element of the semi-presidential system in the TRNC is the dual executive structure. Accordingly, in the system there is on the one hand a Prime Minister and its government whose task is not terminated, except in the event of the dissolution of the Parliament, by the President; and a President who can be removed from his duty in the event of an impeachment by the two third of the total members of the Parliament on the other. This particular feature of the semi-presidential

⁷ Tufan Erhürman, *Çare Başkanlık Sistemi Mi? KKTC’de Hükümet Sistemi Tartışmaları ve Başkanlık Sistemi* (“Is the Presidential System the Solution? Debates on the Government System in the TRNC and the Presidential System”), Işık Kitabevi, Lefkoşa, 2011, 22.

⁸ KKTC Anayasası, md. 88.

⁹ Erhürman, *Çare Başkanlık Sistemi Mi?*, 30-2.

¹⁰ Constitution of the TRNC, Articles 107, 121, 141, 146. Erhürman, *Çare Başkanlık Sistemi Mi?*, 34.

system in the TRNC has led to a debate on a potential instability and polarization within the executive in the case that the President and Prime Minister belong to different political parties.

The debate on the government system in the TRNC is also brought forward in the discussions on a public administration reform. The claim expressed by almost every politician from all political views at a certain time¹¹ that a presidential system should be considered in order to solve administrative problems in the TRNC underpins this discussion. As Tufan Erhürman says in his study on this matter, “One of the most interesting claims of those who claim that transition into a presidential system in the TRNC would be beneficial is that such change would eliminate regionalism, a politics based on interests, partisanship and favoritism altogether, facilitating the access of competent people to the executive.”¹²

Surveys realized in the framework of the KKTC-FOKUS project also show results that confirm this expectation. In the household survey, the respondent’s first priority in the reorganization of the state has been “The reorganization of the political system, for example the gathering of the powers of the President and the Prime Minister under a single head of the executive, the change of the electoral system, etc.,”¹³ with 34,8 percent of the answers. Similarly, priorities of public servants were identified in the Research on Northern Cypriot Public Servants, also carried out as part of the KKTC project, in which the answer related to the change of the government system ranked first (47,9 percent) among all the answers.¹⁴

Even if the government system of the TRNC has some clear problems, thinking that structural and systemic problems related to public administration can be solved solely by a reform of the government system, is not realistic. Rather than a specific constitutional design that determines the relation between the legislative and executive powers, problems of public administration in the TRNC stem from a political culture and social mindset demonstrated in conflicting expectations of citizens’ from the public administration, both as a provider of efficient and quality public services and as the vehicle of populist policies including favoritism and clientelism. The change of these perceptions can only be ensured through the review of the Turkish Cypriot government system in the long run in terms of both efficiency and democratic criteria as part of a deliberative and participatory constitutional reform process.

2.2. Electoral System

Along with the government structure, another factor determining the political system in the TRNC is the electoral system. The main legal regulation that establishes the electoral system

¹¹ On the statements of Turkish Cypriot politicians on the issue, see Erhürman, *Çare Başkanlık Sistemi Mi?*, 15-16; Ahmet Aydoğdu, *Tarihsel Süreçte Kıbrıs Türk Seçimleri ve Yönetimleri* (“Turkish Cypriot Elections and Rules in the Historical Process”), Ocak 2005, Ankara, 201.

¹² Erhürman, *Çare Başkanlık Sistemi Mi?*, 91.

¹³ The question of the electoral system is addressed below.

¹⁴ In both surveys, respondents were first asked “Which point of views below regarding whether there is a necessity to reorganize the state in the TRNC would you agree with?” and, according to their answer, respondents who say that there is a necessity of a new organization of the functioning of the state were then asked the following question, whose results are provided in a table in the present: “Which matter should be the priority for the reorganization and restructuring of the state's functioning?”

in the TRNC is the Law No. 5/1976 on “Elections and Referendum” enacted in March 3, 1976, under the TCFS.

All the problems mentioned above (regionalism, politics based on interests, partisanship and favoritism and the lack of competent people in the executive) and that are expected to be solved by the transition of the government system into a presidential system are not only problems generally related to public administration, but are closely related as well to the electoral system in the TRNC. Therefore it is necessary to look closer to the electoral system that leads to the composition of the Republican Parliament, from which governments that determine the policies of the administration and provision of public services is formed.

The problem defined as “regionalism” emanates from the boundaries of the electoral constituencies in the TRNC. Each district is defined as an electoral constituency in the parliamentary elections. The determination of the number of deputies that will be elected for each constituency is obtained, according to the Law on Elections and Referendum, by the division of the population of the district to the number resulting from the division of the total number of deputies at the Republican Parliament (50) to the total population of the country. The translation of this operation into practice means that a deputy can be elected by the votes of only a few electors. (Table 1)

Table 1 Number of Electors per Deputy

	CTP	DP	BDH	UBP	District Average
Nicosia	2,031	2,233	2,503	2,005	2,193
Famagusta	2,076	2,281	-	2,006	2,121
Kyrenia	2,076	2,336	-	1,808	2,135
Iskele	2,262	-	-	1,596	1,713
Guzelyurt	1,829	2,356	-	2,091	2,172
Party Average	2,053	2,301	2,503	1,901	2,190

Source: Naci Taşeli, Yenidüzen Daily, 09.04.2009, analysis based on the 2005 elections data of the Supreme Board of Elections.

In a small country in terms of space and demography, it is considered that this sense of “regionalism”, which has caused political competition to be shaped within a smaller environment than the country’s own frontiers through close, personal and even familial ties, has contributed in the TRNC’s political culture of populism and clientelism. As such, taking

this element into account in the framework that will be defined on the public administration reform and reorganizing the electoral system in a way that eliminates regionalism can have many benefits. In the event that a review of the electoral system is brought to the agenda, it would be recommended to renounce to the current system in Parliamentary elections in which each district corresponds to a constituency and to establish instead a single constituency that would comprise the whole territory of the TRNC.

Lastly, it should be noted that the frequency of elections in the country also leads to instability. The table below shows the distribution of the Presidential, general (Republican Parliament) and local (Local Establishment Bodies) elections since the foundation of the Turkish Republic of Northern Cyprus. A total of 23 elections were held in 28 years in the TRNC. As it can be observed in Table 2, the largest period without any elections was between 1987 and 1989 and lasted three years. Except that period, only in 1996-1997 and 2007-2008 they were periods of two years without elections. More than one elections were held in 7 of the 15 years, during which the country went 23 times to the polls. When designing a prospective electoral system, the goal of accountability of the executive by the means of elections should be accommodated with the goal of political stability in order to eliminate negative impacts stemming from the high frequency of elections.

Table 2 Elections According to Their Types

Election →	<i>Presidential</i>	<i>General</i>	<i>Local</i>	<i>Total Number of Elections</i>
Year ↓				
1985	1	1		2
1986			1	1
1987				
1988				
1989				
1990	1	1	1	3
1991		1		1
1992				
1993		1		1
1994			1	1
1995	1	1		2
1996				
1997				
1998		1	1	2
1999				
Election →	<i>Presidential</i>	<i>General</i>	<i>Local</i>	<i>Total Number of Elections</i>
Year ↓				

Part One: General View of Public Administration in TRNC

2000	1			1
2001				
2002			1	1
2003		1		1
2004				
2005	1	1		2
2006		1	1	2
2007				
2008				
2009		1		1
2010	1		1	2
2011				
Total of 27 years				Total of 23 elections

Source: Supreme Board of Elections of the TRNC, <http://ysk.mahkemeler.net> (accessed on 26.06.2012).

PART TWO: BASIC PROBLEMS REGARDING PUBLIC ADMINISTRATION

This part summarizes under different sections the common problems regarding public administration that have been identified in horizontal and vertical analysis studies. Each analysis study bring more detailed insight to the existing problems and provide recommendations for problems that are not mentioned in this report. A total of 20 reports were prepared for 26 different areas of study as part of the KKTC-FOKUS project. Among those, 10 were on horizontal subjects that concerned the entire public administration, while the rest were individual studies analyzing institutions in terms of their functioning. We recommend to consult relevant report prepared in the framework of the KKTC-FOKUS on specific sectors-institutions or subjects in reform studies that will be carried out within ministries or regarding different sectors or subjects.

1. THE CENTER OF THE STATE AND PROBLEMS IN MINISTRIES RELATED TO POLICY-MAKING AND COORDINATION

1.1 Lack of Data

The basic input of the policy-making function is data. As it has been mentioned in many of the horizontal and vertical analysis studies realized as part of the KKTC-FOKUS project, the problem of lack of data is a very serious one. It has been observed that in some areas either there was no data at all or the available amount of data was inadequate and generated too late. The one example where lack of data is the most compelling is population and demography. Besides rendering policy-making more difficult, lack of data also:

- reduces the possibilities of a consensus by undermining efforts to establish an objective ground in political debates;
- makes more difficult to measure the results of implemented policies and understand whether there has been a progress or not;
- rules out the possibility of making national or international institutional-sectoral comparisons or performance assessments;
- feeds uncertainty and subjectivity, preventing laying out the grounds for a healthy, foreseeable and reliable policy-making and coordination.

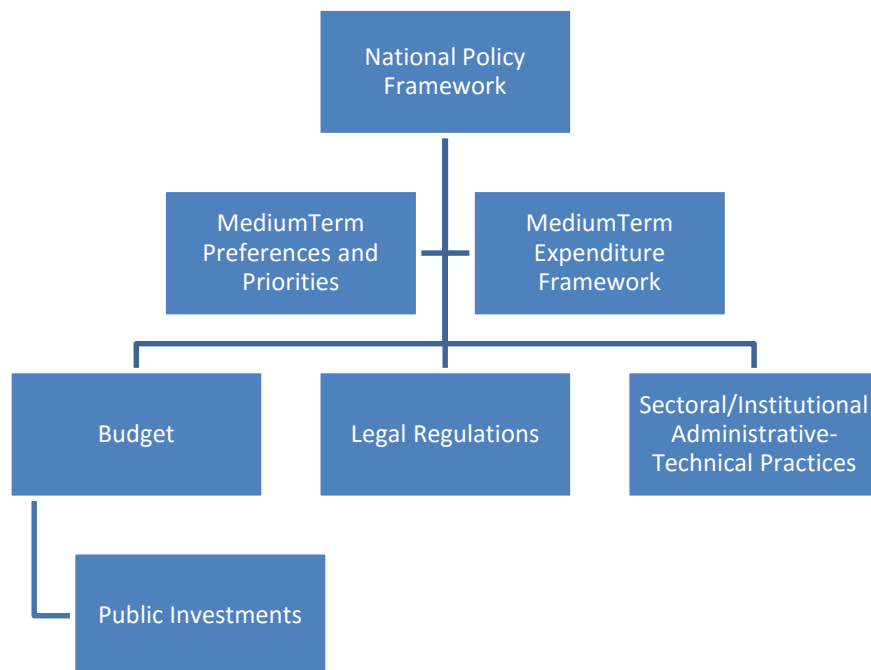
Another issue related to the lack of data is transparency and reporting. Public administration as a whole has failed the course of transparency and reporting. Activity reports are not being published. Budget accounting data is published once every month via the website of the Ministry of Finance. However, this data is not only in line with international standards regarding fiscal reporting, but also far from being understandable from the perspective of citizens. Fiscal reporting must absolutely meet the IMF's Fiscal Transparency Standards¹⁵.

¹⁵ IMF, Manual on Fiscal Transparency, 2007. (www.imf.org/external/np/fad/trans/manual.htm)

1.2. Lack of Political Framework for Medium-Long Term Policies and Inability to Link Budget with Policies

The objective of public administration is to shape its functions through policies. In all countries, activities and operations of the government and the public administration gain their visibility through legal and institutional regulations, public expenditures and investments as well as administrative and technical practices. But, what is expected from all these complex tasks and practices that almost seem unlimited in number is to serve a common goal. This requirement renders necessary to develop the framework of a multi-sectoral policy stretching over several years at a national level, as shows the Figure 1 below.

Figure 1 Framework of Implementation of Public Policies



When we look from the perspective of the TRNC, the first two levels of this figure are de facto empty. It may be claimed that the Development Plan constitutes a national policy framework. But no Development Plan has been prepared for a long period of time, and even if it was prepared, expecting it to be functional doesn't seem realistic as it reflects a planning approach that has long lost its validity. On the other hand, the Annual Program is indeed a document of a national scope. But no annual program is being elaborated either and its functionality in the years that it was prepared is questioned. Another document that can be considered as a national policy framework are the Government programs. Again, it has been argued in the meetings held as part of the study that government programs didn't have such function for the TRNC and neither it would be realistic to expect them to change into something prone to meet this requirement.

The content of the second level of the diagram, Medium term preferences and priorities and the according expenditure framework, is also lacking. Although there are mentions about a

Medium term approach in budget calls, those don't have any practical outcome in terms of actual fiscal policy.

The only medium term policy document that is currently valid for the TRNC is the 2010-2012 "Program for the Improvement of the Effectiveness of the Public Sector and Competitiveness of the Private Sector". But this program is rather perceived as a document mostly prepared and preconized by Turkey and the Turkish Assistance Delegation.

Over 80 percent of the budget expenditures is reserved for the costs of personnel and social security payments while there are no studies to identify strategic priorities and for the transfer of resources to these priorities in the middle-long term.

Thus, it appears as necessary to develop a multi-sectoral policy stretching over several years in the TRNC.

1.3. Flawed Decision-Making, Coordination Mechanism and Secretariat Services

High-level decision-making and the function of coordination are expected to be carried out by the Cabinet and permanent or temporary inter-ministerial committees held with the attendance of more than one minister. It is natural that the Cabinet in such a small-scale country as the TRNC has a wider role and function in this respect. However, there is a serious problem in this area in the TRNC. The source of the problem resides in the fact that the agenda of the Cabinet is too loaded and a large part of the duration of the meeting reserved to routine individual operations rather than general policies.

Decisions made and policies elaborated as well as the effectiveness of the coordination mechanisms in the political process are related to the existence of a competent administrative mechanism within public administration that is able to feed this structure. Accordingly, public administration should have the following two properties:

Adequate policy-coordination mechanisms in the sectoral-institutional field: The concrete exhibitions of these mechanisms are the presence of an efficient policy coordination mechanism within ministries. To that end, structures where data can be collected and analyzed and the basic dynamics of the problems identified are required to make an estimation on the course of affairs and whereby elaborate and propose policy options.

Policy-coordination mechanism at a national level: The aforementioned structure is expected to harmonize the analysis and recommendations provided by institutions responsible of sectors at a central a level and elaborate options on potential policies by sorting the recommendations with a macro- and national-level approach. Upon the analysis and options provided by those structures, governments will then be able to select policies and the proper line of conduct as regards coordination. This structure corresponds rather to a unit within the Office of the Prime Minister and an inter-ministerial coordination committee. Apart from the Office of the Prime Minister, it may also occur that the unit responsible of the economic-financial administration also assumes this function.

As explained in the relevant section, no such mechanisms exist within ministries or the Office of the Prime Minister in the TRNC. The Board of Undersecretaries has some functions regarding coordination but is often ineffective.

1.4. Ineffective Law-Making Process

The confusion in the legislation, the inability of making a correlation between the previous and the subsequent laws and the fact that some services and regulations were overlooked has led to a legal confusion and messy implementation.

Standards and criteria in the law-making process are not wholly set. Institutions operating on the same field act most of the time on their own and have very different practices with respect to each other. Institutions responsible of drafting legislations and elaborating opinions have serious capacity issues. In order to ensure the standards regarding principles and procedures of law-making and a unity of implementation, the staff assigned in the law-making process should be subject to continuous common trainings.

The contribution of the public, NGOs and citizens are not sufficiently sought in the law-making processes.

1.5. Administrative Capacity and Independence Issues of Regulatory and Monitoring Agencies

In sectors that are very important for society and that require a technical specialization, independent regulatory agencies are expected to act impartially and objectively, insulated from political and individual interests and expectations, while intervening into problems that may arise in the areas they regulate more quickly and efficiently thanks to their high technical and administrative capacities. Thus, the success of the regulatory and monitoring agencies is related at a large extent to the concurrent fulfilment of the following two conditions: Administrative Capacity and Independence. Among the agencies established for this purpose in the TRNC, only the High Board of Broadcasting is operational. However, the agency still carries out its activities through the Bayrak Radio Television Corporation. Assignments to the Competition Authority were made but the administrative structure is still to be established. The agency still lacks of a separate budget. The Information Technologies and Communication Council and the Personal Data Protection Council only exist on paper as yet.

In the prospect of opening up of sectors, that are natural monopolies such as electricity or telecommunications, to the competition, the necessity of independent regulatory agencies with an adequate administrative capacity that would regulate those sectors and ensure competition will come to the agenda.

1.6. Assistance Committee's "Substitution Effect" Impacts Negatively on Capacity-Building

As explained in the relevant section, the TRNC is under the intense pressure of short term financial management, which leaves a very limited maneuvering space and range of options. In the current structure, the only expenditure decision that is not crippled by a short term

financing problems are public investments. However, since Turkish Cypriot institutions don't assume the function and capacity of vetting, it's Turkey's Assistance Delegation which assumes the function of assessing and selecting public investment projects.

The Assistance Delegation that assumes the task of monitoring and assessing programs of three years according to the protocol annex also reviews the adequacy of investment demands with these programs. As mentioned above, the lack of policy coordination functions both within ministries and in the central administration results in investment demands that are not in line with a political course of action. The selection of projects is practically made by the Assistance Delegation (AD) due to an insufficient capacity at the Ministry of Finance and investment proposals from ministries are included in the budget on the AD's prerogative.

As a result of this situation, public institutions and organizations consider the AD as their interlocutor instead of the Ministry of Finance and discuss their priorities with it. Part of the investment expenditures is directly awarded by Turkey and dues are paid to constructors by the AD or directly by Ankara. These practices undermine the credibility and capacity of the Ministry of Finance, legitimizing the intervention of the AD and the process as a whole turns into a vicious circle from the viewpoint of the Ministry of Finance's capacity. If the intervention of the AD seems imperative in the short term, the increase of the institutional capacity of the Ministry of Finance should be considered as the middle-long term solution.

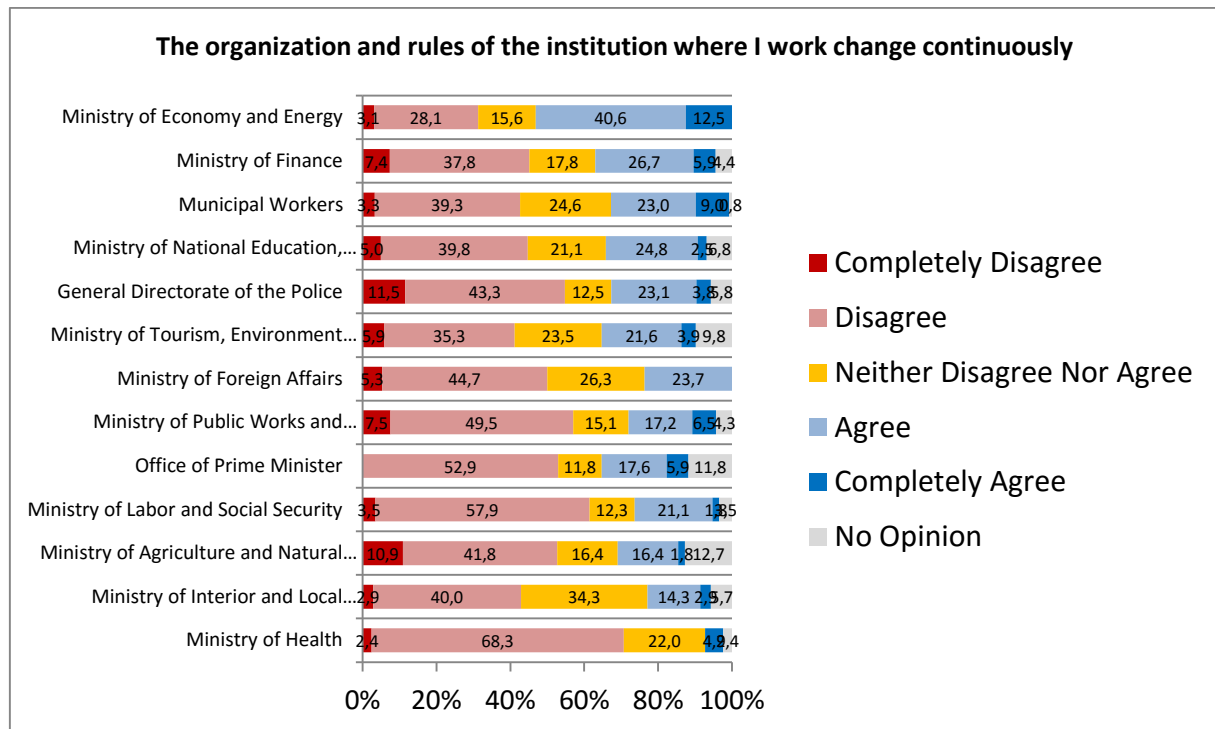
1.7. Organization of Ministries and Departments Unfavorable in Terms of Policy-Making and Administrative Capacity

Ministries, which are expected to have a key role in the making of public policies and in ensuring administrative coordination, are, according to the article 108 of the constitution of the TRNC, "established and removed by decree published on the Official Gazette upon the proposal of the Prime Minister and the approval of the President" while the number of ministries "can in no circumstances exceed ten". In addition to this, the establishment of departments and service units attached to ministries is regulated in the article 115 of the constitution. According to this article, "the establishment, duties and competencies of departments and service units are regulated by law".¹⁶

It is quite visible that these constitutional regulations, along with the relevant legal regulations, entails a serious problem of strictness and administrative capacity. The model of organization in the TRNC undermines the possibilities of establishing strong ministerial structures as it is based on departments. Those are often organized under different ministries depending on political balances; a situation that prevents the institutionalization of ministries as the basic policy unit/institution. Indeed, the results of the KKTC FOKUS Public Servants Survey also confirm this fact. Figure 2 shows that ministry employees were numerous to agree with the statement "The organization and rules of the institution where I work change continuously".

¹⁶ The Constitution of the TRNC, art. 108, 115.

Figure 2 Public Servants' Opinions on Institutional Organization



Source: KKTC-FOKUS North Cyprus Public Servants Survey, February 2012

One of the other reasons why a policy-making, coordination and monitoring-assessment system as well as an adequate institutional capacity is lacking at the central structure of ministries is the personnel organization of those ministries. As noted in the “Functional and Institutional Analysis of TRNC’s Policy-Making and Coordination System” report,

As ministries are established by decree, the central administrative personnel is regulated by the Law No. 57-1977 on the “Principle of Establishment of Ministries”. By examining the table in the annex [of the law], it would be seen that a total 253 personnel for 10 ministries are created through this Law. It can be also noted that, when considering the qualifications and the distribution of these personnel, the ones requiring specialization for tasks such as policy-making, coordination, analysis, monitoring and assessment are extremely insufficient, whereas most of the employees are reserved for administrative tasks and support services.¹⁷

2. PROBLEMS RELATED TO PERSONNEL MANAGEMENT

What comes across as the most important peculiarity is that, although public employment is relatively high in terms of the number of staff employed and the expenditures, a significant need for qualified staff has been voiced throughout the meetings held in almost every institution.

¹⁷ Osman Yılmaz, “KKTC Politika Oluşturma ve Koordinasyon Sisteminin Fonksiyonel ve Kurumsal Analizi” raporu (“Functional and Institutional Analysis of TRNC’s Policy-Making and Coordination System” report), KKTC FOKUS project, 2011, 38.

Table 3 Population and Weight of Public Employment in Workforce

Countries	Public Employment_2010	Population_2010	Public Emp./Pop.	Workforce_2010	Public Emp./Workforce
Australia	1.843.500	18.040.000	10,2%	11.822.000	15,6%
South Cyprus	71.200	908.000	7,8%	584.000	12,2%
Ireland	402.100	3.523.000	11,4%	2.124.000	18,9%
Lithuania	400.200	2.829.000	14,1%	1.648.000	24,3%
New Zealand	269.900	3.473.000	7,8%	2.350.000	11,5%
United Kingdom	6.276.000	51.263.000	12,2%	31.707.000	19,8%
TRNC	27.244	263.650	10,3%	106.117	25,7%

Sources: ILO, Household Workforce Statistics of the State Planning Organization (DPÖ)

Table 4 Economic Distribution of Expenditures

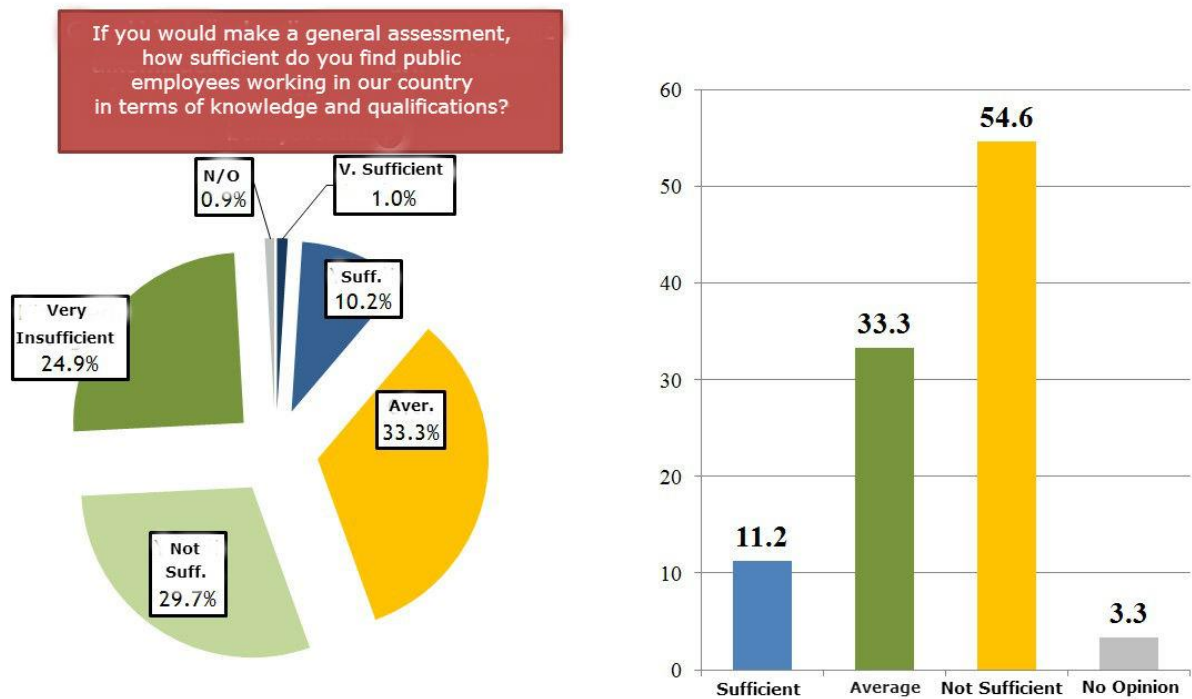
ECONOMIC DISTRIBUTION OF EXPENDITURES		TRNC		ICELAND		MALTA		SOUTH CYPRUS	
2010	% GNP	Share in Total	% GNP	Share in Total	% GNP	Share in Total	% GNP	Share in Total	
Personnel	18,4	38,5	14,6	29,2	13,4	31,7	15,4	33,0	
Social Security	0,8	1,6	7,8	15,6	13,5	31,9	14,8	31,8	
Procurement of Goods and Services	3,4	7,0	12,3	24,6	6,1	14,5	5,2	11,2	
Interest Expenses	0,7	1,4	6,0	12,1	3,0	7,1	2,2	4,8	
Current Transfers	21,3	44,5 ¹⁸	4,0	8,0	2,8	6,7	3,9	8,3	
Investments	2,4	5,0	2,6	5,2	2,2	5,1	3,6	7,8	
Capital Transfers	0,8	1,6	2,7	5,3	1,2	2,9	1,4	3,1	
Loan	0,1	0,3	0,0	0,0	0,0	0,0	0,0	0,0	
Total	47,8	100,0	50,0	100,0	42,3	100,0	46,6	100,0	

Sources: Eurostat, Ministry of Finance of the TRNC and our calculations

Although this seems as a contradiction at first, it is possible to understand the reasons when looking into the details of personnel policy. Public employment has been mainly used as a social-political policy tool rather than for responding to citizens' needs in terms of public service. If it may be considered as normal in small countries with limited employment opportunities, this policy that had profound impacts due to political and structural problems in the TRNC has turned public sector into a personnel-employment storehouse with a majority of employees whose qualifications are not fit for the purposes of the service. The state of this personnel policy is also known by the general public (Figure 3). Surveys realized as part of the KKTC FOKUS project show a low confidence to public employees and a widespread belief that public employees are hired based on favoritism.

¹⁸ Bulk of the current transfers are to social security institutions. But a separate study is needed to figure out the overall spending.

Figure 3 Image of Public Employees in the Eyes of Households



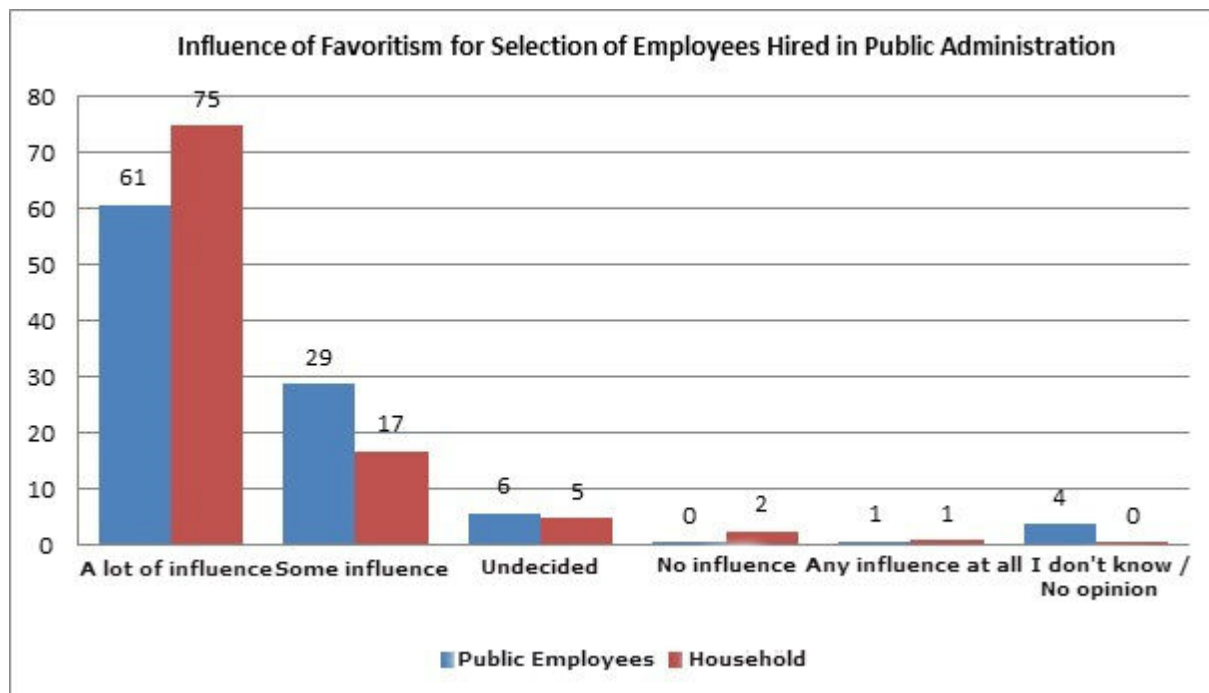
• **Average 2,31/5**

• TR 2002 public employees with the lowest rate (Social Security Institution Hospital Staff) 2,65/5 18

Source: KKTC-FOKUS Public Administration Household Perception Survey June 2011

“Favoritism” has become a fact in public employment. Answers given both by households based on their perception and public employees based, so we think, at a large extent on their own hiring experiences show similarities. Figure 4 reveals that favoritism has become a “normalized” procedure in public employment.

Figure 4 Influence of Favoritism for Selection of Employees Hired in Public Administration



Source: KKTC-FOKUS Public Administration Household Perception Survey June 2011

2.1 Scope of “Public Service” is Wide and Vague

The Constitution of the TNC uses a vague terminology regarding the scope of public service that leads to a number of problems in practice. The article entitled “The performance of basic and continuous duties related to public service” is as follows:

- (1) The basic and continuous duties required by the public services, which the State is obliged to provide in accordance with the principles of general administration, shall be carried out by public servants.
- (2) The basic and continuous duties required by the public services, which the public utility enterprises and other public corporate bodies are obliged to provide in accordance with the principles of general administration, shall be carried out by other public personnel.¹⁹

The main difficulty regarding the scope of public services resides in the difference between the abovementioned constitutional regulation and the Law on Public Servants that entered in force in 1979. The latter widens the scope of public servants to include annexed budget institutions and employees whose salaries are paid by the means of revolving funds. This problem, which is actually due to the vagueness of the scope of public service, is not a mere technical issue but something directly connected to the vast scale of the administration and directly affecting social problems that “causes additional burden to public finance”. One of the areas where this issue can be clearly observed is the situation of public economic enterprises (KİT). The same Law on Public Servants rules that “*the salaries and wages given to those employed in public economic enterprises can’t be different than the salary and wage regime applied to public servants*”. Public economic enterprises, which under normal circumstances are expected to produce goods and services according to principles and conditions of the market, are forced to pay high wages for even for tasks that can be fulfilled

¹⁹ Constitution of the TRNC, art. 120.

with a minimum wage, overburdened with the additional payments imposed by collective labor agreements, become the target of an uncontrolled employment to which the ruling parties resort to, eventually ended up being unable to survive without transfers from the general budget.

2.2. Cadres (positions) and Functions are Defined by Law, Lack Flexibility

Laws establishing the departments include in annex a table of staff positions and a service chart for each staff within the departments or the service units. The service charts contains requirements regarding the designated name of the staff position, its number, the class of service, the grade under that particular class, the salary scale, the tasks, competencies and responsibilities attributed to the position and the skills sought in the public servants who will be assigned to the staff position.

This strict personnel system laid out in the laws establishing both ministries and departments as the result of the constitution prevents a flexible employment that suits at once the policy-making and coordination function at the ministry level and is capable of meeting the changing needs in time at the department level. This strict practice also seems to procure legitimacy for departments to permanently fill their evolving needs with exceptional employment (temporary worker-contracted personnel). In other words, what at first can be claimed as a regulation aiming the hiring of only people fitting the provisions in the law had the opposite result of providing a basis for an administrative and political justification to a flawed organization involving the employment of a strange “permanent/continuously-temporary personnel”.

On the other hand, in establishing a, for e.g., a new department, since drafting and passing a law is a time-consuming process which the administration cannot easily resort to, there is a tendency to determine in the annexed tables, the number of employees for each staff positions double the real needs. This not only prevents the emergence of an adequate organization structure but also overshadows analysis calling for the evaluation of the sufficiency of the public sector’s human resources.

Furthermore, the fact that laws establishing departments fix the number of public servants and their salary, has undermined the need to prepare the planning of employment – an important control mechanism to ensure fiscal sustainability on wages – in parallel with the budget preparation process.

2.3. Large Number of Public Servants Assigned Based on Political Discretion

The scope and number of high-level officials assigned upon the signature of the Minister, the Prime Minister and the President is too large as regards the size of public administration and leads to the increase of its political tone, while weakening institutional memory.

The employment of temporary personnel for basic and continuous duties, who are easily appointed on political grounds and who lack employment security, doesn’t comply with the good management principles of impartiality and merit.

2.4. Insufficient Capacity of Institutions Preparing and Carrying Out Personnel Policy

The method of nomination of the President and members of the Public Service Commission doesn't encourage the Commission to make independent and consensus decisions. The Public Service Commission Department, which is attached to the Public Service Commission, doesn't have the necessary qualifications and human resources that would enable the Commission to properly fulfill its duties and responsibilities. The written and oral exam system resorted to by the Public Service Commission and other independent commissions for employment and promotion, is not adequate to measure and assess knowledge.

An adequate "personnel information system", which is both an indispensable element of personnel management and a requirement of the principle of transparency, has not been established due to the uncertainty of the distribution of functions between institutions as well as the lack of cooperation.

On the other hand, ministries who have important responsibilities in the implementation of personnel management policies and legislation have almost no capacity in this respect.

Furthermore, the establishment and working principles of "other" independent commissions responsible of appointing public servants are not transparent and unconstitutional, due to the fact that they are not established by law.

2.5. Public Sector No Longer Applies Rational Wage Policy

The control system put in place to ensure the fiscal sustainability of salaries and sought to be implemented through laws establishing institutions has lost its rationality due to the widespread exceptional employment methods mentioned above and the strictness of laws. Hence, the policy of wages is unable to fulfill the requirements of the principle of wage-value in relation to the labor and lacks of elements that could increase the efficiency of the staff.

In other words, the salary scale corresponding to a staff is not shaped in terms of the duties and responsibilities of the staff as well as the skills required. The fact that an important portion of public resources reserved for personnel expenses is spent for expenditures such as transport, food, marriage and housing and there is a lack of a pay regime rewarding human capital either reducing the attractiveness of public administration for the qualified workforce or results in the decrease of its productivity once employed.

Similarly, the salary increase systems based on seniority instead of merit is also a factor reducing the effectiveness and efficiency of the staff.

2.6. Failure of Staff Performance System

Following an amendment to the Law on Public Servants on February 2008, the service grading system was replaced by a performance evaluation system. However, this system which was brought without taking into account the size of the country and the organization of its public administration has, due to its complexity and focus on measuring performance

instead of enhancing it, brought together a number of question marks and complaints. For instance, a study revealed that a superior responsible of evaluating the performance of 5-10 employees spent at least 30 days a year for this task.

Furthermore, the fact that legal regulations bringing an “automatic promotion” system based on seniority were successively passed from the Parliament (2006 and 2007) while, at the same time, works on a performance system were continuing, has prevented the implementation of incentives based on performance (such as advancing a rank, earning the right to promote) and the introduction of a merit system.

Eventually, as almost 90 percent of the institutions within the scope of the Law on Public Servants were unable to adequately apply the performance system, suggestions to simplify the system were brought forward in 2010, following to which the Performance Evaluation Code in force was amended.

However, those amendments did not have the expected effects on the public administration, where much more structural problems regarding personnel management still stand. According to the latest statistics provided by the Personnel Department, only 20-25 percent of the institutions devote time to fill the performance forms. Contractual personnel, temporary servants and workers at the institutions are not included in the system, despite constituting an important part of the employees and performing basic and continuous tasks.

2.7. Difficulties to Assign Public Servants According to Service Needs

In addition to the resistance shown by public servants and senior officials to be assigned in another position, the legislation in place is also making replacements more difficult instead of facilitating it. Only public servants serving under the “Law on Public Servants” can be replaced within the same service class requiring the same level of education, which, considering a pretty complex service organization that divides into 54 subclass according to the Law, becomes a condition almost impossible to fulfill. Similarly, even in the event of an agreement between the institutions or the employee who will be assigned in an another position fulfilling the qualifications required by the law establishing the institution for the vacancy, it is still difficult to say that conditions that will encourage such change of positions within the public administration are met considering problems arising from the laws establishing institutions themselves, as detailed in the previous sections, and the failure of using a personnel information system in the planning of human resources.

On the other hand, the Law on Teachers has also problems which are, unlike the problems caused by the Law on Public Servants, connected to the obligation of an approval for the assignment of teachers working in secondary, vocational, technical and artistic schools to a different position. Due to the fact that the “scale of the institution of assignment” in the area of education is considered as the school, the ministry is unable to appoint a teacher from one school to another according to the needs, as this operations enter to the category of “assignment”. In such a small country as the TRNC it may be expected that the institution of service to have a somewhat narrow definition. But reducing it to the scale of a school leads to the system to become excessively rigid as well as disparities in the distribution of the staff.

2.8. Absence of In-Service Training

An in-service training aiming to ensure the integration newly assigned employees to public administration and to develop the abilities of the existing staff enabling them to assume different tasks and responsibilities is lacking.

3. PROBLEMS RELATED TO PUBLIC FINANCE

3.1. Narrow Budget Scope

The budget process in the TRNC involves only a limited number of Ministries and central institutions, which could be considered partly as the Central Government. The public sector should actually be classified based on ESA95 or GFS standards in terms of financial management (and budget properties). There is no comprehensive public financial management framework law defining and listing public institutions in terms of their fiscal management properties. In addition to this uncertainty, alongside the narrow budget, there exist a plethora of “Funds”. While some of these funds are labeled as “budgetary funds”, it is not clear to which extent they are part of the budget. It is estimated that at least over 1/3 of expenditures remain outside the budget through extra budgetary funds and off-budget institutions. As regards interest expenditures, those were for the first time included as expenditures within the scope of the budget in 2011 but not paid.

3.2. Insufficient Financial Management Tools

Processes and tools for the preparation, implementation and monitoring of the budget are not adequate. The budget is characterized by annual line item budgeting, with lack of planning and an insufficient fiscal control system. Neither the Ministry of Finance nor any other central institution have the capacity to determine the strategic priorities and evaluate accordingly the investments and spending proposals of public institutions. There are problems with cash management. The Law on Public Finance (debt management) was only recently passed from the Parliament and its implementation is needed to be monitored. Databases and financial management tools that support the budget process are lacking. There is no long-term policy on public revenues, including taxes.

3.3. Unsustainable Budget Deficits

The share of public expenditures (Central Government + social security + municipalities) in the GNP is estimated between 64-70 percent; revenues between 49-54 percent including the revenues granted by Turkey (5-5,5 percent of the GNP)²⁰. In such a case, the budget deficit corresponds to around 14-15 percent of the GNP. Around 9-10 percent of this deficit is financed by “loans” from Turkey, while the remaining part is met through borrowing from local sources. These sources are mainly private-public banks and retirement funds. The

²⁰ As all the information related to funds and other off-budget institutions couldn't be supplied, figures were estimated.

borrowing need is high, even excluding loans provided by Turkey. In short, the “Fiscal Space” that could be defined as the total resources that can be allocated to the public sector without disrupting the balance of the economy should be straightened.

3.4. Disorganized and Insufficient Auditing System

There is no inspection committee and/or internal monitoring unit within ministries apart from the Ministry of Finance. Despite being eight ministerial inspector staff positions according to the list I of the Annex “Central Administration Personnel of Ministries” of the Law No. 57/1977, no appointments are being made to these positions.

The current monitoring practices are considerably insufficient: The monitoring on taxes and social security premiums that the state has to collect is as little as none. Public inspection of companies-business places or cooperatives is also insufficient. There are no monitoring standards, inspectors are not provided with a specific in-service training and coordination problems remain between monitoring units. A legal framework on fight against corruption is also lacking.

There are capacity problems in public auditing, especially financial audit, while some of the functions overlap with each other. Public auditing functions are carried out by the Ministry of Finance Inspection Board and the Prime Ministry Inspection Unit. However, those auditing activities are not adequate, not to mention that there are serious overlapping of functions between these two institutions. The Court of Accounts that conducts the external auditing has important capacity problems. Moreover, there are also overlapping and duplicated functions between the Ombudsman and the Prime Ministry Inspection Unit – and even between the Ombudsman and the Ministry of Finance Inspection Board.

The independence, capacity and scope of monitoring of the Office of the Ombudsman needs to be widened. In many sectors, a number of departments have organized themselves so as to make their own inspection. Inspection units have been established within the departments. This system not only leads to the duplication of functions but results in a fragmented inspection structure, thus rendering coordination more difficult. Besides, the staff tasked with inspection in those units also have capacity-related problems in terms of their independence and training.

3.5. Unstructured and Inefficient Public Economic Enterprises System

The definition by international organizations such as the European Centre of Enterprises, the United Nations Department of Economic and Social Affairs, the International Monetary Fund or the EU as “enterprises with a majority of shares owned by the public administration or whose management is controlled by the public administration” has not been reflected to the legislation of the TRNC. As a result, while part of public enterprises are regulated within the concept of “public economic enterprises”; many enterprises in which the public administration is a shareowner or assumes the control of the management is subject to legal regulation that are not included in this concept (such as the Dairy Industry Organization, the Agricultural Products Board or the Department of Telecommunication). The Law on Public

Economic Enterprises (Management, Auditing and Supervision) that has been approved by the Turkish Cypriot Federal State's Constituent Parliament in 1975 and consolidated by amendments with narrow scope made in 1977 and 2005 does not make a definition of public enterprises that is in line with international standards. There are actually no public economic enterprises established in accordance with this law. This is why the law on privatizations passed in 2012 defines its own scope as “a) public institutions and organizations, b) public economic enterprises, c) enterprises with public participation, d) enterprises with public share owning”.

There is no central unit that would enable public economic enterprises to operate efficiently and in line with commercial principles, supervise their activities and control them on behalf of the state. The share ownership in public economic enterprises is fulfilled by an extra budgetary fund denominated as the Development Fund which is part of the Ministry of Finance. This fund also gives loans to public economic enterprises. However, neither its activities nor its financial situation are transparent.

There is also no separation made between organizations that should have activities in accordance with economic and commercial principles and other in which general interest outweighs.

4. PROBLEMS OF INEFFICIENCY AND EFFECTIVENESS IN PUBLIC SERVICES

4.1. Low Technical and Administrative Capacity, High Prices and Insufficient Quality in Provision of Basic Public Services

According to our observations, sectors such as energy, telecommunication and transportation the operations are vertically integrated and are public monopolies, with non-transparent accounting and high costs. The low service quality, as well as high prices have a direct negative influence on the citizens' welfare. More generally, the inefficiency of these sectors, which constitute the most important inputs of the economy is a hurdle on economic performance and competitiveness.

The failure of ensuring security of energy supply, the low level of energy efficiency and the insufficient use of renewable energies are also among important problematic areas. The use of clean, renewable and efficient energy resources in a small insular country where tourism is one of the most important source of income, remains as a key issue.

Regarding healthcare, the stark difference in the access to healthcare between public servants (state officers) and others, is affecting negatively the system in terms of financing and provision of services. The lack of separation between the provision of service and financing in healthcare is leading the Ministry of Health to spend its energy and time mainly to problems related to financing, preventing to focus on the provision of services. As a result, the rate of

citizen satisfaction with state hospitals is at a very low level. In contrast, the rate of satisfaction with private hospitals is considerably higher compared to state hospitals. A similar situation also exists between state schools and private schools in the area of education.

In many areas such as agriculture, education, culture and tourism, there are complaints due to the lack of medium and long term policies and the inadequacy of administrative capacity as well as the insufficient number of qualified staff (and the co-existence of too many unqualified staff). Problems and recommendations in this respect should be taken as part of the general systemic failures referred to in the relevant sections on policy making-coordination, administrative capacity and staff.

Regulations regarding social security made in the course of time have led to an unfair and unsustainable structure.

4.2. Inefficient and Ineffective Service Provision Due To Share of Competencies Between Central and Local Administrations and Scaling Problems

Control and monitoring mechanisms of the local administration system are not effective. Not only has the central administration unnecessary competencies over the local administration allowing it to exercise a tutelage, but basic data (revenues-expenditures, staff, etc.) are not regularly collected and consolidated by municipalities. The external audit carried out by the Court of Accounts consists only on notifying the adequacy of the municipalities' final accounts, while an efficient financial audit is not performed due to the lack of auditors. There are no inspection or internal auditing units within the municipalities. Although the municipal council is elected separately from the mayor, matters such as the monitoring of the activities of the mayor and motion of censure are not regulated, except from the examination of the monthly accounts and the acceptance of the final accounts following examination. The crisis that took place at the Turkish Nicosia Municipality has shown in a different perspective the problem of control and monitoring within the system. Those control and monitoring problems have entailed the neglect of early warnings, eventually leading to the insufficient or no provision or of public services at all.

District governorships are nonfunctional units at their present state. A large part of the services provided by the central administration in the provinces are carried out outside the scope of district governorships as the competencies of the latter are limited to functions such as the issuance of a number of permits and licenses as well as ensuring the general coordination between public institutions and local administrations. The recent attachment of villages to municipalities, converting the whole country into a municipal area has reduced furthermore the functionality of the district governorship institution.

The large number of municipalities with a small jurisdiction and a small population has made the lack of administrative capacity in the TRNC as a more apparent problem from the viewpoint of local administrations. Although the extension of the jurisdiction of municipalities by the attachment of villages to municipalities seems as a step undertaken to

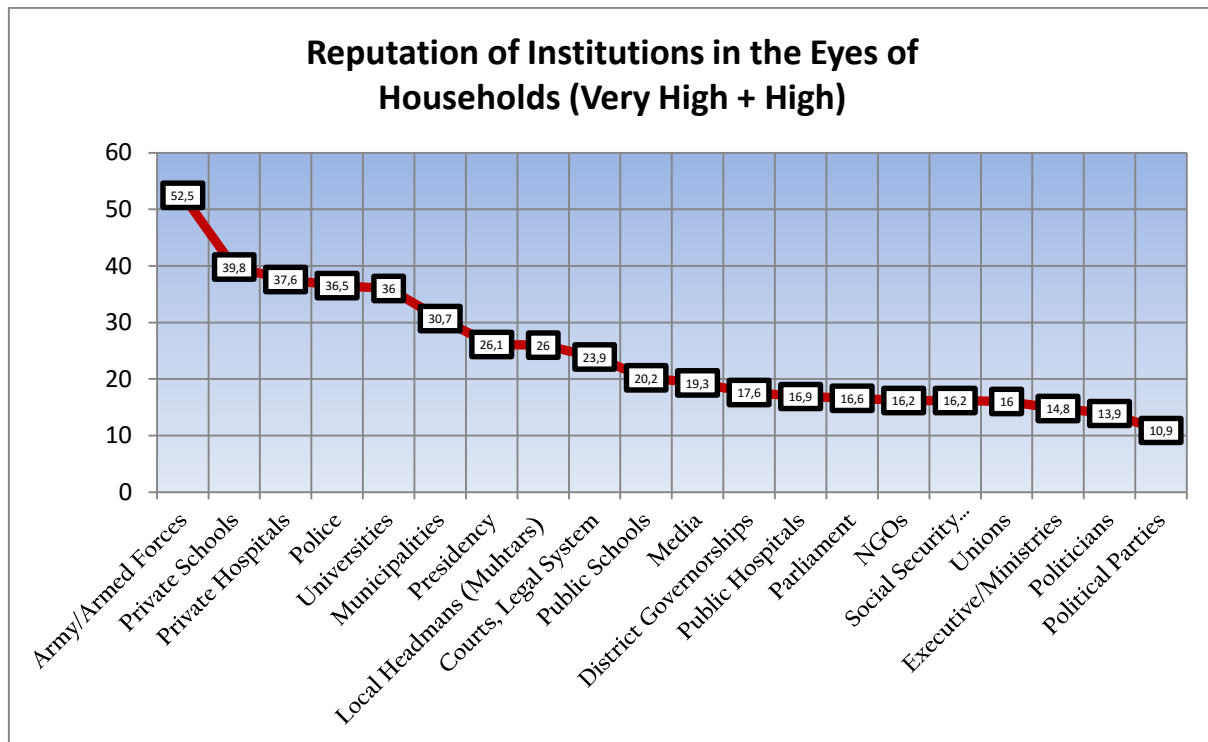
reduce the problem of scaling, it still puts small municipalities in difficulties due to problems related to administrative capacity.

4.3. Low Citizen Satisfaction and Confidence About Public Services

Resources used by the state have not given way to results and does not reflect on citizens as public services. This is affecting negatively the citizen confidence and perception about public administration as a whole. This situation is clearly shown in surveys realized as part of FOKUS.

The reputation of the main actors of public administration is low in the eyes of households. Politicians and political parties come in the last two positions in the FOKUS Household Survey (Figure 5). While the reputation of the central administration (executive and ministries) remains at 15 percent, 31 percent of households do find local administrations reputable. Meanwhile, the most reputable institution at a central level appears as the Presidency (26 percent). The difference between private and public institutions in education and healthcare, which are among the basic public services, show how low is the amount of reputation of the state is in the eyes of households. Private schools or hospitals, which use the same or a similar human resources, have received respectively 40 and 38 percent of good opinions, whereas state schools and state hospitals only enjoy half of their reputation (20 and 17 percent respectively). Social actors who play the role of a “catalyzer” or social capital producers have also a low level of reputation in the TRNC. The degree of reputation of NGOs and unions are around 16 percent. Among the institutions asked to households, only the army/armed forces have a reputation superior to 50 percent. While social surveys usually question the “confidence” about institutions, in our research we preferred to use the word “reputation”. It was thought that most of the researches using the concept “confidence” have led to a bias in favor of law-enforcement institutions due to the perception of “security”. However, in our survey too the “reputation” of the army/armed forces and police was still higher than other institutions.

Figure 5 Reputation of Institutions in the Eyes of Households



Source: KKTC-FOKUS Public Administration Household Perception Survey June 2011

There are differences of perception between those who provide public services and those who receive them about the characteristics of public administration. A series of good governance indicators-statements were asked to participants in the households, business and public servants surveys. The table below (Table 5) shows the percentages of the participants who agree or disagree with the statements. The statements asked to households were on “public institutions,” those asked to public servants were on “their own institution”, while businesspeople were in some places required to respond as citizens, and in other cases as companies on behalf their own company. The highest disagreement among households was with the statement “Citizens/NGOs have a say in the decisions of public administrations”; whereas the ones among businesspeople were “Rules are applied equally for everyone, there is no favoritism” and “Public institutions work efficiently without wasting money”. The highest gap between the perceptions of public servants who provide services and households as well as businesspeople who receive them was on the statement that said “I can find the relevant staff in his/her place when I have something to do in a public institution”. This statement is followed by “Public institutions provide accurate and adequate information on any topic that concerns citizens” for households and by “Public institutions show care to act in accordance with laws and rules” for businesspeople. The statement, which all three groups have a consensus on or agree on, in other words the gap of perceptions is the lowest has been “Citizens/NGOs have a say in the decisions of public administrations”. However, the consensus is minimal as this statement is among the ones on which there was the most diverging opinions within all three groups. Therefore, the fact that the perception gap is low does not count for much.

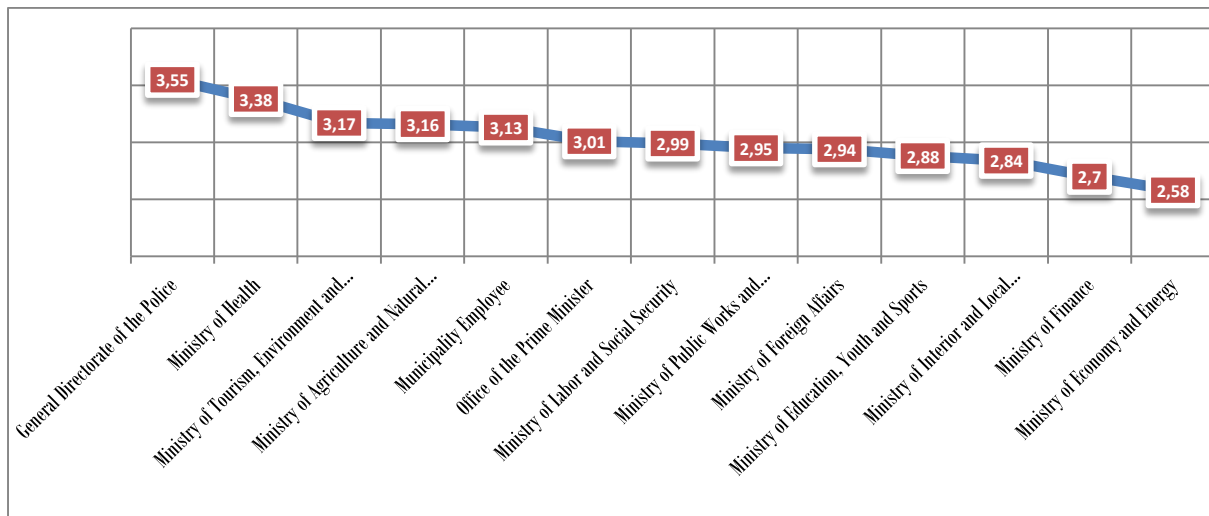
Table 5 Good Governance Indicators (% of I Completely Agree and I Agree)

INDICATORS	HOUSEHOLDS	BUSINESS PEOPLE	PUBLIC SERVANTS	PERCEPTION GAP ADM. - CIT.	PERCEPTION GAP ADM. - BUS.
In state affairs, the rule that would be resorted to in any matter is known in advance	24,1	20,7	43,8	19,7	23,1
Public institutions show care to act in accordance with laws and rules	31,6	18,1	51	19,4	32,9
Public institutions provide accurate and adequate information on any topic that concerns citizens	16,6	16,4	43,5	26,9	27,1
Public institutions work free from political pressure	11,8	15,9	25,2	13,4	9,3
Laws and rules are applied equally for everyone, there is no favoritism	12,4	13,0	27,5	15,1	14,5
Public institutions work efficiently without wasting money	14,6	13,0	36,7	22,1	23,7
Senior officials of public institutions can be held accountable if needed regarding any of their actions	16,7	16,4	25,7	9	9,3
Citizens/NGOs have they say in the decisions of public administrations	11,7	16,7	21,4	9,7	4,7
Public institutions are able to develop new solutions and ideas to provide citizens a better life	21,9	15,2	33,6	11,7	18,4
In the event of the violation of rights, citizens are able to obtain a fair result when they search for their rights	15,2	16,8	36,7	21,5	19,9
I can find the relevant staff in his/her place when I have something to do in a public institution	21,4	15,6	49,9	28,5	34,3
My affairs at the public institutions are taken care in a reasonable amount of time	15,4	20,1	37,4	22	17,3

Source: KKTC-FOKUS Surveys 2011-2012

It is visible that the perception of public servants regarding their own institution is not high either. While there are important gaps of perception between public servants as the providers of services and the household and companies who are the users of the services, the perception of public workers about their own institution is at an “average” level (Figure 6). In the graphic below, institutions were ranged according to the average of the answers given to 12 good governance indicators, including accountability, transparency, fair treatment and existence of rules, on a scale of 5. In a rating with a general average of 3,02 out of 5, the first place was obtained by the General Directorate of the Police with a rating of 3,55 and the second place was held by the Ministry of Health with 3,38, whereas the Ministry of Economy and Energy with a rate of 2,58 and the Ministry of Finance with 2,7 came in the bottom of the list.

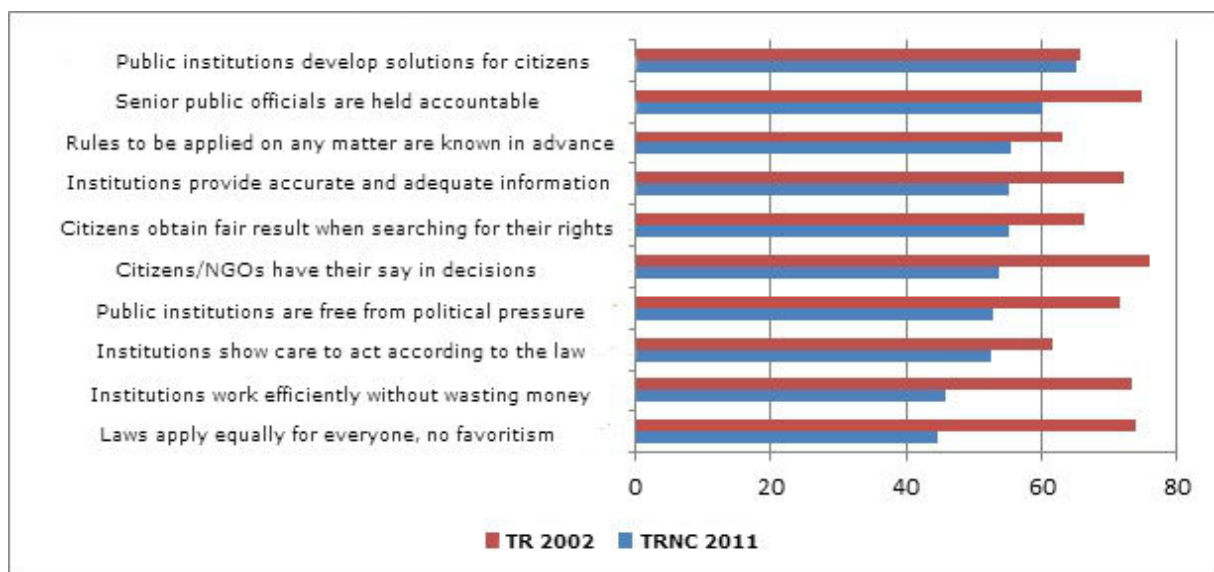
Figure 6 Good Governance Perception of Public Servants Regarding Their Own Institution



Source: KKTC-FOKUS Northern Cyprus Public Servants Survey, February 2012

The perception regarding the public administration of the TRNC in the eyes of Turkish Cypriot households is comparatively more favorable than the perception of Turkish households regarding Turkish public administration back in 2002. Periods of crisis are moments when citizens question the administration, problems are more visible, but at the same time the motivation to improve them also increases. In this framework, the household survey conducted in the TRNC in 2011 has similar features with the survey carried out in Turkey by TÜSİAD in 2002²¹ (Figure 7). Turkey had actually a worse performance regarding governance indicators that have been listed. The biggest difference between both lists is in the statement on whether laws and rules are applied equally for everyone. There is a 35 percent of gap between responses given in Turkey and in the TRNC on this particular statement.

Figure 7 Good Governance Indicators TR 2002, TRNC 2011 (% of I Disagree and I Completely Disagree)

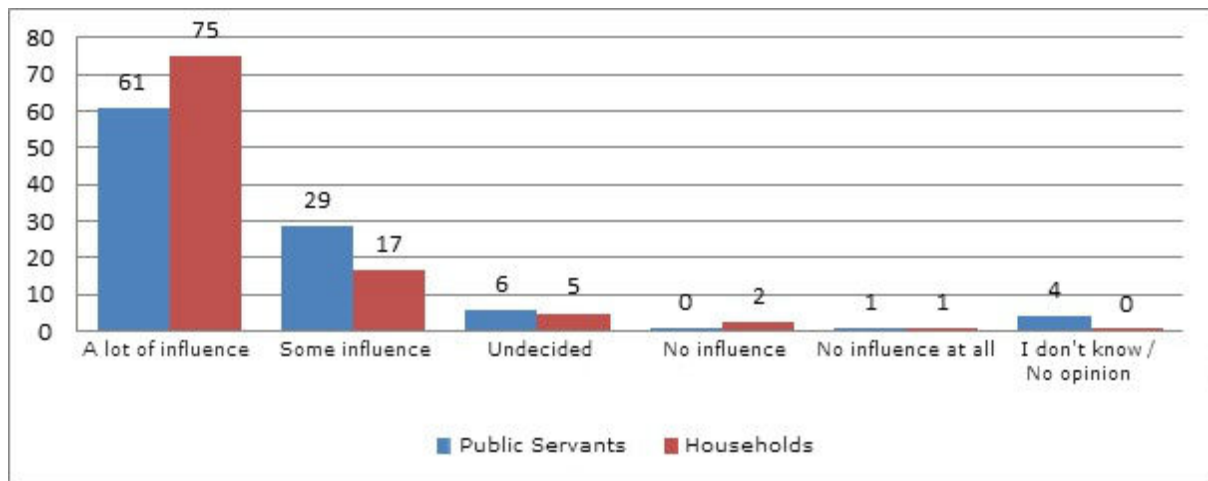


Sources: KKTC-FOKUS Public Administration Households Perception Survey June 2011, TÜSİAD Public Reform Survey, December 2002

²¹ Turkish Industrialists and Businessmen's Association (TÜSİAD) Public Reform Survey, December 2002.

“Favoritism” has become a fact in public employment. Answers given both by households based on their perception and public employees based, so we think, at a large extent on their own hiring experiences show similarities. Figure 8 reveals that favoritism has become a “normalized” procedure in public employment.

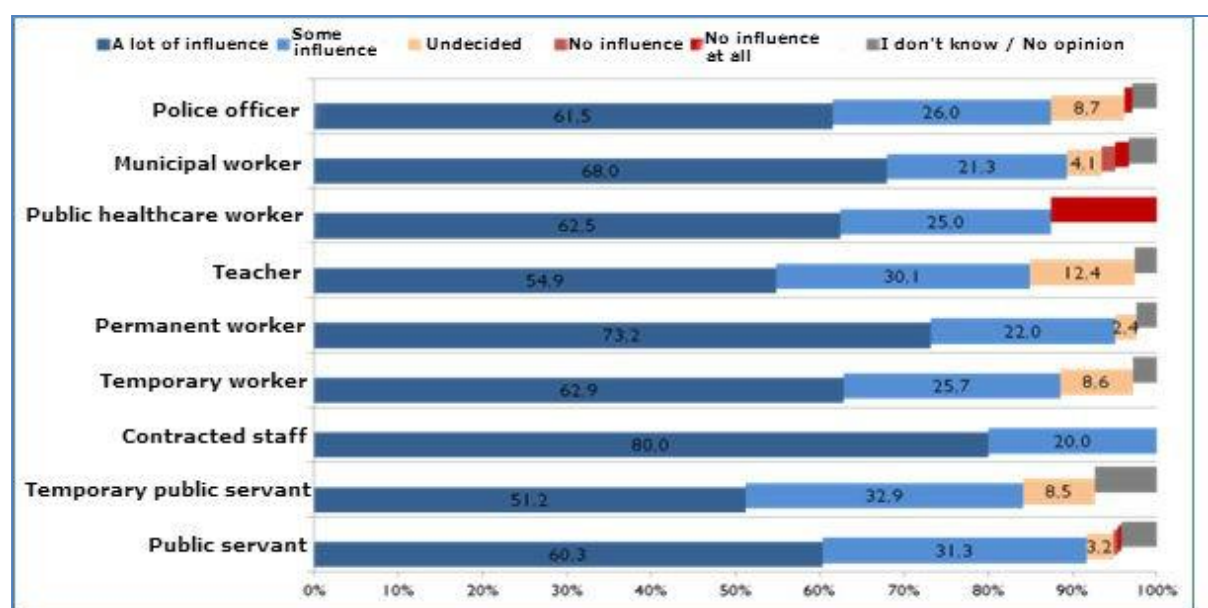
Figure 8 Influence of Favoritism in Public Employment



Sources: KKTC-FOKUS Public Administration Households Perception Survey June 2011, KKTC-FOKUS Northern Cyprus Public Servants Survey, February 2012

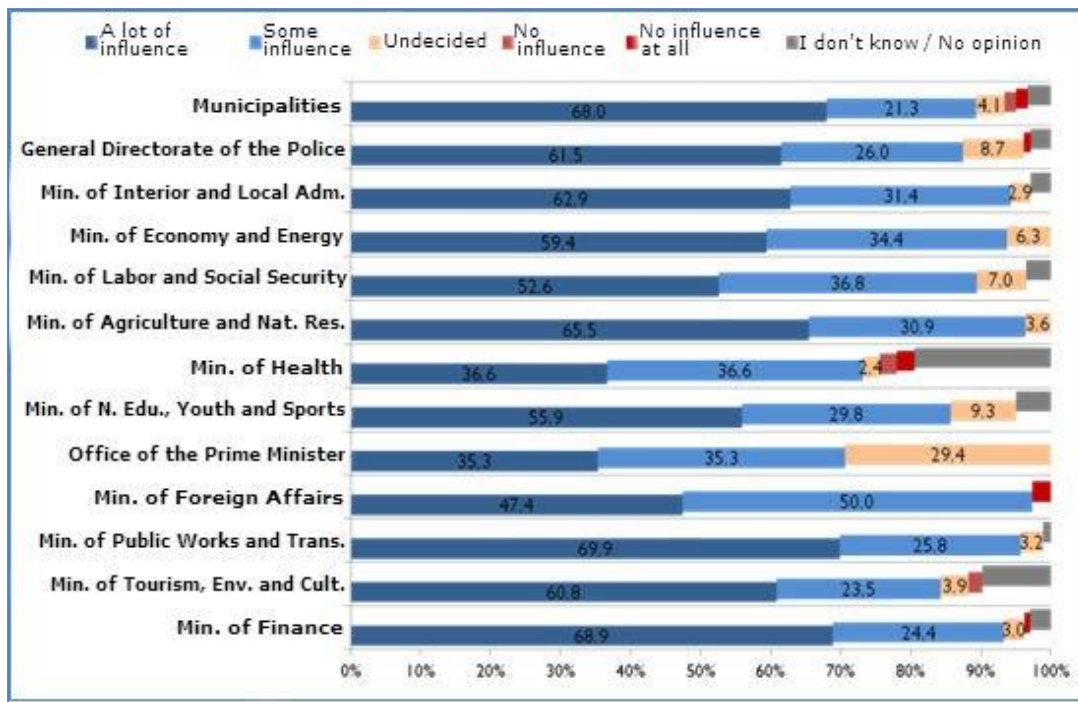
The perception of favoritism among public servants regarding the state in general varies according to their institutions and status (Figures 9-10). The highest perception of favoritism is among the contracted staff (with 80 percent of responses agreeing that favoritism has a lot of influence in public employment). They are followed with permanent workers (73 percent). The three institutions where the perception of favoritism is highest are the Ministry of Public Works and Transportation (70 percent), the Ministry of Finance (69 percent) and Municipalities (average of 68 percent).

Figure 9 Influence of Favoritism in Public Employment (According to Status of Survey Respondents)



Source: KKTC-FOKUS Northern Cyprus Public Servants Survey, February 2012

Figure 10 Influence of Favoritism in Public Employment (According to Institutions of Survey Respondents)

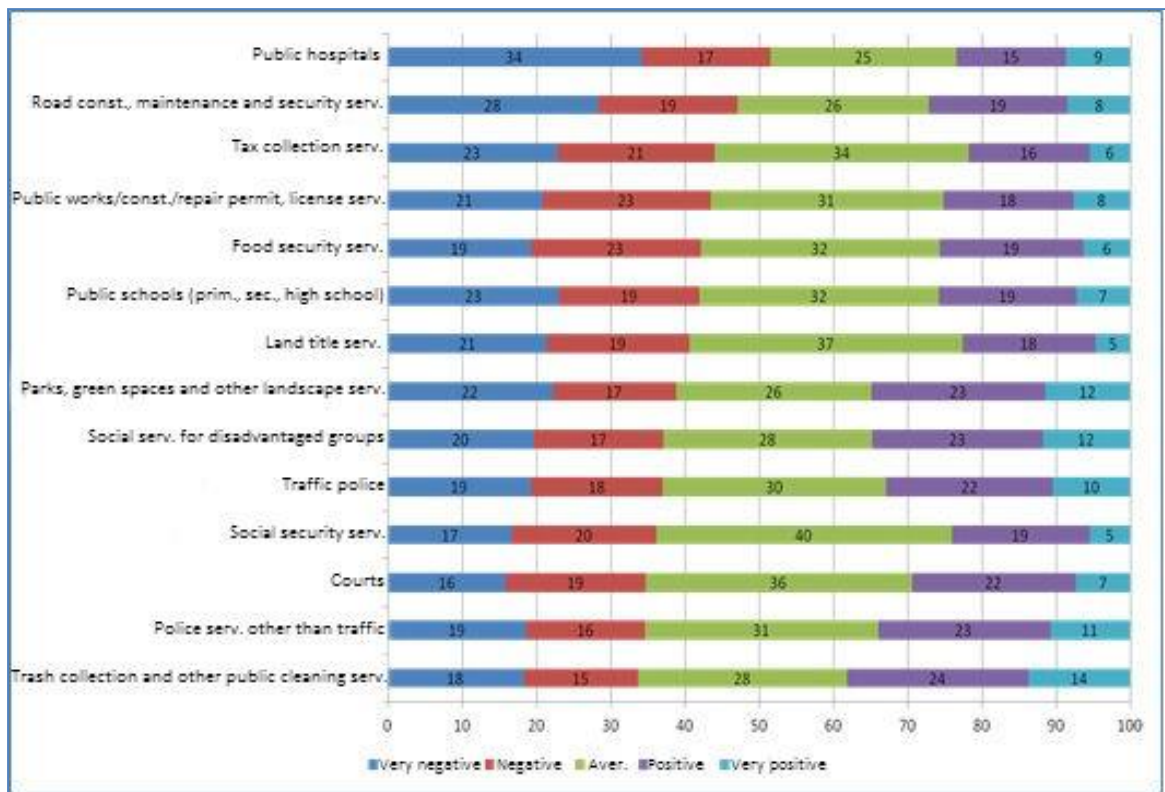


Source: KKTC-FOKUS Northern Cyprus Public Servants Survey, February 2012

Among households, the most negative opinions regarding public services were expressed against public hospitals, road works, tax collection services and public works-construction operations. As regards the perception of corruption, on a scale of five from “no corruption at all” to “very widespread”, the three services with the highest perception among the options in the survey were tax collection, public works-construction and land title services (Figure 11). When only considering the answers “very widespread” and “fairly widespread”, the group with a high corruption perception also includes traffic police. There is a relation that can be described as weak ($r= 0,25-30$) between the opinion on public services and the perception of corruption. This relation is weaker in public hospitals and public schools compared to other institutions ($r=0,11$ and $0,07$). It can be said that the perception on corruption has a much less important role in the opinions on education and healthcare services and the negative opinions about the quality of services are determined mainly by other factors.

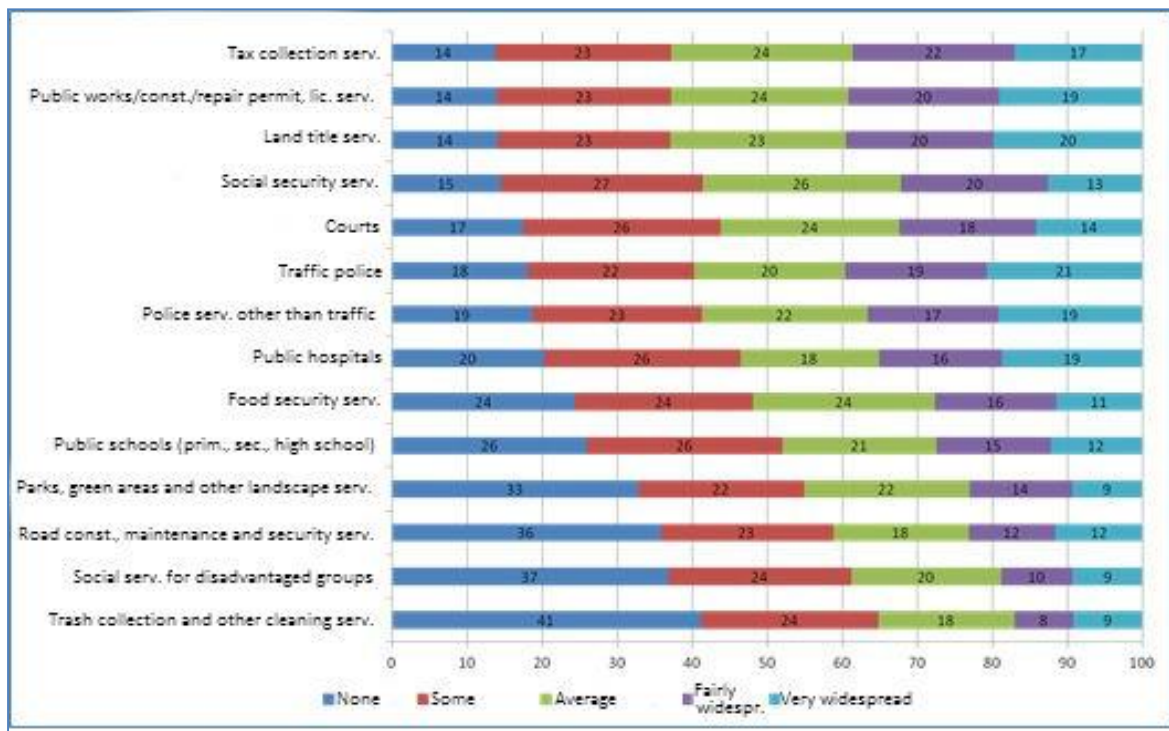
Part Two: Basic Problems Regarding Public Administration

Figure 11 Opinions on Public Services (% from negative to positive)



Source: KKTC-FOKUS Public Administration Households Perception Survey June 2011

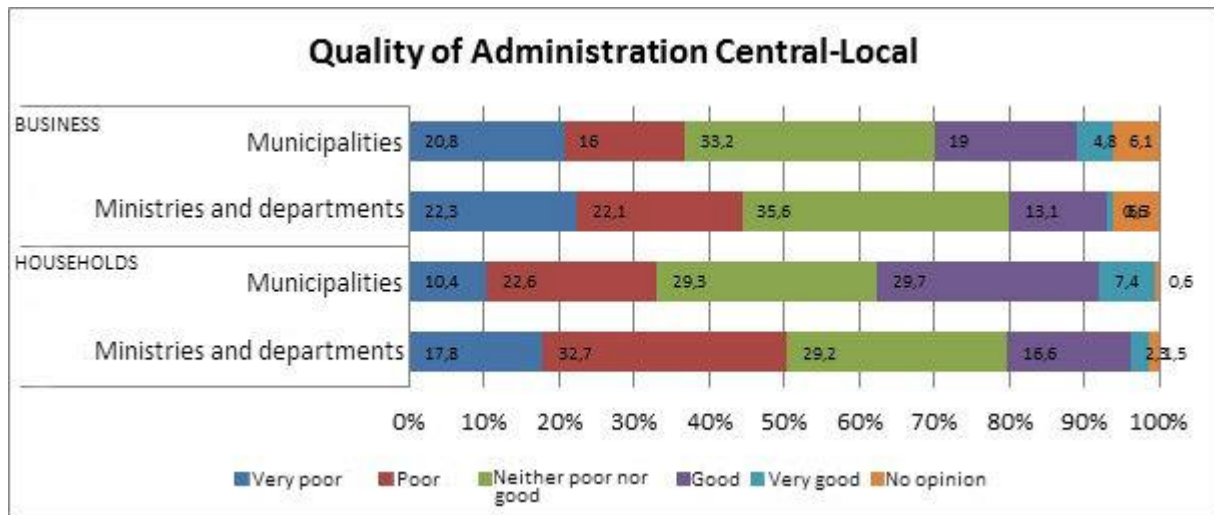
Figure 12 Perception of Corruption on Public services (% from lower to higher)



Source: KKTC-FOKUS Public Administration Households Perception Survey June 2011

As regards the perception on the quality of administration, the central administration lags behind the local administration (Figure 13). 37,3 percent of households have expressed that they found the quality of local administration good or very good, while this figure falls to 19,2 percent for central government institutions. Similarly, according to the FOKUS survey conducted with companies, local administrations are held relatively in a higher regard among business people when considering services provided to companies.

Figure 13 Perception of Quality of Central and Local Administrations among Households and Businesspeople



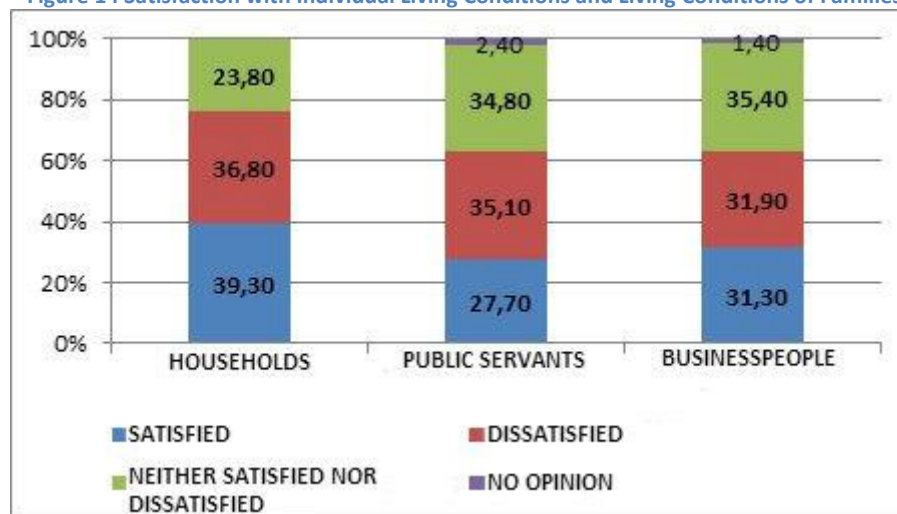
Source: KKTC-FOKUS Public Administration Households Perception Survey June 2011

5. LACK OF CONFIDENCE TO STATE INSTITUTIONS AND POLITICS AND DISPAIR ABOUT THE COUNTRY'S FUTURE IS TURNING INTO A VICIOUS CYCLE

There is a very big gap between socio-economic satisfaction at the individual level and the satisfaction with the socio-economic situation of the country. Some 39,3 percent of households in the TRNC have said they were satisfied with the current living conditions of their families, whereas this rate falls to 13,5 percent when they are asked about the country's socio-economic situation. Half of the sample (49,4 percent) thinks that the situation of the country will worsen in the near future (Figure 14). While individual satisfaction goes parallel with the income, the satisfaction with the country's situation is independent from the income level of respondents.

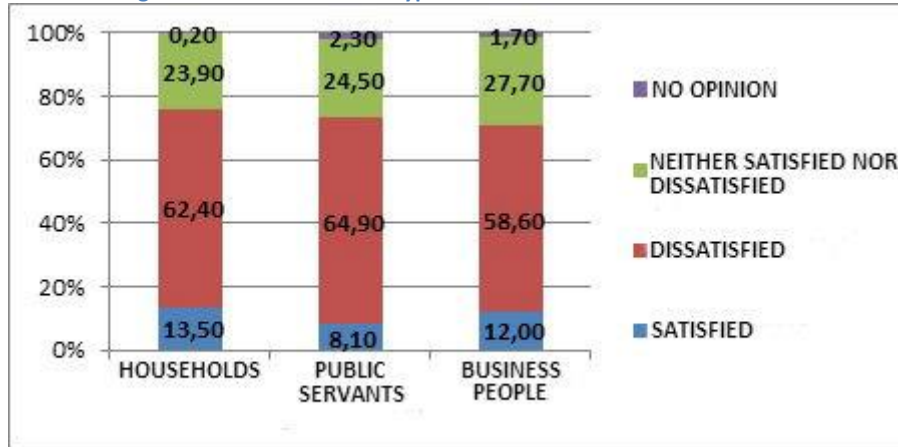
A similar situation is observable, not only among households, but also among public servants and business people. Although the public servants' satisfaction with their and their families' living conditions is lower compared to households, the dissatisfaction with the country's current socio-economic situation (Figure 15) is much higher both for public servants' and business people than the dissatisfaction with their own life or their families' life.

Figure 14 Satisfaction with Individual Living Conditions and Living Conditions of Families



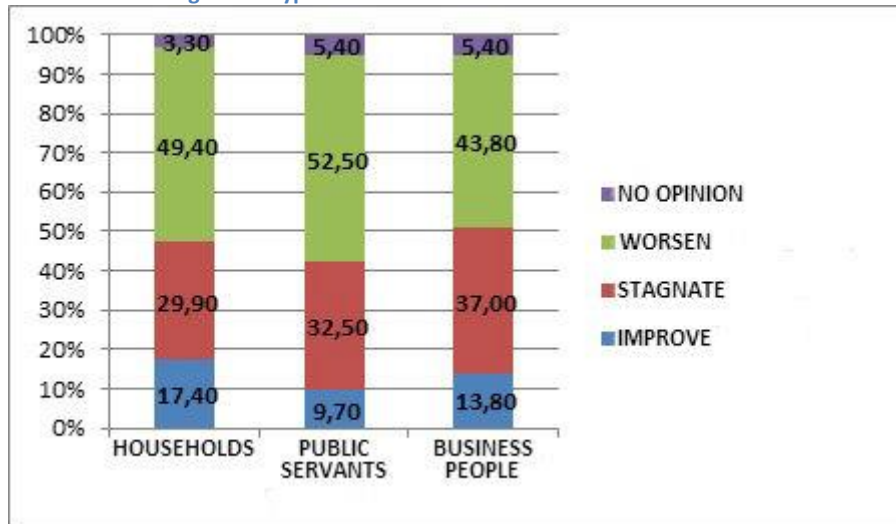
Source: KKTC-FOKUS Surveys 2011-2012

Figure 15 Satisfaction with Cyprus' Current Socio-Economic Situation



Source: KKTC-FOKUS Surveys 2011-2012

Figure 16 Cyprus' Socio-Economic Situation in Near Future



Source: KKTC-FOKUS Surveys 2011-2012

The social dissatisfaction, which goes well under the satisfaction with the respondents' own life, can be provided with several explanations. First of all, we could say that this observation is not paradoxical since although people are satisfied with their own standards they may have doubts about its sustainability in the long term at a larger scale.

One of the main factors leading respondents to be satisfied, for now, with their own living conditions while feeling dissatisfied with the current socio-economic conditions and thinking that those will worsen in the near future is, quite evidently, the long-standing uncertainty regarding the political status of the TRNC.

As it can be seen in Figures 15 and 16, the results of surveys made as part of KKTC-FOKUS show a serious lack of confidence in politics and state institutions, who are bound to represent the collective interests of citizens. Also according to the survey results, this lack of confidence is fed by the belief that the state has become a doorway to making profit through rent distribution and politics is actually an instrument for this purpose; which, instead of collective demand for improvement of services and clean government, breeds an individual competition for getting more rents from the state. Since it acknowledged that this process of distributing

unearned profits is not sustainable, this culture which continuously reproduces itself leads to pessimism about the future of the country. Meanwhile, there is an uncertainty about the order that is to replace the current one. The long-standing continuation of the political confusion on the TRNC's political status and the lack of belief that local politics can solve the problems of the country, feeds even more to this uncertainty, in a sense turning it into a vicious circle.

Reversing this despair and replacing it with confidence to the country's future and hope is necessary for the TRNC to become in the long term an independent state that can stand on its feet. It is known that perceptions about the future of a country are closely related and go parallel with the perceptions about state of public administration. An effective and efficient state that is attentive to the needs of its citizens will also have a positive impact on the hope about the country's future. Another element that reinforces this observation lies in the survey with households. Citizens who show support for reform say that the reform should be first carried out in the political field. Thus, in order to instill to the citizens of the TRNC hope and belief to the future of the country, politics, the executive power and political parties have to renew themselves, to work towards a solution of the country's problems and the citizens' needs and to regain their reputation. It seems that there is a vicious circle on this matter. People believe that the solution to the problems are mainly political in nature, but don't trust the politicians and parties who are supposed to undertake such a reform. As much as there is a vicious circle, the way to break it goes through undertaking steps that would increase the reputation of politics and the state. By this means, politics will reinforce its reputation not as an instrument of distribution of rent, but as the instrument for finding solutions to the needs of society. The more the reputation of politics will increase, the more hope to the country's future will increase. Towards that aim, as mentioned above, a public administration reform is indispensable. At one stage of this reform and through a transition period, the de-facto situation that was developed as a solution during the exceptional conditions of the 1970s should now normalize and institutions providing public services that are still attached to the Security Forces Command, such as the police, civil defense and firefighters, should be placed under a civil authority in order to be accountable to the citizens.

PART THREE: REFORM RECOMMENDATIONS

This section contains the recommendations to deal with to the problems identified throughout the findings of the KKTC-FOKUS project. Problems and recommendations reflect the **basic** findings and recommendations contained in individual horizontal and vertical analytical reports. In this framework, recommendations that were elaborated in individual reports were sorted out and edited according to their significance and consistency. Recommendations with further details regarding implementations were not included in the present section.

The recommendations that will be presented in this chapter focus on the functions of the state, rather than clearly or tacitly expressing an adequate size for the Turkish Cypriot state. To achieve an efficient, effective and reliable state, the latter should have a portfolio of functions that are adequate to the requirements and preferences of society and be able to fulfill them by making the most efficient use of public resources. It is generally acknowledged that the state has two basic functions, which are to intervene to failures in the markets and eliminate social inequalities. These state functions can be treated at three different levels.²² **1- Minimal functions:** In terms of market failures: Production of public goods and public services, which are considered as public properties (ex: healthcare, education, justice, defense, security, macroeconomic administration, etc.); in terms of social inequalities: Functions such as fight against poverty or help for victims of natural disasters. **Intermediary functions:** In terms of market failures: Problems caused by externalities such as the protection of the environment; regulations regarding natural monopolies such as water, electricity or telecommunication; functions regarding protection of consumers as well as regulation and monitoring of financial markets; in terms of social inequalities: the establishment of a social security system. **3- Active functions:** In terms of market failures: improving the investment climate through coordination of the private sector activities; practices such as incentives, clustering and organized industrial zones; in terms of social inequalities: active policies aimed at ensuring equality of opportunity and the redistribution of assets within the society.

The extent to and the level which states assume these functions are certainly determined as a result of complex social and historical interactions. Almost every state fulfills the functions enumerated above one way or another. In the TRNC too, there are institutions established to fulfill those functions. But rather than the existence of these institutions, what's more important is the extent to which they are able to fulfill those and to what extent the state is efficient. In other words, the critical question is not what kind of functions the state assumes in such and such areas, but whether it has or not the administrative-institutional capacity to fulfill the functions it assumes. Problems enumerated in the previous sections show that the Turkish Cypriot state has serious issues in this regard.

In a quickly globalizing world, some standards regarding public administration are starting to gain a general recognition and countries have felt the obligation to more or less change their public administration in line with those principles. These series of principles that broadly became prevalent from the 1980s are labeled as the guidelines of “the New Public Administration”. Accordingly, although for different purposes, the state is called to increase its efficiency with methods and tools inspired by business management. Efficiency and

²² For more details, see World Bank, World Development Report 1997, State in a Changing World.

performance should become the basic values of the public sector. Public officials, in exchange for some flexibility, should reach measurable goals with the resources they make use of. Namely, the public sector should not only be responsible for using resources according to the laws and regulations, like in the past, but it should also be held accountable on what has been achieved with those resources. Just like legal rationality, economic rationality has also become a requirement.

In the past 20 years, public reform programs in the area of public administration have consisted the following components, whose “prevalence varied according to national conditions and priorities of the countries”:

- Reduction of public employment and public expenditures to a sustainable level in terms of macroeconomic indicators;
- Improvement of the state’s capacity to carry out the basic public functions, ensuring consistence and coordination in the elaboration of enforcement policies;
- Abandonment of public entrepreneurship in areas that don’t comply with the principle of economical rationality (privatization);
- Removing certain areas of service from the monopoly of the public sector, opening them to the competition of the private sector or NGOs (volunteering sector); transfer of certain services to private sector through contracts (contracting out);
- Restructuration of regulatory mechanisms so as to increase the ability to attain policy objectives efficiently and with lower costs;
- Establishing efficient and transparent systems and processes to strengthen monitoring over the activities of the public sector and ensure the functioning of accountability (for example through “public inspection” or “public arbitration” – ombudsman);
- Transition into a service-focused public administration; rendering the provision of public services more competent in terms of quality, efficiency, reliability, accessibility and sensitiveness to user needs;
- A human resources management based on merit, consistency between performance and regarding, leadership skills and strategic approach;
- Decentralization.²³

Sectoral assessments and recommendations made in the framework of the KKTC-FOKUS project also reflect at a large extent these “New Public Administration” paradigm that dates back to the 1980s.

There are two important points distinguishing the TRNC from other countries as regards public reform, which should be taken into account in the implementation stage: The country’s **size and its very poor administrative capacity**. Both aspects reinforce each other and require the design of a transitional process as part of a prospective reform. Thus, recommendations presented below and the individual reports where they are taken from have foreseen a certain transitional period. Moreover, the final section contains general principles regarding prioritizing in the context of an implementation strategy. Apart from those, actual

²³ Public Administration Research, TÜSiAD-T/2002-12/335, 2002, sh.170

implementation steps and stages, should be discussed and determined by Turkish Cypriot officials and stakeholders.

Recommendations presented in this section were elaborated by taking into account problems and implementation priorities indicated in the reports. Accordingly, recommendations were grouped under three main titles: 1- To strengthen the center of the state; 2- To modernize financial administration and the personnel system; 3- To improve public services.

1- THE CENTER OF THE STATE SHOULD BE STRENGTHENED, EFFICIENCY OF REGULATION, DECISION-MAKING AND COORDINATION FUNCTIONS SHOULD BE IMPROVED

By strengthening the center of the state we mean to improve the capacity of institutions at the center of the state apparatus which have basic decision-making, regulation-monitoring, law-making, implementation and coordination functions as regards to the functioning of the state, such as the Office of the Prime Minister or the Ministry of Finance; and to modernize their work processes. Problems related to these functions were presented in the previous section. Recommendations contained in this section have been presented in the same order of the aforementioned problems. Capacity improvements that will be carried out in the center of state are also indispensable for the management and the success of the overall reform. Recommendations indicated hereby aim at building the institutional capacity that is able to determine problems through the analysis of middle-long term tendencies, to develop potential solutions and to implement them. This part of the report also draws a general framework regarding the strengthening of the institutional structure and administrative capacity within ministries. Along with this general framework, vertical analysis reports contain more specific recommendations for each ministry. Those specific recommendations are dealt with more details with their explanations in the vertical reports. However, an important part of those specific recommendations are not given in the present report due to its scope. For detailed recommendations concerning specific ministries or sectors that are not included in this report, it is advised to check the relevant reports.

1.1. The Department of Statistics and Research Should Be Restructured and an Official Statistics Program Should be Prepared

The need to review the current structure and functioning of the Department of Statistics and Research was already indicated in the harmonization process with the EU legislation and the protocol made with Turkey. In this framework, officials have said that preparations had been undertaken on a draft law for the preparation of an Official Statistics Program by the Department of Statistics. Using this as an opportunity, the Department of Statistics and Research should be restructured.

It would be beneficial that the Department of Statistics is restructured as an independent department in terms of its functions in line with good practices. This option seems as a fructuous one for making a new start. However, we think that criticisms according to which

the public sector is uselessly growing through new institutions and news personnel should be avoided, while paying particular attention to the following two matters:

a) An organization based on specialization: Personnel attributed to management and support services should be limited as far as possible, switching to a system based on specialization. (This recommendation is generally valid for all institutions.)

b) Cooperation with the Turkish Statistics Institute (TÜİK): Cooperation with TÜİK will, enable to acquire the experience related to Turkey's own Official Statistics Program, which has been elaborated in the framework of the EU harmonization process. On the other hand, it will also provide the opportunity to benefit from a number of methodological and technical studies that would not be financially rational to carry out in the scale of the TRNC. There is also some experience regarding cooperation with TÜİK. Indeed, the "Protocol on Cooperation Between the Governments of the Turkish Republic and the Turkish Republic of Northern Cyprus in the Field of Statistics", which was published on the Official Gazette of September 9, 2011, contains provisions in this regard. According to the protocol, TÜİK will provide training and consultation to the Turkish Cypriot Department of Statistics and Research and share the translations of the EU acquis chapter on statistics.

1.2. A Medium Term Programming Should Be Adopted in Policy-Making and Fiscal Management

It is recommended for the TRNC that the political framework applicable in the short-medium term be the three-years-long Medium Term Program (OVP) signed by the Cabinet of Ministers. This program shall also substitute the 2010-2012 Program for the Improvement of the Effectiveness of the Public Sector and Competitiveness of the Private Sector, so far the only policy document currently taken into account. It will also be appropriate to continue signing financial cooperation agreements between Turkey and the TRNC as a framework document supporting TRNC. The 2013-2015 Medium Term Program that will be prepared in 2012 may be the first step to put this recommendation into practice. It is believed that, by this means, the feasibility and the ownership of the program may increase. It is also possible and advisable that the Medium Term Program could also be a basis for medium term budgeting. In this context, Turkish Cypriot officials said a program encompassing 2013 and 2015 is being prepared in consultation with the NGOs. This medium term program should include information regarding the priorities of the public sector in specific areas for three years in line with the country's macroeconomic targets, which is later costed and put into a fiscal strategy as prelude to budgeting. Putting the that part of Medium Term Program which require funding would essentially be possible through the budget process. Therefore, the Ministry of Finance and the central administrations competent in the resource allocation process shall supervise the consistency of the policy priorities and goals contained in the Medium Term Program and the spending priorities in the budget process as well as monitor the results of their implementation.

It is expected that the short and medium term policy framework function be carried out by the Medium Term Program. In the current structure, the preparation of a new document wouldn't

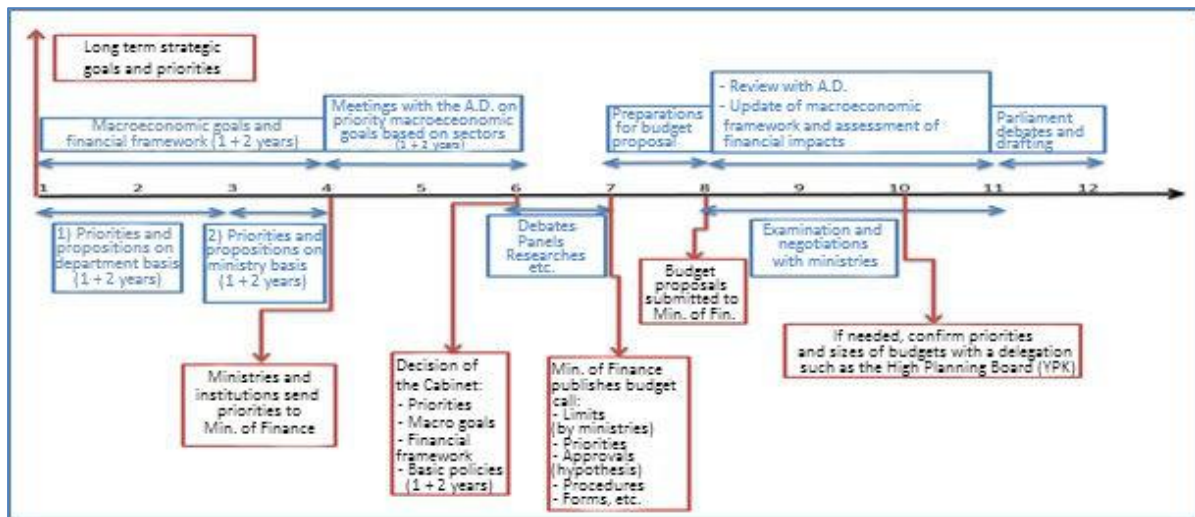
be very realistic and the possibility of its implementation would remain low. Upgrading the horizon of the policy-making and decision-making approaches in the TRNC from a very short term to a short-medium term seems to be sufficient at this initial stage. In the longer term though, depending to the state of the relations with the EU, it is recommended to prepare a National and Sectoral Strategies document for five-seven years.

1.3. The Budget Process Should Be Redesigned Pursuant to the Medium Term Program

The public decision-making process in general, and the budget preparation and implementation process in particular are short term and reactive. Their connection with the general balances of the economy is weak. During a meeting, Turkish Cypriot officials said the linkages between the size of the budget and the macroeconomic indicators were established at the preparation phase. But the details of this process are not clear. But by no means, a healthy statistics database is needed to be established in order to be able to conduct a healthy process. A simple macro econometric model based on available data may also be developed to establish this link between fiscal policy and macroeconomic indicators. The model can be helpful to assess the medium and long term impacts of public revenue and expenditure policies as well as to observe their relations with other macroeconomic variables.

Budgets should mainly be prepared according to “availabilities” and not “needs”. This is particularly true for countries such as the TRNC with a very narrow fiscal space. Therefore, the budget process should be entirely redefined in terms of the Medium Term Program. The capabilities should be determined by the Ministry of Finance in the scope of the Medium Term Program and institutions should narrow down and prioritize their needs according to these resources. The recommended budget process is the following (Figure 17).

Figure 17 Recommended Budget Process



1. Processes of data-collection and definition of goals are conducted in two parallel tracks during the first 3-4 months. a) The Ministry of Finance, the State Planning Organization (and

the policy coordination unit recommended to be established at the Office of the Prime Minister) prepare the three-years macroeconomic goals and fiscal framework draft. b) Simultaneously, departments submit the priorities and proposals regarding their own areas of responsibilities to the ministries to which they are attached. After collecting and reviewing those proposals, Ministries submit their list of priorities and proposals on a ministerial basis of a term of at least three years to the Ministry of Finance in April.

2. During the following two months, meetings are held with the Assistance Delegation (AD) on the macroeconomic framework and sectoral policies. Sectoral meetings may be organized in such a way that it gathers all the stakeholders and encompassing the whole sector, similar to the *Sector Wide Approach* (See: KKTC-FOKUS Fiscal Management Report).

3. The Ministry of Finance and the State Planning Organization submit the macroeconomic framework, list of sectoral priorities and financial program to the Cabinet of Ministers until June. Following debates, the medium term program is published before the end of June through a Cabinet decision. The program contains the fiscal framework and basic policies. (From this aspect, it can be likened to a mix between the Medium Term Program and the Medium Term Financial Plan in Turkey).

4. Following a debate period of one month, the Ministry of Finance publishes its budget call in early July. The budget call includes, along with basic macroeconomic indicators and sectoral priorities that will be taken into account while preparing the budget, the **spending limits** for each ministry-department. The budget call should particularly stress that ongoing policies from previous years and new policies and proposals are differentiated as well as the impact of new policies on expenditures is indicated.

5. Institutions prepare their budget proposals within a month and submit them to the Ministry of Finance in the beginning of August in accordance with the forms contained in the annex of the budget call. An automation system such as the e-budget (or a somewhat updated version of the current system) may fasten the process.

6. Negotiations with ministries/departments are conducted in the following two months during which the relation between the policy program and projects proposed with the priorities of the Ministry and their middle-long term impacts are studied in detail. The negotiations should also involve at a certain stage the Assistance Delegation in regards to the investment projects that will be supported with grants and the loans from Turkey. Thus, the final arrangements on the nature and the quantity of the assistance are carried out.

7. The budget is updated one last time if needed in the light of the final data and eventually submitted to the Parliament after a last review at the Cabinet of Ministers or by a smaller committee, together with a budget report that explains the assumptions, goals and new policies that lie behind it. The subsequent process ensues more or less the same way as before.

One of the most critical point is the lack of a long term plan and long term goals while defining strategic priorities and policies. As expressed above, a 1+2 years medium term program that will link macroeconomic goals, sectoral priorities and budget together will meet

the needs in the short run. Later this medium term program can be further developed into a “National and Sectoral Strategy Document”.

1.4. A Strong Central Body, in Charge of Policy Development and Coordination Should Be Established

As previously stated, policy documents such as the medium term program serve as an anchor to define the main thrust of the public sector’s policies. An important issue is who and which units will prepare as well as guide, monitor and assess their implementation? Before answering to that question, let’s first examine which basic features such a unit should have in order to fulfill these functions. Accordingly, we consider that the institutional organization should meet the following principles:

1. It should be a central and strong unit, close to the decision-making process (Prime Ministry and Cabinet of Ministers).
2. The unit should be able to work in close cooperation with the Prime Minister.
3. The unit should have authority to gather information to enable coordination and provide guidance over ministries and institutions.
4. The unit should be competent in terms of institutional capacity, employees should have analytical and language skills, be able to use ICT technology.
5. In parallel with the principle mentioned above, the unit should be based on merit.

It seems there are practically two alternatives for the TRNC regarding such a unit. First if the preferred approach is to keep the existing organizations but render them more efficient then the obvious candidate is State Planning Organization (SPO) to assume those functions. Indeed, it is understood that the SPO is coordinating the ongoing preparation of the 2013-2015 program. In the event that it is decided to assign these functions to the SPO, we recommend that it is entirely restructured, its capacity increased and attach it to the Office of the Prime Minister.

Another alternative would be the establishment of a new **Policy and Coordination Center** attached to the Office of the Prime Ministry. This center should consist of a few number of experts recruited through competition (a competency exam) and employed on principle of merit, while the number of executive managers and support staff should be kept to a minimum. The organization model should be as horizontal as possible. The EU Coordination Center is a good example in this regard. The prospective unit could be merged with the EU Coordination Center. But, in order to avoid long term uncertainties, it should be established by Law. However, in the event that this alternative is applied, the current organization and functions of the SPO will be questioned. Therefore, the position and the function of the SPO should also be opened up to discussion in the design of a new institution. Training programs in Turkey and other countries should be designed for the staff of the center.

1.5. Cabinet of Ministers' Policy-Coordination Agenda Should Be Widened

The problem of the Cabinet of Ministers' lack of time for decision-making and coordination on policy issues due to its busy agenda can be solved either way:

1. Increasing the number of Cabinet meetings and their duration.
2. Reducing the number of items on the Cabinet's agenda.

Choosing a midway solution that combines some elements from both is also an option. Furthermore, a combined approach can be the adequate alternative most of the time. But the analysis that we made and meetings we held point that the problem is mostly due to a number of routine and individual tasks contained in the agenda. That is why the number of items that come to the Cabinet's agenda should be reduced in the first place. One of the means for this purpose is to review one by one personnel procedures, which is understood to constitute an important part of the agenda, and to determine the issues that could be solved with the signature of the relevant minister or by a decree that would contain the signatures of the minister, the prime minister and the president, thus removing them from the Cabinet's agenda. In the event of a more than one governing party, the aforementioned decrees may be signed by the minister of the coalition partner along with the relevant minister and the prime minister.

The second alternative involves a preliminary work on certain issues as well as a preliminary examination and analysis of decisions within an interministerial committee comprising a small number of relevant ministers.

Thirdly, the number of weekly Cabinet meetings may be increased from one to two, with one of the meetings exclusively reserved for economic-social/reform policies and their harmonization and coordination.

1.6. Policy-Coordination Functions Should Be Created Within Ministries

Our first recommendation is to build policy-making and coordination function within ministries. This should have actually been the main function of the central administrations of ministries according to the current organization of the public administration in the TRNC. As "departments" rather assume executive functions, "ministries" should have a double role: **a- Vertical Coordination:** Policy harmonization and coordination between the affiliated departments; **b- Horizontal Coordination:** Harmonization and coordination with policies of other ministries and macro policies/strategies of center of state institutions (like prime ministry and ministry).

In this framework, our short term recommendation is to employ in a central unit within ministries a number of experts who could assume the function of policy-coordination.

Our middle-long term recommendation meanwhile is the restructuration of the central organization of ministries in accordance with the aforementioned vertical and horizontal coordination principle. The number administrative personnel providing support services,

which constitute a significant portion of the 253 personnel within 10 Ministries referred to in the annex of the Law on the Establishment Principles of Ministries should be reduced to a reasonable level as part of a program, while new personnel based on specialization such as policy-making, coordination, analysis, monitoring and assessment are defined in order to transition into a new organization employing a limited number of competent experts and based on career experience and technical competence. In the longer term, we would recommend to reestablish ministries by also changing the Constitution. Therefore, a separate Law should be prepared for each ministry, enabling to reorganize the central administrations of ministries in line with the principles mentioned above. Meanwhile, the Law on the Establishment and Duty Principles of Ministries should be replaced to broadly include the organization principles and generic rules of public administration. This new Legislation should establish a general framework regarding issues such as the types of public institution, their relevant statutory rules of establishment, the hierarchical organization of ministries and departments and principles and procedures for establishing a new unit etc.

1.7. The Council of Undersecretaries Should Become Institutionalized

The existing **Council of Undersecretaries** could have a functional role in the area of high level coordination. A number of supports and measures might be needed for this purpose. The following can be recommended on this matter:

- a) Secretariat: The Council should have a secretariat. This function could be assumed by the Policy Coordination Center, the unit recommended to be established within the Office of the Prime Minister. The secretariat should organize all the meetings, prepare the agenda and keep a record.
- b) Agenda: Meetings should be held according to agendas announced in advance so as to allow preparations in this regard. The coordination in the preparation of the agenda should be ensured by the secretariat. If a correlation can be made between the agendas of the Cabinet of Ministers and the Council of Undersecretaries, this would be beneficial in terms of the efficiency of the decisions made in the Cabinet.
- c) Monitoring: Decisions should be recorded and their results followed.

All these issues could be regulated through a Regulation or a circular establishing the working procedures and principles of the Council of Undersecretaries.

1.8. The Process of Legislation and Law-Making Should Be Improved

1.8.1. The Central Legislation Department Should Be Strengthened

The Law on the Establishment of the Legislation Department should be replaced, the number of personnel increased and its branches rendered operational. Along with the monitoring of drafts submitted by the Legislation Departments at the ministries, the central administration

should only act as a guidance and particularly a training institution and conduct the training of public legal counsels on law-making techniques.

The Central Legislation Department and the Directory of Legal and Political Affairs, whose duties mostly overlap should be merged to avoid a conflict and ambiguity of assignments. In this case, the Directory of Legal and Political Affairs should be dismantled and merged with the Central Legislation Department.

1.8.2. The Legal Department Should Be Organized According to Service Requirements and the Staff Provided with Training

The Legal Department expresses opinion on draft legislations and legal issues in the capacity of the legal advisor of the state.

Drafts or proposals on laws, statutes, regulations and similar legislation prepared by ministries and/or departments and organizations attached to ministries are sent to the Legal Department, which reviews them to ensure they align with the law and legal technique and expresses an opinion. Although this procedure is not based on any written and binding legislation, it has become a customary practice. But the opinions given by the Legal Department are not only occasionally inconsistent, they are usually not sufficient enough and lack of an adequate content. It even occurs that different prosecutors give different opinions on the same issue, triggering debate, which undermines the credibility of the Legal Department. At the future when a sufficient amount of capacity is built in the Central Legal Department and within ministries, gathering the entire preliminary preparation regarding law-making, including expressing legal opinions, in a single institution - that is the Central Legislation Department, should be taken into consideration.

1.8.3. Civil Society Should be Ensured to Participate in the Law-Making Process

The first step to enable the participation of civil society in the law-making process is the timely provision of sufficient information to the public on the legislation that will be introduced. During the preparation stage of the draft legislation, which is elaborated by the ministries, the opinions of universities, labor organizations, civil society and pressure groups should be heard before it is submitted to the Republican Parliament and to that aim, except from certain restrictions, the draft legislation should be published on the website of the ministries and opened to discussion.

1.8.4. A Legal Regulation Should Be Made on the Procedures and Principles to Abide By in Law-Making and a Guideline Should Be Prepared

The Prime Ministry circular containing the procedure that will be followed for the preparation of legislation not only lacks legal basis, but it also doesn't include sanctions in case of failure to comply with the method stipulated. It is not possible to bring a permanent solution to the problem with a regulation whose application is uncertain following each change of government. It is recommended to set the procedural rules needed to be followed as well as

the principles and criteria that should be complied preferably by a law or, if this doesn't seem possible, by a statute or a regulation. This should be followed by the publication of a "Legislation-Making Guideline" or Manual on those procedures and principles.

1.8.5. Legislative Information Databases Created in Institutions Should Be Merged Under a Single Roof

Different legislative information databases or systems should be merged under a single roof, thereby passing to a system of unity of legislation. Institutions should engage in cooperation and carry through a division of tasks while coordination should be ensured.

1.8.6. The Legislation In Force Should Be Sorted, Simplified, Printed and Published

Laws no longer applied or whose provisions are no longer valid, temporary laws and laws containing rules that are clearly contrary to the constitution should be reviewed and sorted, and by doing so the appearance of an excessive number of laws should be removed. In addition to that, the legislation currently in force and valid on Civil Aviation and Maritime Law and laws which state they will be applied in Cyprus as well as the single volume Subsidiary Legislation dating back to the British era should quickly be translated into Turkish. After being sorted and simplified, the updated legislation should entirely be printed as well as accessible through the website of the official gazette.

1.9. Capacity Problems in Regulatory Boards Should Be Solved by Also Taking into Consideration the Question of Scale

1.9.1. The Scale Issue Can Be Solved By Establishing Multifunctional Boards

One of the pillars of high institutional capacity, which is one of the *raison d'être* and functional effectiveness precondition of regulatory institutions, is the employment of a sufficient number of properly qualified staff. This condition unavoidably creates a certain cost. In order to overcome this dilemma, there are three prominent approaches in the theories and practices adopted across the world:

Table 6 Solution Approaches to Scaling Problem

Solution Approaches to Scale Problem	Example
Regulators with a Larger Area of Responsibility	Maltese Resources Institution
Regional Regulators	Eastern Caribbean Countries
Commissary Instead of Board (1 Commissary and 1 Assistant) + Office	Greek Cypriot Administration of Southern Cyprus: Electronic Communication and Postal Services Commission, Personal Data Protection Commission, State Assistance Commission

Among those approaches, the alternative to establish regional regulators is linked to a number of political and geographical preconditions. This option doesn't indeed seem realistic for the

TRNC. However, this alternative may take the form of a close cooperation with Turkey. Regulatory institutions in the TRNC could benefit from the works of their Turkish counterparts in terms of the follow-up, translation and impact analysis of regulations that take their source from international organizations and agreements.

The most sensible solution would be establishing institutions with areas of responsibilities as broad as possible, such as the Competition Authority working as the High Board of Telecommunication at the same time. When there is the necessity of establishing separate regulatory institutions in some very specific areas due to international developments or sectoral characteristics, it may be possible to task commissions or few board members (such as in the example of the Greek Cypriot Administration of Southern Cyprus).

In this framework, our ensuing solution proposals are as follows:

- Institutions should have areas of responsibilities as large as possible.
- The duties of the Personal Data Protection Board should be handed over to the Information Technologies and Communication Authority (BTHK).
- Part-time board memberships should be canceled.
- The number of board members should be cut down.
- A close cooperation should be conducted with counterparts in Turkey.
- Institutions such as commissions instead of boards should be established on very specific areas.

1.9.2. An Administrative Capacity Should Be Built

The employment of specialist staff has a vital importance regarding administrative capacity. Laws have enabled contractual employment and have given boards flexibility. Due to the lack of a policy and practice for the employment of specialist staff, some difficulties may arise to employ people with required qualifications in independent regulatory institutions. Contractual labor may positively contribute to encouraging service production and performance. However, instead of putting experts in a position of having to renew their contract each year, it would be more adequate to review the contractual employment practice from the viewpoint of career and work security in a way that encourage a progressive career with titles such as expert assistant, expert and senior expert and, by doing so, enable to retain qualified staff in a merit based system. The more the span of time working at an institution and seniority increases, the longer the duration of the contract should be. In light of explanations provided above, the following recommendations could be made in regard to administrative capacity:

- General Framework Law: A law that sets the general framework of employment of specialist at regulatory boards, including issues such as hiring, promotion and wage, should be enacted and the boards should exercise their competencies in the framework of this law.
- Career of Experts: Generally in the entire public administration and particularly in regulatory boards, employees hired should start in an assistant position and with the span of time, depending on seniority and certain conditions of success, have to be able to promote in their career.

- **Extension of Contract Durations According to Career:** In order to eliminate the inconveniences of contracts renewed annually, period of contracts should be extended by intervals of 3-5-10 years depending of seniority and the progression of the employees' career.
- **Temporary Employment of Experts From Counterpart Institutions in Turkey and Training:** In the framework of cooperation with Turkey, on the one hand the possibilities of in-service training of experts working in Turkish Cypriot institutions should be enhanced, while on the other, particularly in the stages of the establishment and initial development, temporary guest experts from Turkish institutions should be procured. Technical cooperation protocols should contain provisions in this regard.
- **Regulatory Impact Analysis Training:** A comprehensive and applied training on regulatory impact assessments should be provided for board members and experts to contribute to increasing technical capacity.

1.9.3. Independence of Institutions Should Be Ensured

In order to enable independent regulatory institutions to make effective regulations, a close cooperation between those institutions and policy-makers is indispensable.

Existence of independent regulatory institutions is not an objective in itself, but an instrument to fulfill specific functions. It is a mistake to assume that, the interests of these institutions and those of political institutions/politicians as well as markets, are conflicting. Not only those regulatory institutions are not alternatives of politics and politicians, they are also not totally insulated from and above politics; quite on the contrary, these institutions are part of politics and remain within the domain of policy making. That said, these institutions should be ensured of acting independently within their own area of responsibility, in terms of functionality, as well as of being objective and impartial during the decision-making processes. There is no magical formula or a practice that could be described as a good example to ensure independence. Legal and administrative regulations in the same direction entail different results in different countries. But broadly speaking, it is argued that a legal entity status, the guarantee of a long term assignment and a separate budget would strengthen the independence of the practices discussed in the relevant section above. In the TRNC, we can see that most of those conditions are realized. However, the implementation of independence is mostly related with the way how these legal and administrative rules take shape in practice. For instance, it is hard to claim that the absence of a separate budget of institutions in the United States harm their independence in any way. In turn, examples of many institutions which are far from acting independently, despite having a separate budget are not hard to find. Therefore the question of independence should be dealt not only through the dimension of rules and organization, but also in its practical and behavioral dimension as well. Nonetheless the following observations and recommendations can be made for the institutions below. These recommendations should also be considered within the framework explained above.

- **High Board of Broadcasting:** The tenure of members should cease to be determined in parallel to the period of elections.

- Competency Authority: The Law regarding its administrative organization should be enacted as quickly as possible.

1.10. Turkey's Assistance Delegation Should Mainly Assume the Function of Supporting Programs

The Assistance Delegation (AD) should assume the main function of supporting the Medium Term Program recommended above. Functions related to the project level management should be carried out by the TRNC Government.

Actually there have been some serious innovations related to the use of Turkey's assistance in the last two-three years. The AD has organized itself internally on a sectoral basis and established policy dialogue with Turkish Cypriot ministries on sectoral measures involved in 3 year assistance program. Except for large infrastructure projects, the Turkish Cypriot procurement system is used. That said, as explained above, further steps should be undertaken on this issue as part of the new budget preparation process in the context of the Medium Term Expenditure Framework. By designing a transitional period, the AD should transform from assuming the role of preparing investment programs to merely being the financier of programs and large scale projects. To that aim, we consider that it would be beneficial to undertake an institutionalization of the Assistance Delegation by redefining its functions, its staff organization and its working processes as part of an "institutional functional" analysis.

Donor countries across the world meet periodically and take decisions to ensure that their assistance leads to more sustained results. One of the most important of these meetings was held in 2005 in Paris. Participants of the Paris meeting, also attended by Turkey, agreed on the necessity of improving the following terms as quickly as possible:

Improving the national development strategies and planning, budget and performance assessment systems of recipient countries of loans/grants;

Increasing the compatibility of the foreign assistance with the priorities, systems and methods of the countries and supporting the enhancement of those countries' capacities;

Improving the accountability of donors and recipients of grants vis-à-vis their citizens and Parliaments in terms of their development policies, strategies and performance;

Avoiding the duplication of initiatives to reduce the cost of the assistance as much as possible and rationalizing the activities of donors;

Reforming and simplifying policies and methods of donors to encourage cooperation based on the recipient countries' priorities, systems and methods and cooperative activities;

Determining the performance and accountability standards and levels of countries, receiving loans/grants in public finance management, procurement, monitoring-control and environmental assessment areas.

The principles on which donor countries agreed upon are in line with the recommendations made in this report.

2. THE FINANCIAL MANAGEMENT PROCESS AND TOOLS SHOULD BE MODERNIZED, THE FISCAL POLICY SHOULD BE SUSTAINABLE

2.1. The Scope of the Budget Should Be Broadened

Public institutions should be examined in terms of their budget and properties, then classified according to GFS or ESA95 standards. Extra budgetary funds should first be included within the budget, before being closed down. Each extra budgetary fund means a separate pocket. To facilitate the follow up and control of expenditures, may be except from a few number of funds, all funds should be closed, their legal entity abolished and all the revenues collected by them should be included within budget revenues, while their expenditures should be considered as budget expenditures if needed. But even before that all funds should be subject to the same budgetary procedures as a regular spending agency. This recommendation can be implemented in a very short amount of time. Later all funds should be closed by merging with the budget. A valid justification should be sought for the fund that will continue to exist. For instance, the Contingency Fund, which actually serves as a social security fund, should continue to exist, but be allowed to operate in a way to be able to invest in low risk securities to maximize the return on accumulated funds. Leaving this fund outside of the budget instead of closing it would be more adequate, however its use should comply with strict rules, subject to regular monitoring and its activities should be rendered more transparent. Any other fund that would be left outside of the budget should be equally clearly justified and be held accountable.

2.2 A Modern Fiscal Management Law Should Be Enacted

A comprehensive law on financial management including provisions on budget classification, list of institutions by budget types, budget management principles and procedures that are in line with modern fiscal management standards should be prepared and enacted as part of the public administration reform.

It should be recognized at the outset that an entire reform could not be boiled down to a single law. Passing laws per se do not mean reform in itself. A reform entails sustainable results following a change that should rather take place in the mindsets and the behaviors. The law should only be enacted in order to give a strong message of commitment to the public (and bureaucracy) within and outside of the country. Other than this, in practice a large number of improvements can be carried out merely through administrative discretion or secondary legislation. Special attention should also be paid to legislation that will be imported and adopted from Turkey. The meanings of concepts and principles should be understood by executives and bureaucracy and integrated in the course of time. Although the law can be immediately enacted as a technical document, its implementation should only be initiated gradually and after an intensive training process. A viable alternative strategy would be to

make the necessary changes in the current fiscal management legislation. To this aim, a consensus should be reached on the changes needed to be made, by means of a workshop.

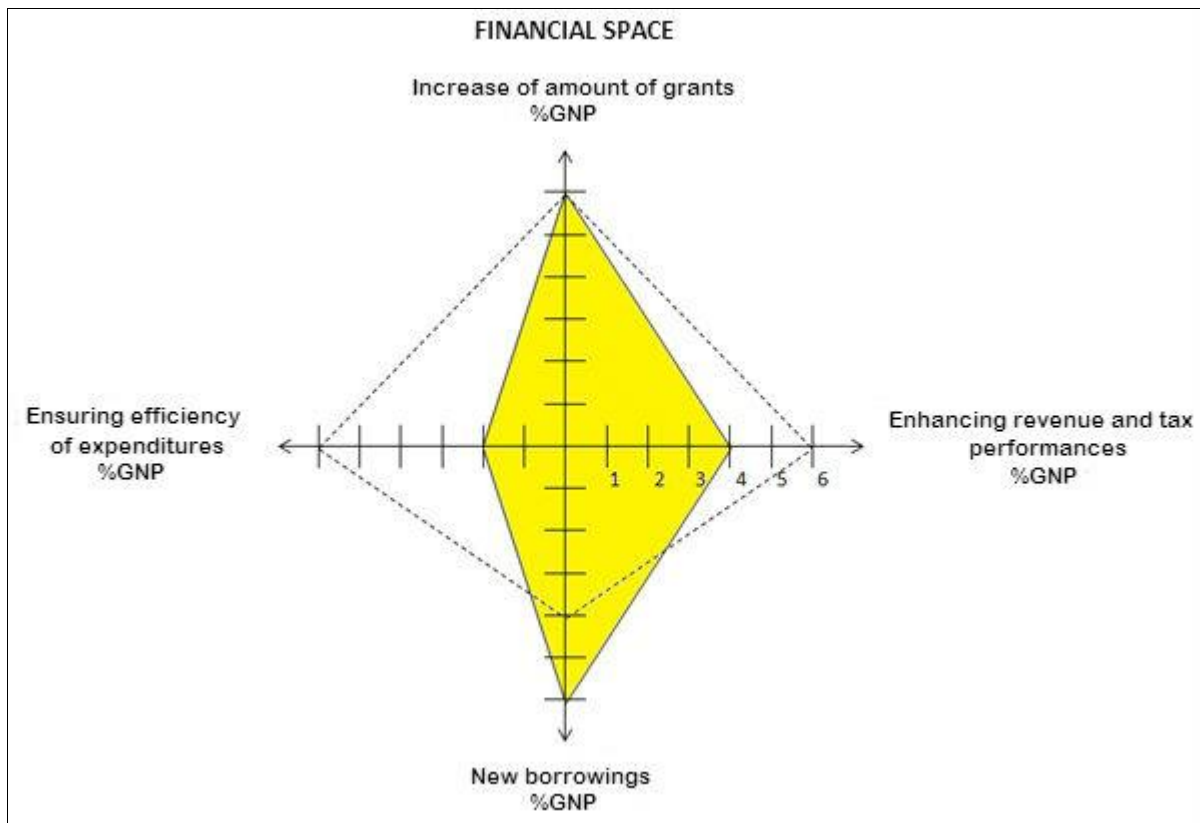
The fiscal management law should also include provisions on fiscal responsibility and fiscal rules. Those fiscal rules should attribute limits to certain fiscal aggregates (for example expenditures, budget deficit, etc.). Fiscal responsibility and fiscal rules should be broadened so as to include social security institutions, public enterprises, municipalities and departments with special budgets.

2.3. The Fiscal Policy Should Be Sustainable

Public expenditures over 65 percent of the GNP and a general government fiscal deficit exceeding 15 percent, attest to an unsustainable fiscal policy. The sustainability of the fiscal policy should be assessed in the context of the concept of “fiscal space” (Figure 18). The fiscal space means the sum of the expenditures that can be financed without putting the country’s macroeconomic stability and fiscal sustainability at risk.²⁴ The current fiscal space (yellow-painted area) is mostly sustained by grants and loans. Moreover, an important part of the resources provided in this fiscal space are used for paying current expenditures. This is not sustainable. We recommend that the fiscal space is broadened in order to make up a healthier fiscal structure and that its limits are as pictured with the dashed lines. In other words, the fiscal space should essentially be broadened by mainly reducing current budget expenditures. There is also a possibility of increasing the revenues. However, this possibility should be ensured not by increasing taxes, but first by recording and taxing informal revenues and preventing tax fraud. By this means, the amount of borrowing costs will decrease and in the event that Turkey continues to provide grants at the same level as today, some resources could be allocated for the much needed middle-long term strategic priorities of the country.

²⁴ “Understanding Fiscal Space”, *Peter S. Heller*, IMF Policy Discussion Paper, March 2005

Figure 18 Fiscal Space



2.4. Budget Processes and Tools Should Be Modernized

As it has been mentioned above, the **budget preparation process** in the framework of the Medium Term Program should be designed in top-down way by the putting expenditure ceilings for institutions. Otherwise the budget process encourages institutions to each year prepare an automatically increasing budget proposal based on the “needs”.

A law inspired by Turkey’s Law No. 4749 on “Public Finance and Debt Management” that sets the rules of public borrowing has already been enacted. This law meets, beyond any doubt, all the needs for the TRNC for a foreseeable future. Debt management is a public policy that can significantly affect markets. In that regard, it is a policy that carries an operational risk. In order to eliminate that risk not only both decision-makers and operators should be trained, but important supplementary and supporting institutional infrastructure, for e.g. regarding cash management and the debt database in the first place, are needed to be established. Ensuring the regular reporting of public debts, conditional liabilities and fiscal risks is one of the most important priorities.

Following its enactment, the law on public borrowing enabled borrowing through government bonds issued under market conditions. Due to the estimation of cash revenues and expenditures as well as cash flows resulting from borrowings and debt service, the importance of **cash management** has increased. All the public accounts should be closed and replaced by the “Single Treasury Account” system. Tax and custom revenues should also be deposited in this account. The “allocation” mechanism in cash management should be redesigned and

bound to transparent rules so as to remove uncertainties. Practices such as advance payments and deposits should be brought under discipline.

The establishment of a **fiscal control** system should begin with the establishment of such systems within the spending institutions. The Ministry of Finance should build capacity to oversee the process regarding fiscal control. There should be a gradual transition to an internal auditing system. Similarly the departments should be defined as spending units and head of departments as officials in charge of expenses. (See section on auditing).

The studies to establish a **public assets inventory** are ongoing. A dynamic database should be prepared for **inventory of fixtures and cars**. The fixtures should be registered on the name of the institutions and their movements followed electronically. If it is not possible to find a way of fastening the e-state project expected to be carried out by Türksat, either the establishment of **information management systems** or the improvement of the existing ones for basic services such as tax, customs, budget and real estate should be completed as quickly as possible in the framework of the bilateral ties with Turkey.

2.5. A Culture of Efficiency and Performance Should Be Fostered in Public Management

The TRNC has a classic line item budget with a focus on the inputs which mostly ignores the outputs or the outcomes of the activities undertaken with those inputs. This situation is one of the main reasons lying behind the inefficiency in expenditures. To understand and integrate the concept of performance, turning it into an essential feature of the public administration requires a behavioral change. The concept of performance is often used as a rhetorical idea that doesn't imply any deep transformation. Basing the fiscal management system on performance requires quite complex and lengthy processes. It should also not be forgotten that performance management has different degrees. As mentioned above, in case resource allocation decision are to be based on performance before some basic prerequisites are not put in place it can do more harm than good. Being mindful of this particular aspect, establishing a performance culture is an important step for public administration. A work on performance is ongoing in the framework of the "Project on Development of Public Expenditure Management in Northern Cyprus" launched in 2008 and financed by the EU Commission's Directorate-General for Enlargement. Result indicators are set for pilot ministries and discussed in detail during the budget negotiation stage. This is indeed a very beneficial project that needs to be supported. The setting and following up of such indicators as part of the preparative works for the budget, the conduct of policy negotiations based on their results and their monitoring in the scope of the institutions' activity reports are indispensable parts of the performance culture. From this viewpoint, each organization should set indicators for goals/results based on their own operational area and sector of activity and start monitoring them.

In the current system, institutions don't have any initiative, incentive or responsibility for spending their own budget in an efficient way. In the implementation of budget, executives

can be given the possibility of making savings and using a certain proportion of this amount. However, in order to ensure it, the internal and external auditing system should be improved first.

2.6. Human Resource Constraint Should be Alleviated for Successful Financial Management Reform

Ministry of Finance is also prone to the same problems that affect the public sector at large: poor institutional capacity in general and low technical capacity of personnel in particular. Those issues are addressed separately in the section related to the personnel management. As a result of these problems, the level of staff qualification is inadequate for new tasks. Hiring qualified personnel and/or in house training of staff in order to adapt to changing needs, is hardly possible. The professional expertise and career on merit does not work properly. Officials also say that the retiring experienced people were unable to be replaced by qualified staff, adding to capacity problems. Therefore, in order to meet the recommendations contained in this report, a comprehensive training-capacity building process should be carried out. The management of cash and debt, the modernization of the internal and external auditing system, new concepts and practices such as performance and medium term budget requires not only training-capacity building at the Ministry of Finance, but the whole administration in a certain amount of time. A long term plan should be made in this regard and through training of trainees, the training of the selected staff from the Office of the Prime Ministry, Ministry of Finance and Court of Accounts should be carried out. For areas requiring a specific and long training duration (such as internal audit, debt management, macro-modelling and estimation, etc.) a separate training planning should be prepared.

The institutional structures of spending institutions also need to undergo significant changes. The top priority is the establishment within ministries of a unit in charge of strategy, financial management and internal control. These units should work in close cooperation and collaboration with the central unit at prime ministry tasked with policy-making and coordination.

Budget reforms take time and are usually quite complex due to their resource allocation function; therefore ought to be managed carefully. Research on the subject have claimed that in countries like TRNC, (i.e. fragile political system with frequent elections and coalitions) chances of success are higher for a strong Ministry of Finance, which facilitate change in public institutions by providing efficient coordination mechanism within the bureaucracy. There is not a single reform strategy that would be valid for all countries at all times.²⁵ Researches argue that the “art” side of the implementation of reforms has a precedence over the technicalities of reform.

Our proposal is to open the recommendations contained in this report to discussion by means of a workshop and to list them according to the capacities and preferences of those who will have to implement the reform. In other words, we recommend that the capacity building is

²⁵ “The Challenge of Reforming Budgetary Institutions in Developing Countries”, Richard Allen, IMF Working Paper, May 2009

designed as a process in parallel and that the bureaucracy and general public is continuously kept informed about those steps.

2.7. The Audit System Should be Strengthened

2.7.1. A Single Audit Unit That Includes Inspection and Internal Audit Should Be Established

When deciding about audit, the most important is to establish a model which is: 1- In line with the requirements of a modern public administration in terms of the qualities of the audit and the auditors; without conflicting or overlapping assignments; 2- Adequate to the size and administrative capacity of the TRNC in terms of its proportion.

An audit model in line with the requirements of a modern public administrations should fulfill the following two conditions:

1- The audit system should be designed as an “**integrated audit pyramid**”, i.e. in such a way that it starts from spending institution level at the bottom and ends with the Parliamentary audit at the top. The integrated audit system should consist of “sub models/sub systems” actively connected to and complementing each other without overlapping and that are integrated both vertically and horizontally as a whole.

2- The scope of the audit should involve, along with regulatory audit, the performance audit that includes the effectiveness and efficiency audit. In other words, audit should be the instrument of not only the compliance with the rules, but also of a better management. By design, inspection boards in the TRNC are, same as their Turkish counterparts, units that mostly effectuate regulatory audits and possess the authority of administrative investigations. What is lacking and what needs to be established is an internal audit system that would audit control systems, and **especially fiscal control** in terms of efficiency and effectiveness and act as a consultant to the administration. The internal audit system requires an independent group of auditors who have properties and standards similar to inspection boards and an “internal audit harmonization committee” that would define the standards and procedures of auditing for the whole public administration. The internal audit system is carried out by an independent committee appointed by the President in the Greek Cypriot Administration of Southern Cyprus, whereas in Malta it is assumed by a committee attached to the Office of the Prime Ministry. In the TRNC, we recommend to evaluate the possibility of establishing both an inspection board possessing the competence to perform an administrative investigation that would effectuate the regulatory audit and an internal audit committee that would carry out the performance audit under a single roof attached to the Office of the Prime Minister. The internal audit harmonization commission along with the high board of fiscal control²⁶ should rather be attached to the Ministry of Finance. In the context of the TRNC, these two functions can be assumed by a single committee.

The issue of assigning (setting up) internal auditors within ministries should also be discussed. The critical issue in this regard is to establish a single audit unit instead of a

²⁶ The duty of the High Board of Fiscal Control is to define and follow up fiscal control standards.

separate internal audit unit and an inspection board. In these audit committees, an integrated and complementary group of auditors who have a capacity of inspection but also internal audit functions should be employed.

This audit unit would send a copy of their reports to the Court of Accounts, which thus will be able to monitor the internal audit mechanism within institutions. By doing so, the Court of Accounts will take into consideration the findings and assessments contained in those reports during its own audit. As a result, an integrated system will have been carried through. This audit unit attached to the Office of the Prime Minister (or Presidency) will also play an active role in the fight against corruption.

2.7.2. The Independence of the Court of Accounts Should Be Strengthened and its Capacity Increased

As mentioned in the horizontal analysis report on audit:

- a) All institutions using public resources should be included in the framework of the Court of Accounts' audit.
- b) The audit should involve regulatory audit and performance audit. Legislation and procedures in this regard should be prepared by the Court of Accounts as soon as possible.
- c) Auditors should be ensured of functional independence. (A classification for audit services should be established and a number of prerogatives should be assigned.)
- d) Secondary legislation on areas of responsibility and reporting standards of auditors, professional ethic rules should be enacted; detailed audit guides should also be prepared and regularly updated.
- e) A regulation should be made to publish all the reports of the Court of Accounts on the institution's website in order to ensure the transparency of audits. The procedures and principles of the follow up process that will be carried out on the implementation of the findings and recommendations contained in the reports issued should also be clearly defined.
- f) A parliamentary committee whose task would be to discuss the reports of the Court of Accounts should be set up and, in order to ensure an independent assessment, the chair of the committee should be given to an opposition deputy, like in Malta. Processes and procedures that would be followed up upon the committee's reports should be clearly indicated.

The individual expert report argues that the Court of Accounts should also have the function of a court like its Turkish counterpart. We are skeptical about it. We recommend that this issue is further discussed.

2.7.3. The Ombudsman Should Be Strengthened and Capacity Should Be Built on Other Areas of Audit

As mentioned in the expert report:

- a) Exceptions regarding the area of competence of the Ombudsman should be limited by the individual operations of the President, including the decisions and orders signed ex officio, and proceedings related to the use of his legislative and judicial powers. Particularly the activities and proceedings of the Public Services Commissions and the Police Organization must be included within the area of competence of the Ombudsman.
- b) The Ombudsman should be assigned by law explicit authority on human right violations in order to examine and investigate thorny issues such as torture and unhuman treatment.
- c) We also recommend that the Turkish Cypriot Ombudsman is also given the prerogative to apply to the Constitutional Court for the annulment of laws that fall within its area of competence, such as in Austria, Spain, Portugal and Poland.
- d) The public administration should exhibit a conciliating tone towards the Ombudsman's investigations. Hence the executive and administration should respond as quickly as possible to the demands of information and provision of document in the Ombudsman's activity reports or during case investigations as well as carry out the recommendations made. It would also be possible in this regard that the administration is warned by the political will through instruments such as circulars and decrees and even by the use of disciplinary provisions if necessary.

2.7.4. A Tax Audit Board Should Be Established

A tax Audit Board directly attached to the Finance Minister and formed by experienced professionals should be established as regards **tax audit**. This Committee should have the following responsibilities:

- a) Carrying out tax audits in the framework of the Law on tax Procedures and other legislation on revenues.
- b) Analyzing and comparing the activities of taxpayers on the basis of groups and sectors through a risk analysis system that will be established in an attempt to collect all kinds of information, data and statistics, and thereby to determine risk areas.
- c) Evaluating denunciations and complaints regarding tax obligations.
- d) Ensuring the necessary coordination and cooperation with the Revenue and Tax Department in tax audits.
- e) Monitoring, evaluating and calculating statistics from the results of examinations and audits.
- f) Developing the standards, principles, methods and techniques regarding tax examinations, audits and reporting, preparing guidelines for examinations and audits, setting the ethical rules to be complied with by officials authorized to carry out a tax examinations.
- g) Conducting the necessary work to ensure and increase the professional sufficiency and competence of tax inspectors, enhancing and applying a quality assurance system to that aim.
- h) Establishing a performance assessment system to assess the performance of tax inspectors.
- i) Making research (together with universities) on informal economy, tax fraud and tax evasion as well as on measures that will enable to disclose or prevent such crimes.

- j) Sharing views and making proposals on tax legislation.
- k) Performing the inspections, examinations, audits and investigations tasked by the ministry.

Tasking the tax audit committee on auditing the payment of social security premiums should also be taken into consideration.

There is neither a healthy and efficient public audit, nor regulations on independent auditing of companies. This observation is valid both companies subject to “Company Law” as well as the ones in the “Registry of Cooperative Companies”. To this aim, the expert report recommends “to establish a **Companies’ Inspection Board** that would include professional inspectors directly linked to the minister in charge of economy that would perform inspections of both companies subject to the Law on Companies and cooperative firms.” In our opinion, instead of establishing a separate board for these inspections, regulations should be made for the use of the central audit unit referred to in the subsection 2.7.1 for this purpose as well.

Each branch within the Labor Department performs inspections according to its own legislation. Moreover, businesses are also inspected by the Social Security Department. Merging the internal inspections of departments attached to the Ministry of Labor and Social Security will have a positive effect in terms of efficiency and effectiveness. In order to ensure coordination and implementation, the Labor Department and Social Security Department could establish a common inspection board.

2.7.5. The Coordination Between Audit Units Should Be Ensured

To create an administrative and technical cooperation mechanism that would ensure mutual solidarity, collaboration and trust and render it permanent; common activities such as trainings, meetings and seminars should be organized, permanent common work groups of strategic cooperation should be established and common studies on topics such as corruption typology, trend and risk analysis, among others, should be carried out. Audit units should ensure close cooperation with other national organizations (Legal Department, Fiscal Information Unit (MABEB), Police Organization, etc.) and NGOs regarding fight against corruption, committees and work groups established for this aim should continue their work on corruption and provide information on the subject.

An efficient information sharing system should be built between audit units and the public authorities in charge of anti-corruption; drawing on the possibilities offered by information technologies, individual databases should be opened to the use of related agencies by protocols.

2.8. The Public Economic Enterprise System Should Be Restructured

The issue of restructuring public economic enterprises (KİT) should not be considered separately from the restructuring of the public sector. The public administration reform should contain provisions on public economic enterprises as well. Political ownership, support and

determination is key for the success of the regulations in this area as much as the overall reform of general government sector.

2.8.1. A Framework Legislation Should Be Drafted

The “Law on Privatizations” was passed from Parliament in 2012. According the provisions of the article 5 of this law, the institutions which will be included in privatization list will be submitted to the Cabinet of Ministers by a commission. Pursuant to stated objectives of the Law, organizations operating in sectors open to competition, which could survive under market conditions are expected to be included in that list. A common, simple and modern legal framework is also needed for the enterprises that would stay in public domain until included in privatization list. This legal framework should make a definition of public economic enterprises that is in line with international standards (for example, accordingly with the definition of the European Centre of Employers and Enterprises providing Public Services-CEEP) and also identify and classify the properties of current public enterprises in the annex of the law. Organizations that are not a public enterprise – such as the Religious Affairs and Foundations Department – should be removed from this scope. The new legislation on public economic enterprises should predominantly regulate the areas related to corporate governance and issues where the Commercial Code proves inadequate. The critical focus of regulation are the legal, financial and economic relations between enterprises and the public sector. These relations should be defined in a way such as it allows an autonomous management in the framework of principles of good governance²⁷, encourages a strategic management, includes provisions regarding audit, transparency and reporting and clearly draws the line of the areas of mutual obligation and responsibility between central administrative organizations and enterprises.

2.8.2. There Should Be an Institution To Follow Up and Coordinate the Policies of Public Economic Enterprises and Prepare their Privatization

The coordination of all public economic enterprises, may or may not be included within the scope of privatizations, should be handled by a central institution, which will also be in charge of preparing their “investment and financing programs” in a way to inform the general government budget process. This unit should also exercise ownership functions like measuring and reporting on their financial and operational performances. The privatization law assigns the tasks of the secretariat to a department in Ministry of Finance. Same department can also act as responsible unit to coordinate the public economic enterprises that will remain as a state property. For this purpose, an adequate capacity should be built at Ministry of Finance.

²⁷ An Institutional Management Guidance for public enterprises was prepared by the OECD in 2005, which can be accessed via the following link: <http://www.tusiad.org/bilgi-merkezi/raporlar/oecd-kamu-isletmeleri-icin-kurumsal-yonetim-rehberi/>

2.8.3. This Institution Should Define Policies That Would Ensure the Efficient, Professional, Transparent and Accountable Management or Otherwise Privatization of Public Economic Enterprises

The public economic enterprise shareholder policy should be based on a macro policy that would in the long term maximize “public interest”. The concept of public interest is an abstract one, therefore, the question of how it is contemplated in the short term activities and medium term plans in relation to public economic enterprises, should be the main focus of this institution. In determining public interest, the potential impacts of opening a number of sectors, such as telecommunication and/or distribution of electricity, to competition on consumers and taxpayers, should be discussed and the benefits/costs from the privatization of public economic enterprises and subsidiaries should be tried to be quantified. For instance, if the Dairy Industry Organization (SÜTEK) is to be privatized, how this decision would affect livestock farmers and consumers but also taxpayers, should be calculated and shared with the public. The same is valid for public enterprises which will remain as a state property either because the “public” feature is considered important or its privatization doesn’t seem possible because of lack of competition. The benefits from the services provided (or goods produced) by those organizations remaining at the state and the costs of being run by the state as well as alternative costs should be calculated.

Measures should be adopted as far as possible to ensure a good management of the enterprises expected to remain as state property. To this aim, we recommend the following:

- Appointing executive board members and a general director who is competent on the field and would increase the performance of the company,
- Establishing a wage system adequate to this aim,
- Taking the necessary measures to enable executive boards to work in independence and
- Ensuring that the enterprises are managed with a medium term strategic perspective that is set in concurrence with the government,
- Setting an internal monitoring system attached to the top manager,
- Being accountable to the government and general public;

The accounting records of public economic enterprises should be held and reported on in line with the international accounting standards. As for audits, they may be carried out by inspectors of companies or independent external auditors.

All factors that could push the prices of goods produced and services provided by public economic enterprises over the international prices (salaries, wages, energy and other inputs) should be controlled and excessive cost increases that would weaken those companies in the price competition should not be allowed.

When setting the prices of goods and services in public economic enterprises, the balance between supply and demand and socio-economic policies (including competition policy) should also be taken in account along with costs. Below-cost pricing as well as pricing such

that it would entail losses and subventions should not be adopted. A legal provision to prevent public economic enterprises to sell products below the production or commercial may be arranged (such as the article 1 of the Law No. 4736). If certain consumer groups are aimed to be supported, the adequate practice should be the reimbursement to those consumers by the relevant institutions, through social transfers from the budget. This would prevent the disruption of price balance as a result of cross-subsidies between consumer groups purchasing from public economic enterprises.

3. THE STAFF REFORM SHOULD BE THE INTEGRAL PART OF THE PUBLIC SECTOR REFORM

A new law has been drafted with a view to improve personnel management in the TRNC, as an alternative to replace the “Law on Public Servants”, which currently acts as the basic legislation regarding personnel management. The draft law that is currently on the agenda of the Cabinet of Ministers fundamentally aims to narrow down the scope of the high-level officials appointed with a political discretion, to ensure that first assignments to public employment and promotion are based on merit, to give a say to representatives of public institutions during the appointment and promotion processes and facilitating relocations so as to use human resources more efficiently. The draft, which has many parallels with the recommendations listed below, constitutes an adequate reform initiative. Having said that, it is only a beginning. The staff system in the TRNC needs a radical reform. In order to create an effective and efficient system, legal, institutional and financial regulations should be designed and implemented simultaneously. Thus, in the event that the draft Law on Public Servants is enacted, all the other legislation in force on staff (healthcare workers, teachers, employees of annexed budget institutions) along with the Law No.47/2010 on the “Regulation of Public Servants’ Monthly Wages and Other Allowances” and the each single law regulating the establishment, duty and working principles of institutions would need to be scrutinized for harmony and go through deep changes.

3.1. The Definition of Public Servant Should Be Clarified and its Scope Narrowed Down

The lack of precision in the scope of public service is due to the vague terminology used in the article 120 of the 1985 Constitution. Considering that a constitutional reform is not in the short term agenda, to eliminate this problem we recommend to define the scope of public service and the public servant more clearly in the Law on Public Servants, which, in a way, acts as a framework law for the management of public staff.

If approved, this draft law that will replace the Law No. 7/1979 on “Public Servants” and defines the public servant as “... *those appointed to basic and continuous positions by independent bodies and receive wages from the general budget*” will ensure the necessary legal clarity to distinguish those who are employed in public institutions and organizations that have their own legal entity, including institutions with annexed budget and revolving funds.

Similarly, the assertion that public servants can only be appointed to “*basic and permanent positions*” will also forestall the employment of public servants for services that, under normal circumstances, would be carried out by workers or commissioned to private sector. As a result, not only the horizontal scope, but the vertical scope of public service will also be narrowed down.

In the event that the new approach in the Law on Public Servants is approved, all the laws on staff, including on employees working in institutions with annexed budget and revolving funds should be reviewed and replaced accordingly.

3.2. The Size of High-Level Officials Should Be Limited

The scope of high-level officials should be limited with the undersecretary positions in the Presidency, Office of the Prime Minister and Ministries, while all the other appointments for managerial positions, including directors, should be made by the Public Service Commission. The tenure of directors should be detached from the tenure of the government and an appointment based on merit (instead of political discretion) will help them carry out their duties more impartially.

The draft law on public servants contains regulations in this regard. The draft limits high-level officials with only undersecretaries, while increasing the qualifications required in appointments for this position.

3.3. The Limits to the Employment of Workers and Temporary Staff Should Be Clearly Drawn

The current Law on Public Servants causes some conceptual confusion due to the existence of a separate article entitled “*employment types*” and the following wording: “*public services are carried out by permanent staff, contractual staff, temporary staff and workers*”. This confusion has been for long exploited by the government, by employing temporary staff for basic and continuous public services, hampering the impartiality of public service and preventing a merit-based staff management.

The draft law on public services expresses more clearly that public services should be carried out by public servants; however, it also affirms that contractual employees or workers can be employed “to carry out public services that remain outside of the public administration’s duty”. Approving the draft law as it stands, would facilitate overcoming confusions arising from the current system.

3.4. The Capacities of Institutions in Charge of the Staff Management Should Be Increased

The Law on the **Public Service Commission** (Establishment, Role and Working Principles) should be amended, whereby the method of appointment of the commission head and members should be changed. While making the amendments, a particular attention should be paid to measures that would prevent the Public Service Commission’s close encounters with

the political authorities or a political party. Another problem linked to the appointments is the narrow interpretation made, in a way that is contrary to ordinary, to the eligibility condition stating that members of the Commission should be “retired from public service” among others. As a result, judges and prosecutors, whose appointment to such bodies that have a supervision function is a quite common in other countries, cannot be appointed to the Public Service Commission neither as President nor a member; for not being recognized as public servants. We recommend that a particular attention should be given to this issue and even affirming with a clear wording that retired judges and prosecutors can also be appointed if necessary while amending the Law on the Public Service Commission (Establishment, Duty and Working Principles).

As the administrative capacity of the Public Service Commission Department is directly affecting the credibility, transparency and efficiency of the Public Service Commission, along with the changes on appointment method of the president and members of the commission, the new law should also consider modernizing the organization structure of the department and strengthening its human resources.

Considering, in the event that more authority would be transferred to the Public Service Commission for the appointment of public servants in managerial positions, as recommended here, the Department’s capacity acquires even more significance. We recommend that the Public Service Commission Department employs an adequate number of qualified staff who would be able to follow the most up-to-date research and trends on human resource management, to make regular proposals on the improvement of methods of performance measurement and quality assessment and to lay out the necessary infrastructure for implementing them.

We recommend to include the establishment and working principles of the **Civil Defense Organization Appointment and Discipline Commission** and the **Security Forces Command Appointment and Discipline Commission** as well as the working principles of the Police Services Commission in respective laws. To render the method applied by those commissions during the employment and promotion of staff, the basic rules regarding the scope of the written and oral exams organized for those purposes should also be included in their respective laws, while their details should be contained in the statutory rules that will be enacted for each commission.

There is an urgent need to modernize the institutional structure of the Personnel Department attached to the Office of the Prime Minister, which is in charge of developing policies regarding public servants, preparing the legislation and following up its implementation. The capacity of the department should go beyond dealing with daily, routine tasks regarding employees and it should gain the ability of making an analyzing of needs with a view to increasing the efficiency of public administration and thereby designing human resources policies.

In this context, the Personnel Department should be converted in a *Directory General of Public Administration and Personnel Affairs*, such as it is the case in the Greek Cypriot

Administration of Southern Cyprus and Malta, and its subunits include the following departments:

- A *Public Administration Development Department* which will be in charge of laws establishing institutions, on issues related to the restructuration of institutions and the elaboration of their organization diagrams;
- A *Human Resources Management Department* that would be responsible of the development of human management policies and legislation, providing advisory services to institutions on employment and promotion, carrying out the coordination in the preparation of the planning of in-service trainings and adopting the measure to implement these plans;
- And a *Staff Information Systems and Data Management Department* that would deal with setting up and regularly updating an information system where the entire information and records regarding public servants and other public staff will be kept and which will be commonly used by all institutions related with staff management.

In the framework of a decision to restructure the Staff Department as a *Directory General of Public Administration and Personnel Affairs* with an wider functionality and the establishment of the *Staff Information Systems and Data Management Department* as a subunit, it should also be considered transferring the branches dealing with the management of payroll and pensions that are currently attached to the Treasury and Accounting Department of the Ministry of Finance. If done so, it is expected to have a positive efficiency impact by the common use and update of the staff information system whereby fixed costs would be reduced. Thus, the human resources currently employed in the payroll and pension branches of the Treasury and Accounting Department could be utilized during the establishment of this new department, removing the need of additional employment.

Personnel management is among the common / horizontal services that concerns all the service units within a ministry. This is why we recommend the establishment within the central administration of ministries of units consisting of two or three employees at most that would be in charge of dealing with the personnel issues at the Ministry and work in close cooperation and coordination with the Directory General of Public Administration and Personnel Affairs attached to the Office of the Prime Minister.

3.5. The Cadre System Should Be Reviewed

We strongly recommend that all the information dealing with personnel to be employed in departments such as:

- the service diagram,
- the title of the cadre,
- its number, its service class,
- its grade under that particular class,
- the salary scale,
- the competencies and responsibilities

- qualifications sought for those who will be appointed to those positions

should be removed from the laws establishing departments and regulated by the budget (in a way that it is part of the budget proposal of the relevant organizations). In order to ensure fiscal discipline, a cap should be introduced for the total number of staff /positions that could be employed during that fiscal year.

When considering the countries which successfully managed to establish fiscal discipline and sustainability in personnel management and wages, we can see that almost all of them have enforced similar rules. By virtue of the employment strategy prepared annually based on the aforementioned rules and approved by the Cabinet of Ministers before the start of the general budget meetings, the vacant positions and their numbers are specified in fiscal year budget and the employments can be made gradually on the initiative of relevant institutions without the need for additional bureaucracy. The discussion of staff positions together with their budget and programmed activities is also important to establish the link between employment policy and institutional (or program) performance.

Indeed the adoption of similar rules and methods not only by the Turkish Cypriot central government agencies but its generalization to general government institutions like municipalities will render the control system in employment more rational.

3.6. The Wage Regime Should Be Rationalized

The current regime on wages in the Turkish Cypriot public administration requires a comprehensive reform. Generically there are two options: Either a comprehensive law will be enacted with a wide scope that would define the basic principles and rules regarding the wages and other personal rights and perks of public servants, at general government level without any exception or alternatively to continue regulating wages of public servants in their own specific laws of departments as the characteristics of the service they carry out are different. Better way is to go for a mixture of the two: To lay out basic rules and principles but also allow for some specifics and flexibilities regarding the nature of the service.

All in all, the content of the reform on the wage regime is more important than the method that will be employed. Indeed, a salary scale based more on the characteristics of the service plays an important role in increasing the efficiency of the staff. Similarly, the progression of the public servant in the wage scale that corresponds to the grade he is attributed to (grade promotion) according to the appreciation of his/her performance instead of seniority (automatic progression as time) also serves to boosting the motivation at work. These two options could also be used in tandem, to even out adverse incentives that may be emanating from leaning solely to either method.

Another feature of the wage regime whose benchmarks should be set accurately and transparently are “allowances and overtime”. As both funds for allowances and overtime have an important share of 7-8 percent of wages, the regulations regarding this aspect of the wage reform should absolutely not be overlooked.

The “allowances” serve as a benchmark for institutions with special budget (outside of general budget) and public economic enterprises, which also employ public servants, and thus payroll burden is inflated with the percentages earned in collective bargaining agreements.

Although some attempts to deal with the issues raised above have been carried out as part of the Law No. 47/2010 “Regulating Public Servants Monthly Salaries and Other Allowances”, the conduct of a wage reform independently from the institutional problems related to personnel management has undermined even more the public sector’s efficiency.

In the light of the issues mentioned above, we recommend to reshaping the wage system in the TRNC by taking into account the modernization and development of the staff management system and other needed managerial regulations (such as employment types, regulation of promotions, performance system, service classes, etc.)

3.7. Policies on Staff Selection Should Be Rendered Efficient

The “question database” of the Public Service Commission’s written exams should be improved. To that aim, the procurement of services from experts or scholars, who could develop questions by using different and reliable sources and based on the curriculums of universities and high schools as well as the legislation in the TRNC that would help measuring the knowledge and analytical thinking abilities of candidates, could be useful. Cooperation that will be established with the “Measuring, Selection and Placement Center (ÖSYM)” in Turkey to develop a question bank and methods conducting the exams could be considered.

The Statutory Rules on Public Servant Exams, which regulates the procedures and principles as well as the scope of written and oral exams used for the appointment and promotion of public servants, should be prepared anew in line with modern knowledge measurement and assessment methods.

“The Statutory Rules on Public Servant Exams” should adopt a more reformist approach, especially on oral exams. Considering that the skills needed for executive position can rather be measured by oral or applied exams instead of a written exam, the qualification that will be measured in the oral exam as well as their grading criteria should clearly be stated in the in the exam’s Statutory Rules. The procedures and principles of the oral exam should be regulated in the Statutory Rules on the exam or by a regulation that would be prepared by the Public Service Commission.

We recommend using for this purpose the resources of the Public Service Commission, as it would not be cost-efficient for other independent commissions to prepare a separate question bank for the written exam. Thus, this should also be a matter of consideration while developing a question bank, which should thereby also include questions that will be used for measuring and assessing the knowledge of public servants who will be employed in the police, civil defense or security services.

3.8. New Staff Positions Based on Specialization and Career Should Be Created

We recommend opening new staff positions based on specialization and career and introducing special regulations for appointments and promotions related with these positions in the Statutory Rules on Public Servant Exams (such as the requirement of a higher grade compared with other staff positions in competition exams, the preparation of a thesis for as a condition of promotion to expert positions, etc.). As recommended in the Report on an Institutional and Functional Assessment of the Policy-Making and Coordination System in the TRNC” prepared as part of the KKTC FOKUS Project, the creation of these staff positions especially in the central administration of ministries is a priority. The expert system successfully practiced in Turkey and many other countries, has positive impacts on the policy-making and coordination capacity of the public administration and a multiplier effect on the quality of services.

3.9. The Supervisory Function of the Public Service Commission on Appointments and Promotions Should Be Increased, Commission Members Should Be Given More Say

The draft Law on Public Servants has undertaken an important step in this direction by setting “examination boards” majority of which consist of representatives from public institutions. These examination boards will be in charge of guiding the Public Service Commission on written exams and conducting the oral exams with the supervision of the Public Service Commission. In the event of objections on the results of oral exams and those found justified by the Public Service Commission, the examination boards will be urged to repeat the oral exam.

This regulation, designed in harmony with the constitutional provision that “...the appointments and promotions of public servants are to be made by independent bodies...”, will both contribute to design service specific written exams, and also counter balance the relatively subjective decisions of the Public Service Commission in oral exams. In other words, the draft provision on the “examination boards” and the working principles of the Public Service Commission will encourage consensus and cooperation in making decisions regarding appointments and promotions.

3.10. Relocations Should Be Used as an Instrument of Management and Career Development

To enable the use of relocations as an instrument of management or career development, we recommend the simplification of service classes, the decrease of the differentiation between staff positions in charge of carrying out similar services, requiring similar qualifications and making the necessary legal change to allow teachers relocate within the same district without pre-approval, as it is the case for other public servants.

In order to also reduce the problems, during the transfer of a public servant to another institution within the same district, the pre-condition requiring the availability of a vacant position of the same service class and grade according to the organization law of the recipient institution, should be removed. This situation, also due to the designation of staff positions and numbers in the organization laws, can only be overcome by the approval and implementation of the recommendation made in the subsection 3.5.

3.11. A Performance Assessment System Based on Reward and Sanction Policy Should Be Established

Performance assessment can only be fruitful only if it is brought in the reform agenda in parallel with the elimination of aforementioned institutional problems (such as politicization, wage regime, institutional capacity) in the management of public personnel.

Considering that strict rules such as the percentage of wages depending on performance (example: The 30-40 % variation of the wage from one year to another depending on employer performance) or the suspension of a public servant from his duty in the event of underperformance, is hard to implement due to information problems. Therefore the performance system to be designed in the TRNC should be reasonable and based on real needs. In other words, creating a link between the performance assessment result and the grade progression or promotion will increase the applicability of the performance assessment system.

As in most countries where performance management is actually implemented, the adoption of different and more flexible regulations regarding “executive positions” is imperative for the functionality of the system in the Turkish Cypriot public administration.

3.12. In-Service Trainings Should Be Extended

When we consider efficient public administrations, we observe that in-service trainings constitute an essential part of personnel management policies and is used extensively in those institutions. Providing a healthy and economical in-service training can only be possible if the institution in charge of it has an adequate administrative capacity and necessary financial resources needed for organizing the trainings.

Developing in-service trainings, which are almost inexistent in the Turkish Cypriot public administration, directly depends on the improvement of the administrative capacity of the Personnel Department and the establishment of the Public Training Center, which has not been established until today despite being stipulated in the current Law on Public Servants. In this context, the adoption of the recommendation made in the subsection 2.4 and the strengthening of the administrative capacity of the Personnel Department would enable to prepare effective in-service training programs centrally with a strong cooperation as to the needs of specific institutions.

The establishment of the Public Training Center is another step in the right direction. The staff that will be employed in this center should be in charge of making the necessary

arrangements i.e. the logistics for the organization of the trainings, instead of giving the trainings themselves. In other words, the main duty of the staff who will be employed in the Public Training Center should be to manage resources adequately so as to implement the in-service training plans as economically as possible. Testing of new training models (such as making use of the experienced public servants, cooperation with public universities, cooperation with Turkey, cooperation with foreign donors or procurement of services) should be tried to reduce the overall costs. In this context, we recommend that the staff of the Public Training Center consist of an adequate number of training expert and administrative support employees.

4- PUBLIC SERVICE PROCESSES SHOULD BE MORE EFFICIENT, QUALITY AND CITIZEN-SATISFACTION SHOULD INCREASE

4.1. The Provision of Services Should Be as Decentralized As Possible in Parallel With the Scale and Capacity Increase; Transparency and Accountability Should be Increased

4.1.1. The Scale of Municipalities Should Be Widened

There are currently 28 municipalities in the Turkish Republic of Northern Cyprus. Five of those 28 municipalities are district centers. 23 municipalities have a population less than 5,000 inhabitants. To cope with the present-day problems and especially with those related to the environment and infrastructures, municipalities need to have an adequate revenue and capacity of management. Due to the scaling problems, a distinction has been made in the law between city and non-city municipalities. Municipalities that are not organized around a city were not assigned functions such as traffic regulation and zoning. However, current situation is not sustainable for smaller municipalities: the intergovernmental transfers are based on population size, the capacity of small towns to generate revenues is low, while their human resources are very insufficient. Making expensive environmental and infrastructure investments with an inadequate revenue and administrative capacity is not possible. The fixed expenditures of municipalities, especially the personnel expenditures are also very high. In order to reduce fixed costs and ensure efficiency, it is more appropriate to focus on scale problems, instead of transferring some functions to the central government. Municipality mergers, which were carried out in many countries in the 1970s and 1980s, are also inevitable in the TRNC. A regulation that will encourage municipalities to merge voluntarily or otherwise is need.

4.1.2. Municipal Assemblies Should Be Strengthened

The competencies and responsibilities of municipal assemblies in the Turkish Cypriot Republic of Cyprus are not in line with the European Charter of Local Self-Government and

the principles accepted in the doctrine. The municipal assembly's decision-making function is limited, while its role of monitoring the mayor is inadequate.

To begin with, the responsibility of the mayor, who is the main executive, towards the municipal assembly should be increased. One of the ways to ensure it is the annual activity report submitted every year by the mayor to the assembly. The report would enable the assembly to question all the activities of the municipality. If the assembly finds the municipality's activities unsatisfactory, it could take a decision of "incompetence". To avoid weakening the mayor, who is also elected by universal suffrage, the "incompetence" decision of the assembly could ideally be approved by a judicial body (preferably by an administrative court). If the court rules on justified reasons for the decision, the mayor can be removed from his duty. The dismissal decision can also be given for some operations of the mayor through a motion of no confidence at the municipal assembly.

Another instrument that will help to strengthen and democratize the municipal assembly is the establishment of a audit commission in the municipal assembly. The municipal assembly is not only the decision body of the municipality, but it is also the monitoring body. Not to give a say to the municipal assembly for e.g. in physical planning and guiding the development of the city is an important shortcoming. Requiring the approval of the municipal assembly for the Zoning Master Plan will eliminate it.

Municipal assemblies should also be given competencies regarding the making up of the municipalities' organization structure and staff. Once the main organizational structure and core staff positions is determined by law, the assembly could be entrusted with authority to approve additions to the organization or/and employment .

4.1.3. The Zone Planning and Its Implementation Should Be Revised

In line with the constitutional principle of decentralization, the functions, authority and responsibilities regarding zone planning, registration and monitoring need to be rearranged legally as a whole in terms of rationality and efficiency between municipalities and central administration. Zone planning, the implementation of the plan and its monitoring should conform to a certain hierarchy. A division of labor and cooperation mechanism should be established between the central administration and the local, according to the "scale" of the plans. It is natural that the country's overall larger scale physical plan is carried out by the central administration. But giving municipal assemblies the competence of elaborating zoning plans in line with the physical plan will strengthen democracy and local administrations.

In the current state of affairs, the municipality's giving a construction permit is linked to the approval of the zone planning. The municipality has actually no authority on land development, it only collects building taxes and registration fees. The precondition of approval from the Urban Planning Department of the central government, diminishes the municipality's discretion on the issue. As mentioned before, such competence exists only for city municipalities. Thus, after the zoning plan is made, there is no need to get an additional planning permit. Even the competence of zone planning remains at the Urban Planning Department, a regulation that would remove the necessity of a further approval from the same

department and instead rendering the municipality's approval sufficient for getting a construction permit should be prepared.

On the other hand, the amendment made in 2008 on the Law No. 21/2005 on the Chambers of Architects and Engineers made the approval of the Chambers of Architects and Engineers mandatory for construction projects. The indulgence of such a "trade body" for obtaining permits, means the presence of another authority on the domain, a loss of time and a burden for construction owners. The projects are in any case prepared by architects and engineers who are registered to the chambers. The mission of the chambers is to monitor if architects and engineers work according to the principles of their profession. In this regard, it would be sufficient that municipalities prevent that banned members of the profession, assume projects. Therefore, it will be appropriate to remove the requirement of obtaining permit from the chambers.

To ensure that the construction development is in line with zoning plans and principles of engineering, the efficiency of monitoring and the effectiveness of sanctions play a crucial role. This is why, while making the necessary regulations in planning and registration as recommended above, sanctions regarding unlicensed constructions or constructions that are not in line with the license should be redefined. The necessity of a court decision for the demolition of constructions that is not licensed, is a factor reducing the efficiency of sanctions by prolonging the process. Giving municipalities the authority to take such decisions instead, will be more efficient for sustaining public order and prevent unlicensed constructions.

4.1.4. Financial Management and Audit In Municipalities Should Be Strengthened

It is not possible to consider the fiscal management and control of municipalities as sufficient in the current state. To begin with, the information regarding the budget and fiscal situation of municipalities are not adequate for comparing with other municipalities, thus gauging their relative performances or formulating policies. Consolidating information regarding municipalities, fiscal or not, and producing statistical information should be the task of a central government institution.

The budget and accounting system in particular and the fiscal management in general should be redefined in line with principles of accountability and international standards. Both the Court of Accounts and the Ministry of Interior Affairs have visible difficulties to obtain the necessary information and documents on time.

Since nearly half of the revenues of local administrations are central government transfers, the appointment of the head of the financial services unit by the central administrations, as done in certain countries, should be considered. The assistance granted from the state budget and the timely production of financial information can also be linked.

The audit of municipalities is carried out by the Court of Accounts. However, this auditing is far from being efficient. Other than this, neither the municipal assembly nor the Ministry of Internal Affairs have auditing powers over the municipalities.

In parallel with the strengthening of municipal assemblies in particular, and the local authorities in general, the functioning of municipalities needs to become more efficient, democratic and transparent.

4.1.5. Municipalities' Capacity to Generate Revenues Should Increase; Criteria Other Than Population Should also Be Used in The Distribution of Central Gov't Transfers

On average, some 43 percent of the revenues of municipalities consist of central government transfers (according to 2009 data). This proportion is even higher for small municipalities. The capacities of municipalities to raise their own revenues are low. Municipalities with small populations, deprived of special revenue sources such as airports, ports or facilities have an insignificant amount of own revenues.

Therefore, in order to eliminate the disparity between municipalities in terms of their own revenue an efficient use of fiscal equalization tools is needed. And for this purpose, along with the number of population, criteria such as development index and geographical surface area should also be taken into consideration while distributing the respective shares of central government transfers.

4.1. 6. The Functioning of Municipalities Should Become Rational and Transparent

A strategic management that will constitute a basis for the administration, budget and investment programs, in municipalities, should be put in place. In the meantime, practices such as production of activity reports or establishment of an assembly audit commission should be regulated by law. These will help municipalities to determine its goals and targets in every functional area, while also enabling the establishment of an institutionalized administration and the implementation of the principles of accountability.

The statutory rules regarding the entrance exam required for the first time employment of municipality staff has not been published as yet. Considering the size of Northern Cyprus and the municipalities, the exam processes and procedures for hiring personnel looks quite burdensome for individual municipalities. On the other hand, ensuring the credibility of these exams is another problem. An objective assessment is needed for the ones who will be hired for the first time in municipalities. In this regard, hiring employees to municipalities by an oral exam among candidates who pass a centralized exam can be a better choice. To ensure efficiency in municipalities, the possibility of employing new staff should be restrained until the personnel expenditures is cut down under a certain limit.

Despite that municipalities spend more than half of their expenditures on staff employees, only 11,2 percent of the population finds public staff sufficient in terms of knowledge and ability while 54,6 percent considers them inadequate (Households Perception Survey, June 2011). Although this being rather a general problem of overall public administration, policies and regulations that would increase the efficiency of the municipal staff are needed.

4.1.7. Central Administrative Tutelage Should Be Rationalized

The number of municipality tasks regulated by statutory rules should be reduced. The requirement of the Cabinet of Ministers' approval for the municipalities' budget is an unnecessary tutelage practice. If this practice is considered very necessary, the budget of municipalities can be approved by the Ministry of Interior.

While removing the unnecessary tutelage practices over municipalities it is also indispensable to strengthen the unit in charge of local administrations at the Ministry of Interior and to convert it into a department. In its current form, this unit is even unable to consolidate and report on the financial and non-financial information on local administrations. This unit should be empowered with the capacity of preparing relevant information on municipalities and, when necessary, the legal regulations and other policy recommendations.

While the central administration has unnecessary tutelage practice, it is unclear how it will intervene to failures in the provision of municipal services. The crisis that recently took place at the Turkish municipality of Nicosia has clearly shown that there is uncertainty or vacuum regarding how the central administration would assume the responsibility in the event that municipality services are significantly disrupted. The current law on municipalities only states that municipalities shall be warned if they fail to fulfill the tasks they are liable to perform by law.

If the disruptions in municipality services are due to administrative irregularities, the administrative court process should be enforced, and if those are due to bad management, democratic processes (elections) should be resorted to. But, in addition to those, the central administration should be able to use an authority, whose limits are set by law, in the event that service disruption could seriously affect the health, peace and wellbeing of the population. The assessment as to the severity of disruption must absolutely be made under judicial supervision, while the Ministry should be able to request such assessment. If the judiciary decides that there is a significant failure to provide services and an ensuing risk, the Ministry should be authorized to assume the provision of those services, directly or through district governorships, for a temporary period of time. We recommend that such a regulation is made in this regard in the law on municipalities.

4.1.8. Existence of District Governorships Should Be Reassessed

The provision of many services in the provinces in Northern Cyprus, including security, firefighting, education, social security, is carried out by the provincial branches of the relevant central ministries or institutions outside of the auspices of district governorships. Defined with general and abstract competencies such as ensuring a general coordination between public institutions and local administrations, the district governorships can hardly assume any real function in the district. Furthermore there is no special training, education or experience required to be a governor.

Some of the district governorships' functions have been transferred to municipalities after villages were attached to the municipal jurisdictions. On the other hand, duties and

competencies carried out by district governorships such as the granting of construction licenses, fuel transportation, storage and sale permits, taxi and bus service licenses, operating permits, alcohol licenses, live music permits, permits for cutting trees, the lease of waste lands, the monitoring of night clubs and other places of entertainment as well as the grant permits for shooting crows, installing playing machines, lighting fires, collecting money for charity and planting and sowing can be transferred to municipalities, since all are aspects related to local life. There are no valid justifications to provide these kinds of local services by the governorship.

Therefore, a decision is warranted: shall district governorships, which are the representatives of the central administration in provinces, remain operational with weak functions? Should their functions be strengthened? Or should they be dismantled? We estimate that there would be no significant vacuum in public administration if district governorships are removed as the inspectors and other staff can be transferred to municipalities, while tasks and competencies assumed by those institutions, such as birth and death records, passport and identity card services, registration of associations, clubs and unions, grant of firearm and hunting licenses or licenses for carrying firearms can as well be carried out either directly by departments attached to ministries or by municipalities.

4.2. Justice and Equality in Healthcare and Social Security Services Should Be Ensured, Accessibility and Service Quality Should Increase

4.2.1. Social Security Programs Should Be Merged Under a Single Roof

The overall assessment of the financial data regarding the social security system of the TRNC shows that what started as a capitalization model with premiums and funds has now become a de facto “pay as you go” model. As the current Social Insurance Fund and Social Security Fund were designed based on the principle of defined benefit, the level of profit and loss of these funds are not related with the rights of the insured citizens. In this case, there is no reason to keep two separate funds (Social Insurance Fund and Social Security Fund). Therefore, accounting on these funds which are no longer functional should be ceased and both social security programs should immediately be merged. The pension fund should be closed. Making these changes will have several benefits. The social security institution will be able to perform budgetary and fiscal operations more easily. Such change will also contribute to adopting modern budgetary and audit practices in the TRNC in terms of fiscal monitoring. Statistics and actuarial accounts managed by the Social Security Department as well as reporting process will become easier and clearer. It will also bring the current system closer to the “Single Roof” model, whose infrastructure was laid out with the laws enacted in 2008 and 2012 (but has de facto been since applied in a fragmented way) in terms of both legislation and the budgetary and fiscal structure of social security system.

4.2.2. The Automation of Social Security and Healthcare System Should Be Ensured; an Integrated Structure Should Be Established

The automation of insurance services, the processes of collecting social security premiums and payments made to insured citizens as well as the maintenance of the records should be ensured, while establishing a follow-up system based on information technologies that would enable to monitor the eligibility and to make as well as to suspend the payments and services which need to regularly be repeated over a certain period of time. A system of this kind would be possible through an integrated IT infrastructure within the Ministry of Labor and Social Security that would include the Ministry of Health, hospitals, the Civil Registry Administration, the banking system and the Ministry of Finance. The TRNC should also make the best of the knowledge and experience gained from Turkey's e-state applications as well as the Social Security Institution's IT system for establishing and developing its own IT system on social security matters.

Records belonging to each insured citizen should be kept in a system to which both the central administration and the branches are connected online. To that aim, all the incomplete, erroneous and duplicate records should be cleaned and information regarding each insured citizen, including their savings, status, rights and responsibilities should be clearly saved. The use of the social security number in operations regarding social security should be abandoned to make way to the "citizenship number" as the "unique identity number". Insured citizens should be able to follow the state of their insurance, their savings, their monthly pension salary levels and all the information regarding their account, outside from the institution (from the internet). By doing so, the TRNC will both ensure the credibility and auditability of the social security systems and increase the capacity to follow whether or not employers fulfill their obligations towards the institution.

4.2.3. Audits Should Be Strengthened

It is necessary to increase the audit capacity of the Social Security Department and Labor Department. Part of the audit capacity concerns the control whether or not employers paid the social insurance premiums of their employees, in other words the fight against unregistered employment, while the other part is the verification that the income of employees were properly stated. Methods and protocols should also be developed to cross check information by controlling whether or not the statements of businesses to the Ministry of Finance are consistent with their statements to the Ministry of Labor and Social Security.

4.2.4. The Long Term Savings Account Role of the Prudence Fund Should Be Strengthened

The long term savings account role of the prudence fund should be more emphasized rather than the unemployment insurance role, as it will be more beneficial for both the future of the fund and the individual savings. In the current state, insured citizens who have been unemployed for more than six months or who wouldn't be able to work anymore can withdraw their savings in the prudence fund. Instead of withdrawing their whole savings in

the fund, it should be considered to give monthly payments in the form of unemployment insurance throughout their unemployment period.

Maintaining the Prudence Fund, although with changes in its functions, would be a right choice for the surety and autonomy of the financial resources of the fund and due to the importance given by the Turkish Cypriot society to the existence of the fund. On the other hand, in the medium term, a fund management unit should be established within the Prudence Fund Department and as the public sector borrowing requirement is reduced, those funds should be used to invest in capital markets.

4.2.5. A General Health Insurance Policy Should Be Adopted

The current fragmented social security system in which different social groups have different rights and obligations should be replaced by a general health insurance policy (General Health Insurance – GHI) that would cover the entire population and, in this context, all citizens should be ensured to enjoy the same rights by removing the obstacles in accessing healthcare. A Mandatory health insurance comprising the entire society is necessary to increase the quality of services, to provide equal basic healthcare services to every patient and to remove the exchange of money between the patient and the doctor.

The social insurance premium for low-income citizens should be covered by the public resources reserved to social assistance. Individuals under the age of 18 should be eligible to receiving free healthcare services regardless of the premium debts of their families.

A Transitional Coordination Board should be established to plan the transitional process into the General Healthcare System. This Board would ideally be composed of representatives of institutions, including the Ministry of Labor and Social Security, The Ministry of Health, public hospital executives, etc. More detailed recommendations on the General Healthcare System are made both in the Social Security and the Health reports.

4.2.6. The Provision and the Financing of Healthcare Services Should Not Be Connected with Each Other

Separating the financing of healthcare services from their provision and ensuring its sustainability is an important issue that should be focused on. Among the most important reform steps needed to be undertaken for the operation and regulation of the system are the merging and gathering under one roof of all the current social insurance systems and ensuring the procurement and payment of healthcare services provided by either the public or the private sector vendors by this newly founded agency subject to some rules and principles.

4.2.7. Payments to Healthcare Service Providers Should Rest on Clear Rules

Payments made to both private and public healthcare service providers should rest on clear rules. Social security system should build the infrastructure to make the payment of healthcare service fees to service providers according to a schedule. An electronic billing and a service control system should be developed for all the healthcare service areas in which either the state or the citizens make payments. A reliable automation system should be set up in

hospitals and other healthcare institutions to ensure that financial records regarding income, expenditures and stocks are accurate and to enable keeping the patients' health records and performing other statistical operations. The transitional process into a General Health Insurance will also involve the merger of both social security and health insurance under a single common database.

4.2.8. The “Family Doctor” System Should Be Adopted in Primary Healthcare Services

We recommend the adoption of the contractual family doctor system, involving a long term patient-doctor relationship, as a first step. The contract can be made with physicians providing direct primary healthcare services. Polyclinics or family doctor units, evenly distributed throughout the territory of the country, shall provide both primary healthcare services and individual protective services. Family doctors are slated to be converted from doctors working in the public sector as well as those providing paid services in private clinics. A contract can be signed with all outpatient treatment centers, including private clinics, as long as they fulfill the predetermined standards. The contractual relation and the designation of the doctor by families are expected to create incentives for the provision of more efficient and effective health service.

4.2.9. An Certain Amount of Autonomy Should Be Ensured for the Secondary and Tertiary Service

Instead of the over-centralized management of hospitals, public hospitals should be encouraged to increase their outputs and reduce their costs while trying to achieve higher quality standards than the current ones, by delegating them more authority on those matters. Good performances could be rewarded and employees can receive additional payments through the establishment of revolving funds. The recent experience of Turkey on this field should be carefully analyzed with all its positive and negative aspects when setting the criteria of the performance system. The performance should not be reduced solely to number of patients treated or underwent into surgery per day but the quality of the healthcare service in the longer term, with due focus on societal results.

4.2.10. Regulations Should Be Made For Procurement of Services From Private Hospitals and Clinics

There are indeed some modern hospitals²⁸ and clinics in the TRNC. Contracts should be prepared in such way to allow for procurement of services from those hospitals and clinics, with precise limits regarding the amount of payment that patient will make. Package services can be procured from the cardiovascular surgical and oncological services of private hospitals without the payment of any fee by using their current capacity. The number of dentist and dental centers in the public sector are insufficient. Nevertheless there is a faculty of dentistry that is functioning actively. Patients should be able to procure the services that cannot be

²⁸ The Near East University Hospital, established in 2011, provides a quality service with a capacity of 250 beds.

provided by the public sector, from the faculty and eventually by the adoption of the “family dentist” system, from private dental clinics.

4.2.11. Emergency Healthcare Services Should Be Improved

112 hotline emergency healthcare services (emergency centers) should be improved, the number of ambulances increased and their model and equipment upgraded. Using a walkie-talkie system along with the telephone communication system can also be adequate. The conditions of doctors working in the emergency shifts should also be improved.

4.2.12. Healthcare Expenses of Turkish Citizens Living in the TRNC Should be Paid By the Turkish Social Security Institution (SGK)

Turkish citizens living in the TRNC should be included in the scope of the General Healthcare Insurance and their expenses should be paid by the Turkish Social Security Institution (SGK). The provision requiring the condition of living in Turkey in the Law No. 5510 should be rearranged such to provide a special treatment for citizens living in the TRNC.²⁹

Turkish citizens living in the TRNC should be registered to the “Medula” system to enable them to receive healthcare without unnecessary bureaucracy and delay.

4.2.13. Regulations Should Be Made to Make Healthcare Staff Work Full-Time

As the Turkish Cypriot Doctor’s Union stated in its opinions regarding the draft Full-Time Law, physicians don’t support and like to work in private sector or clinics when they receive an acceptable wage. Giving incentives to physicians to work full-time in public healthcare facilities constitutes one of the main pillars of a prospective reform. In this context, it is indeed necessary to open the way for voluntary full time work by health personnel through extra payments based on performance. By this way, the productivity of both health personnel and public healthcare institutions can be ensured.

4.3. The Public Sector’s Role and Organization Regarding Infrastructure Services such as Telecommunication and Transportation Should Be Redefined, Competition Should Be Ensured

4.3.1. The Telecommunication Department Should Be Incorporated

Telecom is a department of Ministry of Transport. While each passing year the market share and users of KKTC Telekom is shrinking, the proportion of increase in the number of users attained by other mobile telephone operators is well above averages in the EU as well as in countries with which comparative works have been carried out. Both statistics are clear indicators that KKTC Telekom has difficulties to cope with the competition of other mobile phone operators. The first step for rendering KKTC Telekom’s decision-making processes

²⁹ A recommendation in this regard was also made in the Task Report of the Healthcare Services Department of the General Directory of General Healthcare Insurance, which is attached to the Social Security Institution.

dynamic and staff policies more flexible while enabling it to renew its technological infrastructure without being hindered by the public administrations resource constraints and, by doing so, instilling a business vision that allows it to be competitive, it should be restructured as a company which could be followed by a privatization.

4.3.2. An Information Society Agency Should Be Established

The “**Kamunet**” system, which contains the applications regarding the e-state and information society in the TRNC, is still to this day managed within the Office of the Prime Ministry. Looking to the units and institutions established within or attached to the Office of the Prime Ministry in the TRNC, we see that the large number of different units and duties has caused inflation, disrupting the basic tasks of the Office of the Prime Ministry. As the competent ministry in the area of information and communication technologies is the Ministry of Public Work and Transportation, we recommend in this framework to transfer the coordination of e-state and information society applications to the Ministry of Public Works and Transportation, preferably through the establishment of an **Information Society Agency** that would be directly attached to the minister.

4.3.3. A Land Transportation Department Should Be Established

The fact that the main roles and duties on the land transportation sector have been distributed to a number of units within different ministries is causing coordination failures and preventing it being managed more productively and efficiently. To overcome this problem and to give the Ministry of Public Works and Transportation the tools that will enable it to manage, guide and monitor the sector, we recommend the establishment of a **Land Transportation Department** within the ministry.

4.3.4. The Meteorology Department Should Be Attached to the Ministry of Agriculture and Natural Resources

Data produced by the Meteorology Department is used in many sectors, including agriculture, environment, transportation and tourism. Indeed, the Department has been in the past attached to many different ministries, such as the Ministry of Agriculture, Environment and Natural Resources, but has ultimately ended up under the roof of the Ministry of Public Works and Transportation. A similar situation is also valid for the countries we analyzed as part of comparative studies, where institutions providing meteorology services carry out their activities within different ministries. In Iceland, the meteorology institution is attached to the Ministry of Environment, in the Greek Cypriot Administration to the Ministry of Environment and Natural Resources, while in Malta it is organized as a subunit of the International Airport of Malta. We suggest that for TRNC the most appropriate address would be the Ministry of Agriculture and Natural Resources.

4.3.5. The Postal Department Should Be Organized as a Company and the Sector Opened to Competition

Postal service providers, which traditionally operated in as a public institution, entered a very difficult period following two developments: The increasing use of electronic communications and the removal of the monopoly rights of postal services with the opening of the sector to competition. In face of all these adversities, postal service providers started searching for new sources of revenues and, taking advantage from their expanded service network, have been inclined to provide a number of financial services along with postal services.

On the other hand, the reach of postal services to the most remote localities with a certain level of quality and a reasonable price is a universally accepted principle. Postal service providers which have therefore the responsibility to provide a universal service, are liable to provide services to places where it is not profitable due to their remoteness and low number of population, and thereby are able to receive financial support from the state for this kind of services.

In the light of all these developments, as it is arguably difficult for the Postal Department to keep pace with the evolution of the sector being a department under the roof of the ministry, a reorganization of the Postal Services and the whole sector seems necessary.

There are, three alternatives for the future of the Postal Department. The first one is to **close the Postal Department** and entrust the service provision in the postal market to private companies, which are expected (or hoped) to operate in the sector after it is opened to competition. The second option **is the reorganization of the Postal Department as a public company**. The third alternative that could be suggested for the **Postal Department is a partial or full privatization. This report recommends the second of those three alternatives**. The reason for choosing the alternative of reorganizing the Postal Department as a public company, is because it's easier to implement than the other two alternatives and has more pros and less cons compared to them. (See vertical report)

The Law on Electronic Communication approved by the Turkish Cypriot Republican Parliament's on December 29th, 2011, does not contain provisions regarding the reorganization of postal services. However, as indicated earlier in this report, private companies continue to provide postal and other similar delivery services along with the Postal Department despite the lack of a legal framework.

It will be possible to ensure the regulation of the sector, to authorize and monitor all the companies that provide postal services, to establish a competitive environment and legally protect the right of consumers by including postal services within the scope of the draft law on electronic communication. By doing so, the necessary legal infrastructure for a prospective privatization of the Postal Department after it is incorporated would be prepared.

4.3.6. Privileges Given to Dockworkers Should Be Removed and the Possibility of Privatizing the Ports Should Be Analyzed

The Law No. 6/1976 on Turkish Cypriot Dockworkers Company has privatized an important part of port services by granting concessions to the Turkish Cypriot Dockworkers Company. But although an important privilege has been given to the Turkish Cypriot Dockworkers Company, no royalty or fee is being paid to the state by the company.

Officials stated that this privilege will automatically end in two years after dockworkers retire. It is indispensable to seize this as an opportunity and remove the privileges granted by the Law No. 6/1976 on Turkish Cypriot Dockworkers Company to ensure a competitive environment and increase productivity in port services. Following that step, the possibility to privatize the Ports of Famagusta and Kyrenia, which enjoy an intense traffic, as well as the Port of Gemikonağı, in the framework of the Privatization Master Plan should be analyzed.

4.4. The Energy Sector Should Restructured, the Service Quality Should Be Increased and the Efficiency of Prices Should Be Ensured

4.4.1. The Sector Should Be Divided, Whereby Privatization Works Should Be Conducted

The activities of KIB-TEK regarding the production, the transmission and the distribution of electricity should be separated under different companies. After this is carried out, the partial privatization of KIB-TEK should be implemented. Considering the scale and properties of the electricity system in the TRNC, it would be more adequate that the transmission of electricity remains at the hand of the state (KIB-TEK) and privatization should be considered for the electricity distribution services.

The electricity distribution services in the TRNC should be divided in three regions (Nicosia, Kyrenia and Famagusta) and handed over to the private sector for a certain period of time through a competitive tender. In the meantime, the current legislation should be reinforced to prevent companies harming consumers.

Following the privatization of electricity distribution services, the public sector should also launch works to privatize the power plants under its control. In the structure of the market that will be created, neither KIB-TEK, nor AKSA and other producers that may enter the market would not be allowed to reflect investment costs to the consumer. The producers will pay KIB-TEK, the owner of the transmission system, a transmission fee. For their part, distributors of electricity will set the sale price to the final costumer, by adding a reasonable profit margin fixed by a high authority (the Energy Department, which is planned to be established, shall be an appropriate body) to the price of the electricity they receive from KIB-TEK or other producers.

When the market structure is established, the balance-sheets of the electricity distribution companies will be audited by a legally authorized body (an “Electrical Affairs Unit” that could be created under the Energy Department shall be an appropriate body to perform this

task) or by certified public accounting companies authorized by this body. The investment demands of these distribution companies will also be subject to the approval of the relevant authority. Thus, the tariffs of distribution companies will be set in such way to allow for the recovery of costs at a sensible time period, but an excessive profit at the expense of consumer welfare will not be allowed.

The “Electrical Affairs Unit” that is proposed to be established should be in charge of giving licenses for activities regarding both the production and the distribution of electricity, and the law needs to stipulate that license is required for the trade in electricity market. The unit could also regulate matters such as wholesale trade, independent consumers or the maximum margin of gross profit depending on the developments in the market.

4.4.2. Tariffs Should Be Merged

In the current situation consumers using a tariff are defined in 10 different ways and, apart from differences on phases and grid zones, there are a total of 18 different tariff components. This complex tariff calculation which makes the management much more difficult should be simplified. In that context, the system used in Malta could be adequate for the TRNC. In Malta, although the tariff has branches, it is first divided in two main components (residential and non-residential), then further divided according to intervals of consumption time. In TRNC, the adoption of a triple time zone tariff and investing in ensuing technical infrastructure (change of electrometers) beginning from large consumers, should be started.

4.4.3. Collection of Dues and Subvention Policies Should Be More Efficient

In the framework of the debt restructuring of tourism facilities or farmers who are unable to pay their debts, part of the directly granted assistance and incentive loans in the tourism and agricultural sectors should be considered being used in the payment of the electricity debts (by either making the use of a certain percentage of direct incentives in the payment of electricity debts mandatory or the adoption of the direct settlement method).

The government should not use cutting down the electricity price applied to a particular group as a method to subsidize a certain sector and/or producer/consumer group. A similar approach to the one adopted in the article 13, paragraph “c”, of the Law No. 4628 on the Electricity Market in Turkey might be considered for the TRNC. Indeed, the government gave an incentive in 2011 for industrial consumers who make their payments regularly. This support, which was added in the budget as a separate item, should also involve other consumer groups.

4.4.4. Comprehensive Measures That Vary Before and After the Privatization Should Be Adopted to Render KIB-TEK More Efficient

1) To ensure that KIB-TEK can afford the financial burden consisting of the pensions paid to the retired staff, it will be appropriate to separate the monthly pensions from either KIB-TEK’s budget or the budget of the new institution that will replace it. The question should be considered in the ambit of the general social security policies in the TRNC and steps to fix this situation (i.e. merge with the social security) that would become a larger problem with the

increase of the number of retirements from KIB-TEK, should be undertaken without any delay.

2) Although, many consider KIB-TEK to cause an idle workforce due to excess employment, this observation should be based on a detailed study of norm cadre.

3) The benefits and perks of the KIB-TEK staff, which are considerably higher compared to other public institutions, should be gradually cut down.

4) Among the main measures to make public institutions honor their electricity bill is both to make realistic budgets that allocate enough funds for electricity consumption and the strengthening of the principle of “joint liability”, especially for the authorized payment officers in public institutions which prefer to withhold payments despite being budgetted. The government should prove its determination on the joint liability that will appear in the event of the non-payment of due debts.

5) Measures to collect KIB-TEK’s debts from public institutions should be regularly continued until the electricity distribution privatizations are carried out. A program to collect overdue debts that will include in the first place state departments, municipalities and organizations consuming large volumes of electricity should be prepared. The same approach should be adopted for private companies whose electricity has been cut for having failed to pay the bills, putting an end to political interventions on this issue.

6) The annual auditing of KIB-TEK and successor of KIB-TEK by independent auditors is important in terms of financial management. A legal change should, if necessary, be made in this regard.

7) KIB-TEK should be ensured to prepare an updated and realistic balance sheet and income table regularly.

8) To prevent that appointments made to KIB-TEK’s Executive Board become a subject of dispute, the standards regarding the appointments to the Executive Board should be changed. The regulations in the 2nd paragraph of the article 15 of the draft law on the Turkish Cypriot Electricity Institution (Separation and Organization) can serve as a model in this regard. The aforementioned regulations should be revised to improve standards and make them clearer (for example requiring that all members are university graduates, have at least five years of experience in the sector, etc.).

9) There is a strong perception that KIB-TEK has a lack of standard criteria for internal promotions and appointments, attested by commonplace political interventions. An exam system should be considered for administrative positions within KIB-TEK such as vice director or department director, to eliminate this perception and, if necessary, this requirement should be put into the law.

10) A standard method should be developed in tariff adjustments regarding the price of electricity until the completion of privatizations (a fixed distribution of weight between tariff groups) and a tariffing methodology based on regularly updated costs should be defined.

4.4.5. Policies and Practices Aiming for Security of Supply, Energy Efficiency and the Support of Renewable Energies Should Be Developed

1) The national storage capacity on oil products should be increased. The new storage project, whose assessment is still ongoing, should be implemented without delay and if it is not found feasible, new projects should be undertaken.

2) The increase of the average electricity production cost (even in the event that fuel prices stagnate) seems inevitable in the short and medium term. Under these circumstances, electricity from Turkey, by a submarine cable that will be laid across the sea becomes a convenient alternative in terms of both cost and supply and system security. It is important to continuing works on this alternative in the framework of the close cooperation between both governments.

3) The SCADA system project regarding the electrical system, which has been completed in 12 centers but has yet to be installed in the remaining 12, should be finalized. The first experimental results of the transformation project that consisted on the change of some 15 percent of all the electrometers in the system (around 137,000) should be examined and subject to a cost-benefit analysis. All electrometers should be changed if, as a result of this analysis, it is seen that the expected net benefits did materialize.

4) In order to carry out a more thorough evaluation of the wind potential in the TRNC, wind monitoring stations should be built in pre-selected areas and measuring activities begin, while simultaneously launching works to generate the necessary basic information. Accordingly, the country should be divided in grids of a certain resolution and data for each grid point should be produced using meteorological models, to produce potential distribution maps (a wind energy potential atlas). The areas suitable for investment should be determined by integrating the potential distribution maps with the maps elaborated with geographical information systems. After all these works have been completed, launching prefeasibility analysis studies in adequate areas will contribute to the quick and healthy development of wind energy in the island.

5) The production of energy from biomasses and landfill gases should also be evaluated. The option of collecting these organic materials in agricultural areas, where both compost and animal waste are abundant should be analyzed and the size of the potential and how much it can be used for electricity production should be assessed. Similarly, the possibility of using municipal waste and sewage sludge for producing energy that could be obtained from those sources should also be calculated.

6) As a country where air conditioning is widespread, using solar energy for cooling buildings, especially those with a large surface and that serve a single purpose (i.e. factories, service buildings, commercial buildings, public institutions, etc.) should be considered.

7) A separate “Energy Efficiency Action Plan” regarding the use of energy, especially electricity in the TRNC should be prepared and conducted through the coordination of a committee that would include all ministries and organizations.

8) It is assessed that air conditioners and electrical heaters have an important share of the total electricity consumption in the TRNC. However, it remains unknown how many of those belong to class A and higher energy rating and how many have a relatively lower quality. The launch of a campaign to change low quality air conditioners and electrical heaters with the support of the government could ensure important energy savings. The nature of the support mechanism should be determined by the government.

9) The calculation of the total energy used by the buildings for heating and cooling and the estimation of their ideal energy need will also help to determine the requirements regarding architectural standards of the buildings that will be built in the future. The Regulation on the Energy Performance in Buildings, which entered into force in Turkey in 2009, contains regulations that can serve as a model for that purpose.

4.5. Institutional Organization and Policies in Agriculture Should Be Reviewed Considering the Opportunities Provided by the Northern Cyprus Water Supply Project

Some 75 million m³ of water that will be transferred at a fixed flow rate from the Alaköprü reservoir, which will be built on the Anamur-Dragon stream in Antalya-Turkey shall be allocated to the TRNC with the Northern Cyprus Water Supply Project. A total of 37,76 million m³ (50,3 percent) of the water that will be allocated to the TRNC via the 106 kilometers-long pipeline has been reserved for drinking and tap water, while the remaining 37,24 m³ will be used for irrigation. Due to its insularity and limited natural resources, the TRNC's development will highly benefit from the transportation of drinking, tap and irrigation water from Turkey.

High income increases are expected through irrigating farming that will be made in 4,824 hectares of the Meserya plain, which is one of the biggest plains of the island but so far has not been productively cultivated due to drought.

1) In this framework, in order to implement the opportunities provided by the Northern Cyprus Water Supply Project, government should start preparing a **middle-long term agricultural development programme** that would bring forward the opportunities of cultivating plants with a competitive and comparative advantage for exports and that also takes into considerations the EU regulations regarding agriculture, rural development, food security, livestock and plant health. To efficiently implement this program, following recommendations regarding the institutional organization within the ministry could be useful.

2) **A Budgeting and Payment Unit should be established.** A budgeting and payment unit that monitors of the rural development program supports, agricultural supports such as the Direct Income Support, Agricultural Insurance Fund payments, export incentives and is backed by the agricultural information systems, (which will also help the monitoring of expenditures,) would ensure a better management of the budget allocated for agriculture. It would be more appropriate to wait until the membership to the EU before establishing a Payments Agency, such as the one that exists in the EU system. Therefore, we would

recommend instead the establishment of a **Budgeting and Payment Unit** that aims to assess the resources allocated for agriculture, in coordination and collaboration with Ministry of Finance.

This unit will handle the budget preparation, coordination and reporting procedures in harmony with prevailing budgeting rules and also operate as a strategy department that would undertake policy-making and monitoring functions of the whole Ministry.

3) **The Geology and Mining Department should be attached to the Ministry of Economy and Energy.** The assessment regarding the departments of the ministry leads to a number of important conclusions. One of the most fundamental changes relates to the Geology and Mining Department. The department in question has been recently working on the search of oil deposits and drilling activities, the search and protection of water resources as well as the drafting of the Oil Law. This situation shows that the department will tend to work more on energy issues in the near future. It is also understood that some of the department's tasks overlap with those of the Water Affairs Department. In this context, we consider that the transfer of the **Geology and Mining Department to the Ministry of Economy and Energy** would be more adequate. The Ministry of Economy and Energy has currently no department working on energy issues or on energy resources, which reinforce this proposal. The collusion of competences of this department with the Environment Protection and Water Affairs Departments should also be eliminated within the new organization.

4) **The tasks of the Livestock Department relating to production should be merged with the tasks of the Agricultural Department that also relates to production** to establish an **Agricultural Production Development Department**, based on the functional assessments made in the vertical analysis report. All the tasks of the Agricultural Department regarding plant health should be separated and transferred to new department under the name of **Plant Health and Food Security Department**.

The establishment of an **Organic Production Unit** that would be in charge of giving licenses for organic production, monitoring and policy development, will also play an important role in terms of coordination. Methods such as good agricultural practices, which could be commercially important to broaden, could also be dealt and regulated by the same department. While this department might include all the units that are currently under the Livestock Department, we would recommend that the units under the Agricultural Department are reviewed and separated into an irrigation and soil protection unit, an agricultural mechanization unit, a plant feeding and productivity unit and a farm, industry and yard-garden plants unit.

5) **The Veterinary Department** will have important tasks in the framework of the harmonization with the EU legislation. We recommend that functions regarding the monitoring of food production and food products as well as the food reference laboratory, slated to be set up, are transferred to the **Plant Health and Food Security Department**. This would allow the Veterinary Department to give priority to veterinary services. The

prospective department could establish a working committee on matters that require a collective action or monitoring (for instance, ensuring the monitoring of the food chain from the farm to the kitchen in terms of food security is a question that requires the attention of all departments) and, at the same time, ensure coordination through a common agricultural information system that would be set up within the ministry. The registry of animals and livestock farms will remain in this department. New laws that are expected to be enacted, such as the Animal Registry Law, the Animal Health and Wellbeing Law, the Law on Veterinary Medical Drugs and the Law on Veterinary Services, may require the addition of a new unit regarding the registration of the veterinary drugs and a structure focused on the wellbeing of animals. On the other hand, the enactment of so many laws would also mean the loss of the flexibility in the functions of the departments. In this sense, alternative would be to adopt a law with a general framework and establish the infrastructure through statutory rules and circulars. Due to the lack of Veterinary Border Control, legislation and investment in that regard may also be needed. The monitoring, control and regulation of all activities in abattoirs are carried out by municipalities. In terms of food security, it would be more appropriate that those tasks are performed in the coordination of the Veterinary Department. The department should also deal with fodder ratios and fodder security, which will allow it to fully assume all the functions in this area.

6) Functions of the **Agricultural Research Institute and State Farms Department could well be treated together and coordination ensured for testing and implementing research results.** A **Research and State Farms Department** should be established for that purpose. In this context, problems arising from the lack of qualified staff could be overcome with the expert staff of both units working collectively. Such change will also enable companies with revolving funds to make more contributions. The functions of both departments should also be revised within the abovementioned framework.

Turning Public Economic Enterprises, attached to the ministry, into a “market maker” institution (to stabilize product prices and protect consumer welfare) before the EU harmonization process sets in, instead of expensive subsidization schemes. While the payments of the General Agricultural Insurance are assumed by the Budgeting and Payment Unit, we recommend that the structure of the Insurance Fund is changed to involve the private sector and practices also change to involve the contributions of producers, thereby giving it a similar shape to the current practice of agricultural insurance in Turkey. The Fund could be changed into an insurance pool, like in Turkey.

4.6. Demilitarization and Efficiency Should be Increased in Security and Civil Defense Services

4.6.1. Police’s Workload Should Be Reduced Through Transfer of Competencies and Privatizations and Services Should Be Speeded Up

One of the examples that show the inefficiency of services is the criminal record document. To get this document Turkish Cypriot citizens need to go personally and apply to the General

Directorate of the Police. The same is also valid for immigration procedures, which are only carried out at the General Directorate of the Police. Regarding both matters, competencies should be transferred to the staff at the district police departments and sub-district police stations.

Vehicle inspections should be privatized and police should not have any tasks in this regard. The Administrative Police and Immigration Unit should be attached to the Ministry of Interior Affairs and the Judicial Police to the Office of the Public Prosecutor.

Summons should not be delivered by the police unless there is a necessity and should first be posted by mail.

The license procedures dealt by district governorships should be handed over to municipalities.

Tasks belonging to the General Directorate of the Police but that could be carried out in the market (such as sewing workshop, vehicle maintenance and repair, fuel supply, etc.) should be privatized.

Free public service hotlines should be merged in a single number that would include the Security Forces Command, Customs, Emergencies and civil defense.

4.6.2. A Private Security System Should Be Adopted

The Law on Private Security, preparations of which are ongoing, should be enacted and the private sector, especially universities and tourism facilities, should be given incentives to employ private security services. Provisions that would involve additional work load for the public (for instance, procuring trainings from the General Directorate of the Police) should be avoided.

The purpose and tasks of the “alarm center”, currently managed by the General Directorate of the Police should be evaluated for its indispensability and the institution should be privatized if it is considered not having any critical public service function.

4.6. 3. Part of the Current Functions of the Civil Defense Department Should Be Transferred and the Organization Downsized

Some of the tasks in relation to natural disasters are regulated by Statutory Rules on Civil Defense Supply and Measures although they are not included in the Law on Civil Defense; on the other hand a number of tasks are carried out without a legal basis. In this framework, it would be more adequate transferring all tasks regarding to the intervention to traffic accidents to the General Directorate of the Police and tasks relative to the intervention to forest fires to the relevant ministry and/or firefighter department; while tasks that concern support during epidemics such as bird flu should be handed over to the competent institutions.

In this context, the tasks of the Civil Defense Organization could still be performed with a significantly smaller organization than the current one. In this framework, it would be possible to merge some of the units within the main headquarters, reducing their numbers from nine to four, while also reducing the numbers of Regional Directorates from five to three. With the perspective of the peaceful resolution of the Cyprus issue and the assessment

of the level of threat in the island, the need to build shelters should be reevaluated, whereon the Shelters Law should be readdressed.

4.6.4. Demilitarization Measures Should Be Developed in Parallel with a Permanent and Secure Peace Environment on the Island

Normalization should be part of the reform in the TRNC in parallel with the establishment of an environment of peace and the improvement of the capacity and reputation of public administration. The civil rule should broaden the scope of its competences in such way that it would include the Security Forces Command and the General Directorate of the Police through a certain number of transitional measures that will be determined in this framework.

PART FOUR: IMPLEMENTATION STRATEGY

At the implementation stage of the reform, a special attention is required to three main aspects, whose interaction with each other will be key factor for its success:

- 1- Reform steps, selection of priorities and a holistic viewpoint;
- 2- The institutional set up of the “reform implementation and monitoring” and its relation with the rest of the public administration;
- 3- Endorsement by politicians – leadership, political management (coalition forming, conflict resolution, collective action issues) and the communication dimension of the change programme.

1- SELECTION OF PRIORITIES

The truth laid bare here is that the Turkish Cypriot public administration has an increasingly unsustainable structure that fails to produce services, is incapable of meeting its current expenses, depends on assistance and is a burden to the economy. Without any doubt this picture calls for urgent measures to alleviate state’s burden on the economy and society as a first priority. However, doing so by only limiting expenditures and ensuring fiscal discipline in a narrow sense usually leads to a social reaction and fails to bring permanent successes. Thus, the current institutional-functional review was in order to expand the scope of the reform to include institutional problems.

We have determined the necessary reform steps for public administration and economy, based on horizontal and vertical analytical studies and three surveys made as part of the KKTC-FOKUS project. The sequencing of the reform’s measures should aim to increase the chances of success. Indeed, **the priority goal of the reform should be to build up a strong administrative capacity in the center of the state.** An institutional structure capable of assuming the functions of effective policy-making and coordination, financial management and control/auditing at the center, will eventually be able to gradually broaden the reform to the entire public administration, inform politicians about the requirements for change, advice, ensure coordination and endorsement within the bureaucracy and ultimately direct the change. That is why the “reform unit” needs to be placed close or at the center of the state. The concept of “center of the state” is used to broadly describe institutions assuming the functions of policy-making, coordination and control as indicated above. As such, it includes the Office of the Prime Minister, the Ministries of Finance and Economy, central institutions such as the Central Bank along with the Cabinet of Ministers and similar high level boards and institutions as well as audit institutions such as the Court of Accounts and other regulatory and monitoring institutions. A tradition and capacity of working collectively should be established in conjunction with the increase of the policy-formulation and coordination skills in the aforementioned institutions which constitute the core of the Turkish Cypriot state, not just to bring the reform effort to a successful end, but also for adopting the good administration practices in a sustainable way.

The other priorities in the implementation of the reform are **to obtain those achievements that are relatively easy and fast, visible and prone to have an impact on large segments of the population** (i.e. low hanging fruits). In the context of the TRNC, **visible improvements in public services** are key to ensure the support of public opinion to the overall reform process. Surveys and analysis made as part of the KKTC-FOKUS project show that improvements regarding healthcare, education, justice, energy, social security and the investment climate will bring immediate positive changes to the daily lives of the people. Improvements in public services are also crucial to ensure legitimacy to the reform. In this context, improvements mean: **1- Increasing the access to public services (for example healthcare); 2- Increasing the quality of service (for example education); 3- Reducing the cost of services for the consumers/population (for example justice and energy); 4- Increasing the qualification and reputation of the public administration as well as the public servants.**

As mentioned earlier, the satisfaction regarding public services is very low. The confidence of citizens to public administration is eroded. There is a strong perception of widespread favoritism within the administration. Therefore, under these circumstances, a personnel reform that would increase the qualifications and the reputation of public servants should also be implemented simultaneously along with the reforms aiming to improve the quality of public service.

The public administration reform cannot be permanent without an institutional change and the increase of administrative capacity. It is known that the quality of institutions has a crucial impact on stability.³⁰ Most of the horizontal and vertical studies in this project have shown that there were significant institutional shortcomings in the TRNC. Institutional capacity is, indeed, a multi-dimensional concept, but its most important and indispensable dimension is human skill. Our observation and impression is that capacity will be the most needed input, especially in the framework of such reform process. Also important is the willingness of the bureaucracy to undertake the reform steps. Enhancing willingness will be part of the communication strategy and implementation plan of the reform. But as regards capacity-building, a comprehensive strategy should be developed before even pressing the start button for the reform.

The biggest problem regarding administrative capacity lies in the composition of employment. A large proportion of public employment is either executive in nature or administrative support staff. Instead, a new form of employment, based on specialization and career, needs to be developed, especially at the central administrations of ministries (See section on staff management). In the short term however, needed staff could be hired on a contractual basis, such as in the EU Coordination Center, for the critical and key positions in the public administration dealing with the implementation of the reform. In the sequel of the improvements that will be made in the personnel regime, the system will acquire a structure that will attract qualified staff.

³⁰ "Budget Institutions and Fiscal Performance in Low-Income Countries" Era Dabla-Norris et al., IMF working paper, March 2010

It should be acknowledged that ensuring the improvement of services is often expensive. However, the analysis have shown so far that a great number of improvements can be made by just increasing the productivity and efficiency in the TRNC. There will be, in any event, some measures that would entail an increase in the costs. **Therefore, the cost of reform recommendations should be accurately calculated.** Which reform recommendations can be realized by an improvement in productivity and which ones require an increase in costs, should be calculated from the beginning, the necessary funds should be allocated in the budget and negotiations should be conducted with the Assistance Delegation for that purpose. **The more institutional changes are made, the more permanent achievements can be obtained in the middle-long term.** Reforms often loose momentum after relatively easy achievements due to the loss of motivation of both politicians and the bureaucracy for more difficult (costly and more risky) reform steps. Although no panacea, the reform should be committed by the government and commitment announced to the public from the start and partners-supporters, that could act as a driving force for the reform should be found from within the society.

Another aspect in the prioritization of reform recommendations are the **technical requirements**. Some of the reform steps need to be inevitably undertaken before the others. For instance, the preparation of the official statistics programme, the development of administrative information systems (e-state) and improvements in institutional capacity are inevitably top priority steps. Indeed, it would be difficult to achieve improvements in other reform steps without having implemented those. It should also be reminded that those are steps that imply certain costs, thereby which needs to be taken into account from the very beginning.

2-REFORM MANAGEMENT

An organization is needed to supervise the daily operations regarding the reform, to coordinate all the daily proceedings in different areas of reform, to monitor and assess the process and, if necessary, advice ministers and executives on the matter, or in another word assumes the role of “secretariat” of the reform. This organization should have the capacity and skill to work not only with the whole public administration, but also with NGOs, businesses and, when necessary, with international organizations.

When we look at the countries which have passed through a process of such a change, we notice these kind of organizations in almost every country. Although there are some differences regarding how those organizations are established (department, ministry, etc.) and operate, the functions they assume mostly overlap. While some countries have given the task of managing the reform to a ministry with a sectoral responsibility (such as the Ministry of Interior or the Ministry of Justice, others have instead opted for the Office of the Prime Minister or ministries carrying out functions that are common to many ministries (such as the Ministry of Finance or the Ministry of Economy). According to the experiences of those countries and studies made, the management of the reform becomes secondary when it is given to ministries with a sectoral responsibility and neither the necessary resources nor the

necessary time are devoted. By contrast, when it is given to the Office of the Prime Minister, the Ministry of Finance or the Ministry of Economy the endorsement of the reform and the effectiveness of reform steps increase. Another alternative that we recommend is the nomination of a Deputy Prime Minister who would only be in charge of the reform's implementation. Creating such a position will also give a strong message to the Cabinet of Ministers and to the public on the significance attributed to the reform.

One of the examples that would help to explain this situation, which has also been confirmed by the annual assessments report prepared by the OECD Sigma and that contain opinions and recommendations regarding the reform management capacity of candidate countries aspiring for a membership to the EU in the medium or long term, is the Integrated Planning System Coordination Group and the Prime Ministry's Strategy and Donor Coordination Department established in Albania, the latter assuming the secretariat function of the former. The country decided in 2005 to adopt the Integrated Planning System to lay a rational foundation that would enable to harmonize political priorities with financial planning, while ensuring consistency and synchronization between the National Development Strategy, the Medium Term Budget Program, the Annual Activity Plan of the government and the EU Harmonization Strategy by virtue of a large framework that would include all these processes. In order to efficiently implement this system, which has also received a significantly positive assessment from the OECD, an Integrated Planning System Coordination Group chaired by the Deputy Prime Minister and that includes the ministry undersecretaries in charge of finance, economy, EU integration as well as the head of the Strategy and Donor Coordination Department within the Office of the Prime Ministry was established. The Strategy and Donor Coordination Department was tasked to carry out all the necessary technical preparations to ensure that the Coordination Group meetings are result-focused and productive and to advice the Group's members on political and strategic priorities.

A similar reform management organization to the one in Albania was put in place in Latvia at the end of 2011. In need to continue its administrative and financial reforms in spite of having obtained the EU membership in 2004, Latvia established an Inter-ministerial Coordination Center directly attached to the Office of the Prime Minister. Tasks assigned to the Center broadly were the following: i) determining medium-long term reform strategies; ii) preparing a National Development Plan in line with the EU's Structural Funds Program and iii) carrying out an efficient coordination to ensure that the activities of the ministries are in accordance with the National Development Plan as well as the medium and long term reform strategies. The Center was also responsible of advising the Prime Minister and the Cabinet of Ministers on decisions regarding the development plan and reform strategies and informing deputies at the Parliament at regular intervals.

Another country whose administrative capacity in reform management was positively regarded is Slovakia. A Reform Implementation Unit in charge of the implementation and follow up of the results of "institutional and functional analysis" was established and attached to the Deputy Prime Minister. Roles and responsibilities entrusted to this unit, consisting of the members of the workgroup that carried out the institutional and functional analysis study, show similarities with the examples of Albania and Latvia and can be summed up in three

points: i) the preparation and prioritization of concrete reform steps; ii) assistance to ministries to implement the reform priorities and iii) regular follow up and assessment of the progress.

In light of all these examples and taking into considerations all the existing institutions in the TRNC, we conclude that the most adequate institution that would be able to fulfill the function of reform management is the EU Coordination Center (ABKM) attached to the Office of the Prime Minister. As stated in the analysis report entitled “Policy-Making and Coordination”, the ABKM is an institution considered as successful in overall and has a system that functions well. Established by a Cabinet decree in June 2003, the duties and responsibilities of the institutions were twice revised and expanded in 2006 and 2008 by the Cabinet pursuant to the course of relations with the EU. As of 2012, the ABKM includes a total of 14 staff employees, all with at least a master’s degree. The main task of the institution is to bring the Turkish Cypriot legislation and administrative organization closer to the EU acquis, or in short, to carry out the EU harmonization agenda. In addition to this, the ABKM also organizes information campaigns and training activities within the public administrations, advises the President and Prime Minister on the political and technical dimension of the EU relations, regularly informs political parties represented in the Parliament about EU harmonization works and carries out the necessary initiatives for ensuring that the financial assistance program conducted by the EU Program Support Office focuses on the priorities of Turkish Cypriots, while also performing the monitoring task. ABKM is also functioning as interlocutor for the World Bank’s and UNDP’s activities in Northern Cyprus and ensuring the necessary coordination between different institutions.

EU harmonization works, being considered as the main task of the ABKM, are based on the Program for Alignment with the EU Acquis (MUP), which is a medium term planning tool, and assumed by a number of committees and workgroups established by ministries who are responsible in the first degree for preparing, implementing and monitoring the MUP in the relevant sectors (acquis chapters). The committees established at three levels (technical, executive and political – executive) and coordinated by the ABKM are entrusted with the following main tasks:

Workgroups (technical level): Workgroups comprise technical staff, working in ministries and affiliated departments and chaired by the ABKM. They are responsible of preparing the draft harmonization strategies for the acquis chapters that belong to the area of competence of the ministries they represent and of implementing the priorities set in those strategies.

Sub Committees (executive level): Sub Committees, which regularly receive reports from workgroups, consist of the upper management of ministries and are chaired by the undersecretary. Acting as a bridge between workgroups and the political level, Sub Committees are responsible of guiding the workgroups. The ABKM carries out the secretariat tasks of the Sub Committees and advises the undersecretary.

Monitoring and Guidance Committee (political – executive level): The Monitoring and Guidance Committee, which is chaired by the Economy and Energy Minister and includes representatives from the Office of the Prime Minister, the State Planning Organization, the

Ministry of Finance, the Ministry of Foreign Affairs and the ABKM, is the decision-making body of harmonization works. It adopts the draft harmonization strategies and submits them to the Cabinet of Ministers for final approval. This procedure also ensures political endorsement. In addition to that, the Monitoring and Guidance Committee monitors the implementation of strategies, intervenes to problems that couldn't be solved at the technical level and informs the Cabinet of Ministers regarding the draft laws and administrative regulations that have been prepared. The meetings of the Monitoring and Guidance Committee with sub committees and information notes as well as other technical documents needed for informing the Cabinet of Ministers are prepared by the ABKM with the consultation of the Economy Minister.

Although the committees and workgroups that have been established seem to involve more layers than needed, this structure has ensured the institutionalization of the process (such as strategy documents, monitoring instruments, regular meetings) and the clarification of duties and responsibilities whereby, thanks to the AKBM's efficient coordination, harmonization works have been transparent, participative, accountable and endorsed at all levels. Joint follow up meetings with the EU, held twice every year, are also playing a key role in keeping the system functioning effectively.

To implement the reform recommendations, an ad hoc organization similar to those committees and workgroups established in the framework of the EU harmonization process as well as an institution that would ensure the coordination between all those bodies, will be needed. Establishing a new organization when there already an existing one whose success has been tested and is based on the culture of the collective work between different institutions, would not only be a waste of resources in a public sector of such a small scale, but it would also cause duplications between initiatives and lack of coordination. Therefore, the most practical and effective method would be to upgrade ABKM for a larger reform framework. With this change that could be quickly realized by the amendment of the relevant Cabinet decree, the duties of sub committees and workgroups as well as the role and the composition of the Monitoring and Guidance Committee should be reviewed. Providing the AKBM a legal status by a law would be beneficial for the stability and permanence of the reform management. In the middle-long term, this reform management unit can be expected to function merely as the "Policy-Making and Coordination" unit.

3. PUBLIC DEMAND ON REFORM AND PERCEPTIONS REGARDING REFORM PRIORITIES

Problems listed above show clearly that a comprehensive reorganization is needed in the TRNC. One of the main factors in favor of reform is public demand. Surveys made as part of the project show that 42 percent of households, 48 percent of public servants and 39 percent of companies consider that "the functioning of the state needs to change entirely". (Table 7)

Table 7 Reform Level from the Eyes of Households, Public Servants and Businesspeople

Reform Level	HOUSEHOLDS	PUBLIC SERVANTS	BUSINESS PEOPLE
The functioning of the state needs to change entirely.	42	47,7	39
Comprehensive regulations are needed	26,4	31,1	29,2
A partial reorganization is sufficient, no need for a large change	11,8	7,3	11,3
Can continue as such	19,8	13,8	20,4

During the survey, all respondents who regarding organizing reforms answered that a change was needed (entirely, comprehensive or partial) were asked what were their priorities about the reorganization of the state. All the target groups (households, public servants, companies) said their first priority was the reorganization of the political system. (Table 8).

Table 8 Priorities Regarding the Reorganization of the State (Given as Top Priority)

	HOUSEHOLDS	PUBLIC SERVANTS	COMPANIES
Reorganization of the political system (For ex: Transfer of the competencies of the President and the Prime Minister to a single President, the change of the electoral system, etc.)	34,8	47,9	43,0
Reorganization of the judiciary and the court system	20,3	23,3	12,1
Reorganization of the competencies of ministries and departments	17,6	20,6	17,5
Reorganization of the public staff system and the review of the hiring, promotion and rights of public servants	16,7	5,1	13,9
Privatization of some public services and public institutions	4,8	2	4,3
Increase of the competences and resources of municipalities	5,9	1,2	9,2
TOTAL	100	100	100

Source: KKTC-FOKUS Surveys 2011-2012

While public servants argued that the main factor for carrying through the reform to a success was the determination of the government to push the reform forward, they have also underscored that politicians should not practice partisanship/discrimination or interfere with the public administration. The FOKUS public servants survey conducted in 2012 used the same questions regarding the success factors of the reform, that were included in the survey made by KADEM for the Public Workers' Labor Union (KAMU-SEN) in 2006, thereby determining some differences of opinion between the current public servants and

public servants six years ago. The statement **“The determination of the government on pushing the reform forward”** was once again considered as the main success factor. Among the 1st, 2nd and 3rd important factors according to respondents, the statement that saw the most significant increase was **“Not practicing partisanship/discrimination; politicians refraining from intervening on the public administration”**. While this statement only checked 1,5 percent in 2006, it rose to 49,3 percent in the FOKUS survey carried out in 2012. (Table 9)

Table 9 Main Factors for Carrying Through the Reform to a Success According to Public Servants (1st, 2nd and 3rd Important Factors)

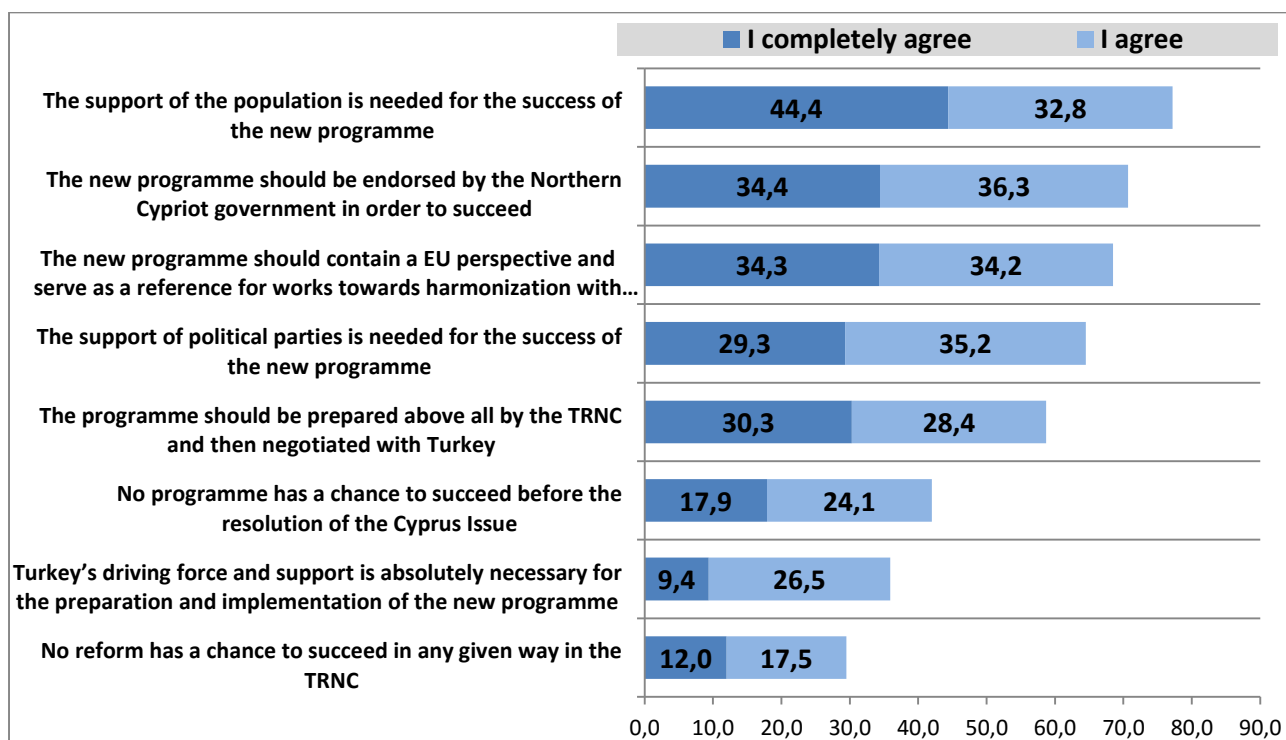
	1 st Factor	2 nd Factor	3 rd Factor	TOTAL	2006 KAMU-SEN Survey
The determination of the government on pushing the reform forward	27,5	7,7	7,5	42,7	53,7
Explaining the details of the reform well and convincing employees	10,8	18,5	8,1	37,4	46,8
Taking into considerations the priorities of those working on the reform	6,8	7,9	14,9	29,5	30,7
The support to the reform by NGOs	6,9	10,3	11,3	28,5	15,4
The support to the reform by other groups than public servants	3,0	6,9	7,3	17,2	8,8
Not practicing partisanship/discrimination; politicians refraining from intervening on the public administration	22,8	13,6	12,9	49,3	1,5
Employees being well-intentioned/supportive while carrying out the requirements of the reform	2,0	7,9	10,7	20,6	0,5
Allowing professionals and technocrats to manage and guide the reform	4,1	11,3	10,8	26,2	0,1
Other	1,0	0,3	0,3	1,6	0,2
No opinion/answer	15,0	-	-	15,0	4,3

Source: KKTC-FOKUS Northern Cyprus Public Servants Survey, February 2012, KAMU-SEN Public Servants Survey, February 2006

As regards a potential public reform for 2013 and beyond, public servants underscore that such programme should be able to receive the support of the population and political parties, be endorsed by the government, be in line with the EU perspective and be prepared above all by the TRNC authorities. The most significant success factor turns out to be the support of the population. Some 67 percent of respondents agree with this

statement. Another interesting finding is the emphasis on the fact that the programme should be prepared above all by the TRNC and then negotiated with Turkey. The difference between this statement, which has received the support of 59 percent of respondents, with the one stating “Turkey’s driving force and support is absolutely necessary for the preparation and implementation of the new programme” is striking. (Table 19)

Figure 19 Opinions of Public Servants on a Potential Reform Programme for 2013 and Beyond



Source: KKTC-FOKUS Northern Cyprus Public Servants Survey, February 2012

4- ENDORSEMENT BY POLITICIANS – LEADERSHIP, POLITICAL MANAGEMENT

Each reform entails political outcomes, and those may not be very clear in the beginning. Politicians hence may revert back from the discourses of reform, change etc. when they actually rise to power. The most significant problem regarding public administration or economic reforms is that while those who are prone to loose from change are usually a specific and easily organized group, the ones who usually benefit are society at large, in other words disorganized citizens. This situation will lead in the beginning to a strong opposition against the efforts of change. Similarly, the private interests that will be eliminated with change may be quite concrete, but the benefits that accrue may not be equally so. This can make more difficult the tasks of those who implement and support the reform. For all those reasons, a strategic approach that would try to eliminate all these problems in the implementation phase of the reform should be adopted. Another problem that makes things more complex in the context of the TRNC is that the bureaucracy responsible of implementing the reform may potentially perceive itself among the losers of the reform. Therefore, one of the most crucial aspects of the reform in the TRNC is its design. The main

elements that we recommend to have in the design of the reform with the help of the findings and our observations from studies, interviews and surveys carried out throughout the KKTC-FOKUS project are summed up below. It was assumed that there would be at this stage a political will determined to implement the reform, which is, of course, a “sine qua non” factor. Analysis or recommendations on the political framework of the reform in the TRNC are beyond the scope of this work. But it is clear that the country needs political reform champions for carrying it through.

- a) The most critical stage for the reform would be to break the mentality observed in the TRNC and that has become a vicious circle. This mentality is based to the hypothesis that the TRNC cannot develop due to its special case – an unsolvable isolation and uncertain political status –, Turkey should, in a sense, have to indemnify Turkish Cypriots by supplying what is needed and that the only employment opportunity is in the public sector and thus Turkey should keep supporting the local budget and high current expenditures. However, it should be properly explained that this is not a destiny and it is possible to make significant improvements in the quality of people’s life and their wellbeing, through better public services, despite the long existing political stalemate. It is clear that this breakthrough will take time.
- b) On the other hand, our impression from surveys and head-to-head interviews presented above is that there is a serious support for the reform. However, we have been reminded by local experts that a number of social groups that we have interviewed might have expected that the costs of the reforms will have been assumed by others. The success of the reform is connected to the fair distribution of the cost of the reform between all segments of the population. As such, it should be explained that there is a balanced distribution of cost between workers, consumers, taxpayers, businesspeople and politicians. If self-abnegation is required, politicians should take the lead.
- c) The reform that will be implemented should by all means be labeled as a home product of the TRNC. Unlike the previous program, this reform should be discussed within the state and in the public and the reasons for the change, the steps of the reform, its potential impacts and the timing should be made clear.
- d) Accordingly the Assistance Delegation should decide on the form and extent (including conditionalities if any) of its support to the program, and disclose from the very beginning the targets and how the program will be jointly monitored; the support should aim the building of the Turkish Cypriot government’s own capacity, instead of micro management by the Assistance Delegation; it should also make clear that, eventually it intends to set up a policy dialogue with TRNC government and switch to program funding (not project financing) as administrative capacity builds up. The Assistance Delegation should also find more effective ways to explain that Turkey’s support of reform efforts has nothing to do with reducing the TRNC’s fiscal burden on Turkey but, on the country, aims at strengthening the Turkish Cypriot state, increasing the sustainable wellbeing of the population, for

which Turkey would do its share of work (even to increase the amount of assistance during this period if necessary).

- e) Therefore, the reform should be based on a communication strategy from the very beginning. This strategy should rely on themes such as hope and try to explain that the reform and changes made in this framework aim for a TRNC empowered with policy-making and implementation capacity and that can stand on its own feet as an independent state. Each communication strategy has a “face” or “faces”. Those should ideally be the executives who will assume the political leadership of the reform and will manage it technically. The public should also be regularly informed during the implementation stage of the reform and open evaluation meetings should be held.
- f) Although such reforms require a certain amount of political leadership, as it involves a radical restructuring of the state and the economy, the ownership of the reform should be as widened as possible. Surveys carried out as part of the KKTC-FOKUS project show that there is a popular and a demand for the reform in the society. This popular support will facilitate efforts for widening ownership. As regards political ownership, it is rather related to consulting the opposition and including it at a certain extent to the design of the reform. This can be ensured both within and outside of the Parliament. For instance, establishing a reform commission that includes the opposition or, as it is recommended in the audit report, a final account committee chaired by an opposition committee would be important in this regard. On the other hand, restructuring and demilitarizing the police and civil defense, accompanied by a constitutional change in the medium - long term, will also be important in terms of public support.
- g) Cooperation and coalitions made with civil society and labor organizations will reduce the costs of political ownership. For instance, partnerships that will be made with the business or setting up joint committees such as investment advisory committees will facilitate the improvement of the investment climate. The most important interest group in this regard are public servants’ unions. Dialogue with the public servants’ unions should be launched from the very beginning. They should be regularly informed about reform activities and a monitoring mechanism that involves unions should be set up.

----- 0-----

ANNEX: Charts Showing the Report's Change Recommendations on the Management Structure of Institutions

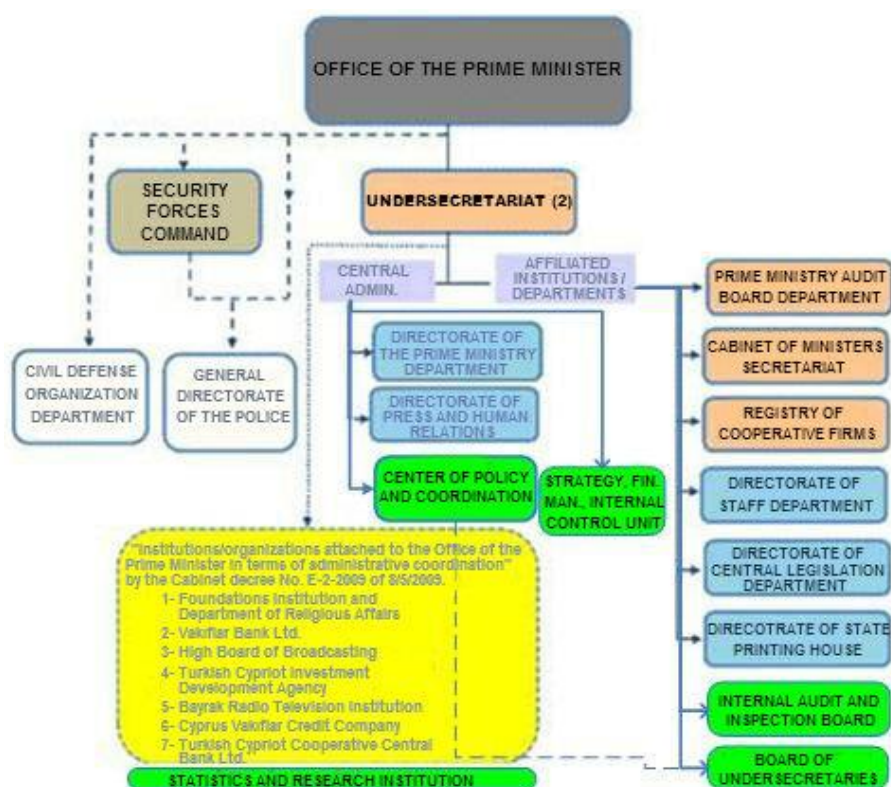
Charts regarding the structural changes in the management of Northern Cypriot institutions are included below. The charts only contain the recommendations made in the present report and were prepared on the basis of departments. For more detailed recommendations, please check our horizontal and vertical reports. The subsections containing the recommendations pictured in the charts are also referred to in brackets.

OFFICE OF THE PRIME MINISTER

Recommendations pictured in the chart

- The establishment of a Center of Policy and Coordination within the central administration of the Office of the Prime Minister (See Reform Recommendation 1.4);
 - ALTERNATIVE: In case that those functions are entrusted to State Planning Organization (DPÖ), attaching the institution to the Office of the Prime Minister;
- Institutionalization of the Board of Undersecretaries and entrusting its secretariat tasks to the Center of Policy and Coordination (See Reform Recommendation 1.7);
- Closing the Directorate of Legal and Political Affairs and adding its functions to the Directorate of the Central Legislation Department (See Reform Recommendation 1.8);
- The establishment of a Statistic and Research Institution with independent functions (See Reform Recommendation 1.8);
- The establishment of a unit which includes strategy-making, financial management and internal control in all ministries (See Reform Recommendation 1.6 and 2.6);
- An Internal Audit an Inspection Board (See Reform Recommendation 2.7.1);
 - ALTERNATIVE: Attaching the Board to the Presidency.

Note: Additions to the current organizational chart are shown in light green boxes.

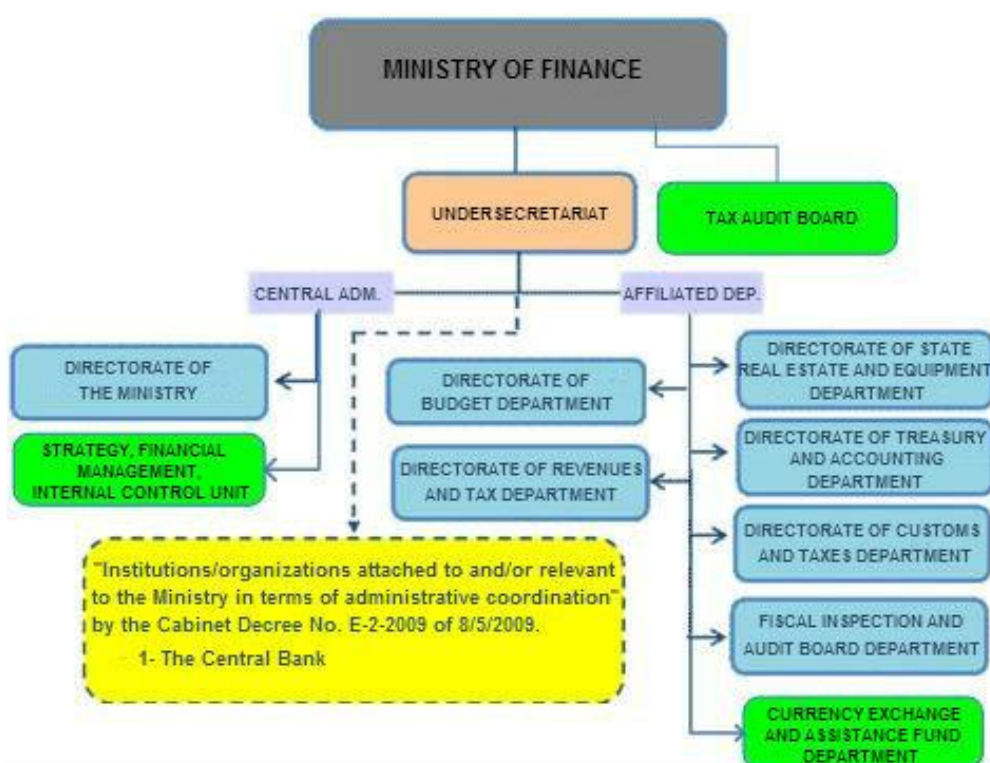


MINISTRY OF FINANCE

Recommendations pictured in the chart

- Attaching the Currency Exchange and Assistance Fund Department to the Ministry of Finance to coordinate the activities of public economic enterprises, may or may not be included within the scope of privatizations (See Reform Recommendation 2.8.2);
- The Establishment of a Tax Audit Board directly attached to the minister (See Reform Recommendation 2.7.4);
- The establishment of a unit which includes strategy-making, financial management and internal control in all ministries (See Reform Recommendation 1.6 and 2.6).

Note: Additions to the current organizational chart are shown in light green boxes.

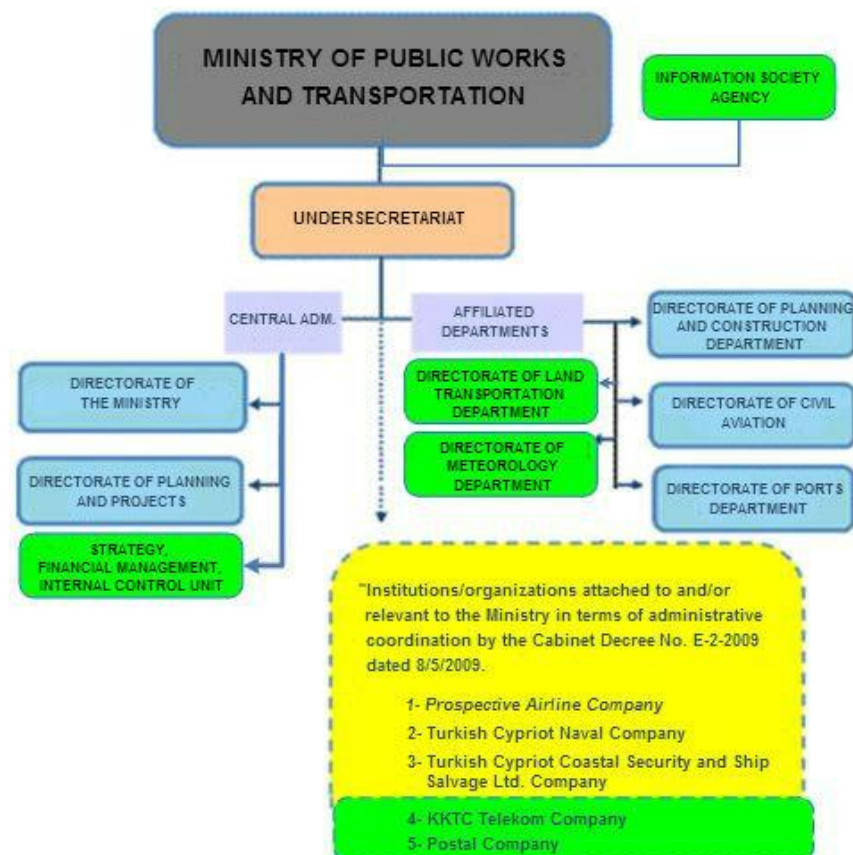


MINISTRY OF PUBLIC WORKS AND TRANSPORTATION

Recommendations pictured in the chart

- Incorporation and privatization of KKTTC Telekom (See Reform Recommendation 4.3.1);
- Transfer of the coordination of e-state and information society applications from the Prime Ministry to the Ministry of Public Works and Transportation, preferably to an Information Society Agency directly attached to the minister (See Reform Recommendation 4.3.2);
- The establishment of a Land Transportation Department within the ministry to vest it with the requisite tools to manage, guide and monitor the sector (See Reform Recommendation 4.3.3);
- The transfer of the Meteorology Department to the Ministry of Agriculture and Natural Resources (See Reform Recommendation 4.3.4);
- Closing the Postal Department to restructure it as a public company (See Reform Recommendation 4.3.5);
 - ALTERNATIVE 1: Closing the Postal Department and assigning the provision of mail services to private companies expected (or hoped) to invest in the sector after it is opened to competition;
 - ALTERNATIVE 2: Partial or complete privatization of the department;
- The establishment of a unit which includes strategy-making, financial management and internal control in all ministries (See Reform Recommendation 1.6 and 2.6).

Note: Additions to the current organizational chart are shown in light green boxes.

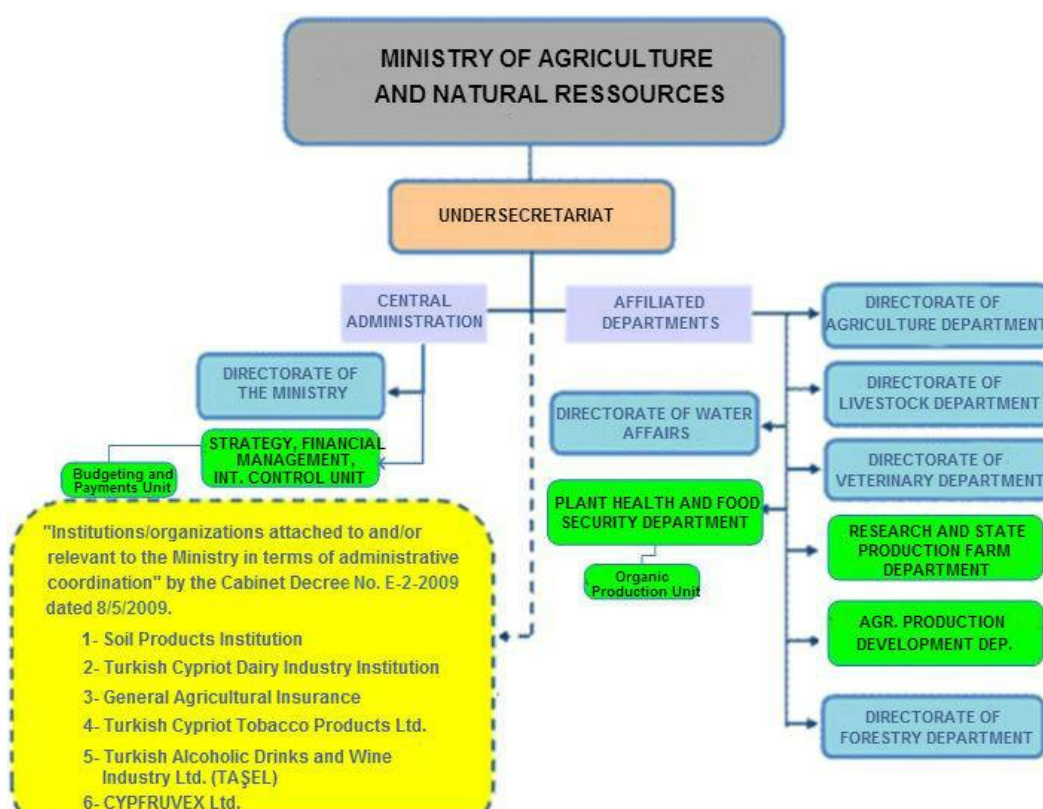


MINISTRY OF AGRICULTURE AND NATURAL RESSOURCES

Recommendations pictured in the chart

- The establishment of a Budgeting and Payments Unit coordinate the use of resources allocated to agriculture and ensure that those are adequately spent (See Reform Recommendation 4.5);
- The tranfer of Geology and Mining Department to the Ministry of Economy and Energy (See Reform Recommendation 4.5);
- The establishment of a Agricultural Production Development Department that will merge the functions turned towards production of both the Livestock Department and the Agriculture Department (See Reform Recommendation 4.5);
- The assign all tasks of the Agriculture Department related to plant health to a new department under the name pf Plant Health and Food Security Department. The establishment of an Organic Production Unit under this department, which would focus on giving authorizations, monitoring and developing policies in the field (See Reform Recommendation 4.5);
- The establishment of a Research and State Production Farm Department that would gather the functions of the Agrşcultural Research Institute and the State Production Farm Department and ensure coordination on research studies and the testing and implementation of research results (See Reform Recommendation 4.5);
- The establishment of a unit which includes strategy-making, financial management and internal control in all ministries (See Reform Recommendation 1.6 and 2.6).

Note: Additions to the current organizational chart are shown in **light green boxes**.

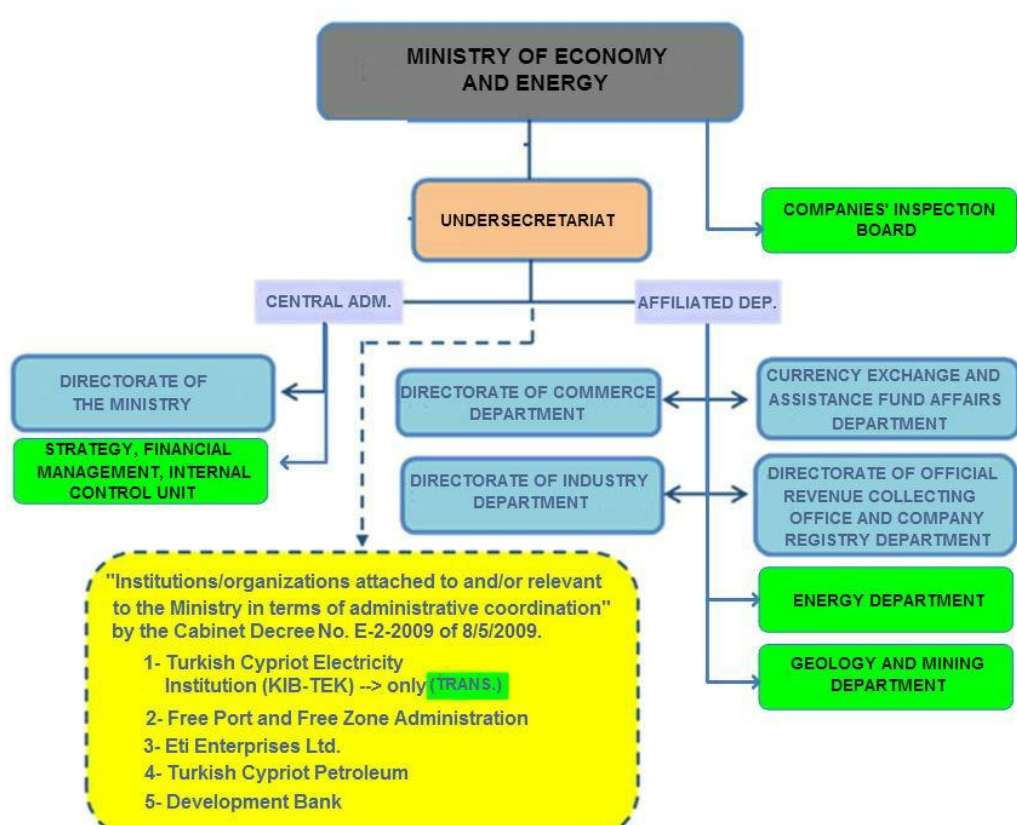


MINISTRY OF ECONOMY AND ENERGY

Recommendations pictured in the chart

- The transfer of the State Planning Organization, which will be restructured and attached to the Office of Prime Ministry in order to carry out policy and coordination functions (See Reform Recommendation 4.1);
- Attaching the Geology and Mining Department (See Reform Recommendation 4.5);
- The establishment of a unit which includes strategy-making, financial management and internal control in all ministries (See Reform Recommendation 1.6 and 2.6);
- The dissociation of KOB-TEK's electricity production, transmission and distribution activities and the privatization of all areas, except transmission (See Reform Recommendation 4.4.1);
- The establishment of a Energy Department as a market authority (See Reform Recommendation 4.4.1);
- The establishment of a Companies' Inspection Board, which would be directly attached to the minister in charge of the economy and be composed of professionals, to assume the inspection of both companies subject to the Law on Companies and cooperative firms.

Note: Additions to the current organizational chart are shown in light green boxes.

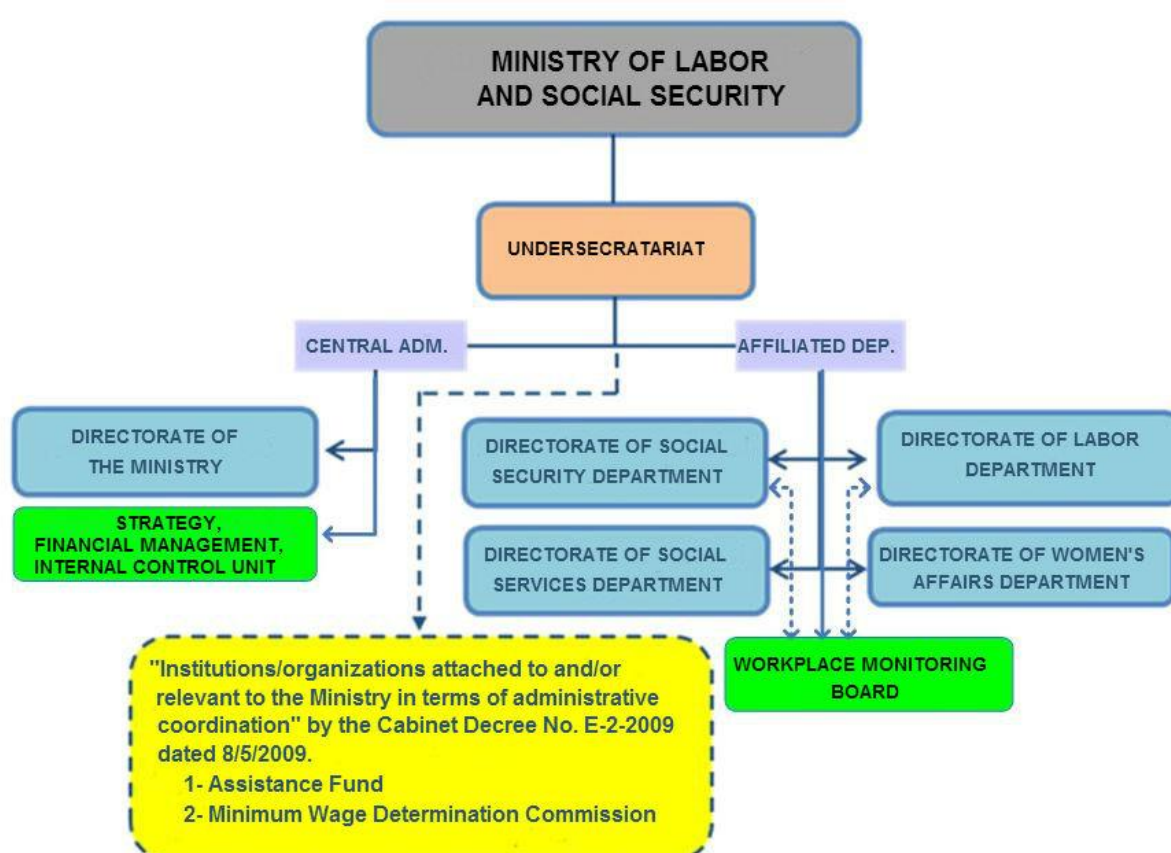


MINISTRY OF LABOR AND SOCIAL SECURITY

Recommendations pictured in the chart

- The establishment of a unit which includes strategy-making, financial management and internal control in all ministries (See Reform Recommendation 1.6 and 2.6);
- The establishment of a Workplace Monitoring Board common to the Social Security Department and the Labor Department in order to ensure an efficient coordination and implementation (See Reform Recommendation 2.7.4).

Note: Additions to the current organizational chart are shown in **light green boxes**. Recommendations at the scale of units have not been translated into the chart.

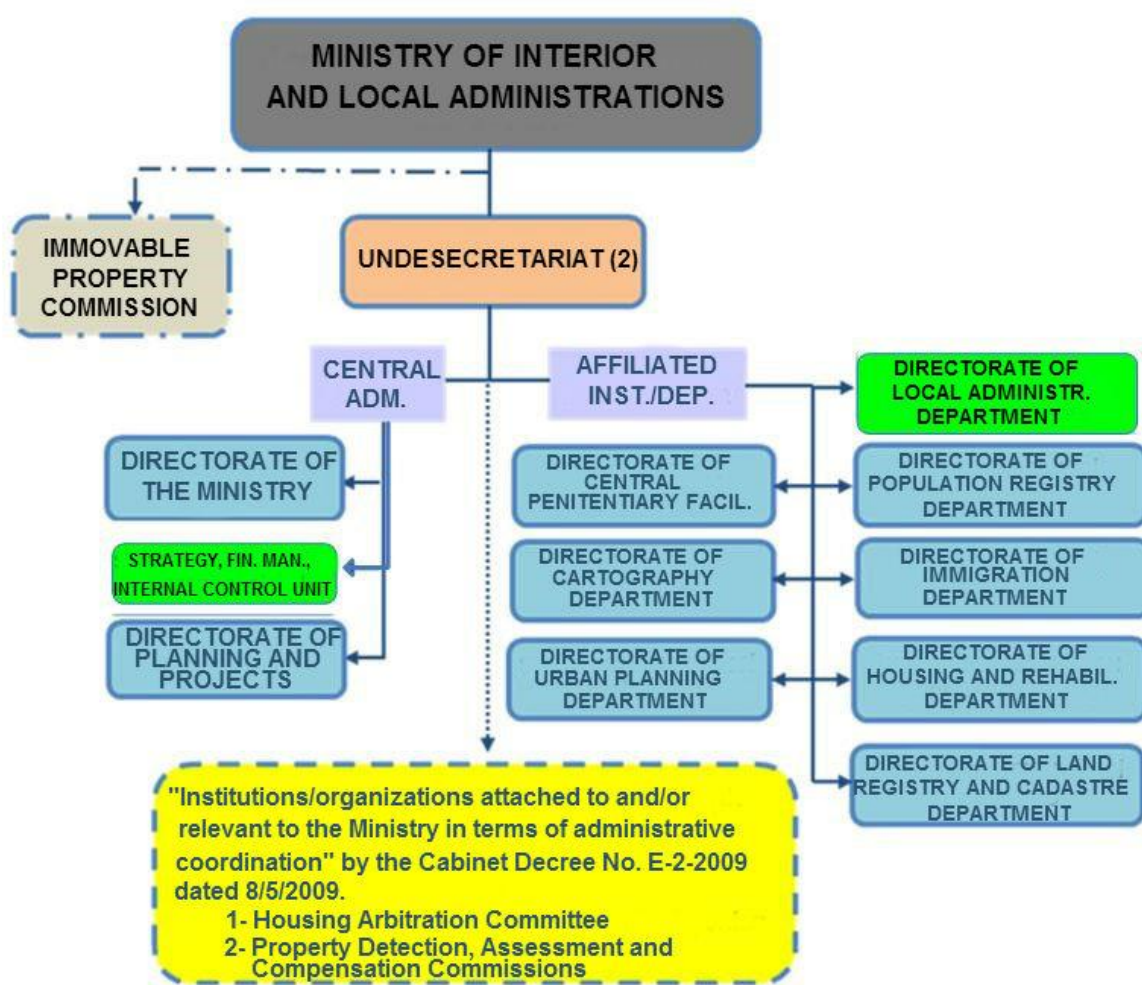



MINISTRY OF INTERIOR AND LOCAL ADMINISTRATIONS

Recommendations pictured in the chart

- The establishment of a unit which includes strategy-making, financial management and internal control in all ministries (See Reform Recommendation 1.6 and 2.6);
- The conversion of the local administration unit within the ministry into a department (See Reform Recommendation 4.1.7);
- The closure of the central and provincial units of district governorships and the transfer of inspectors and other staff to municipalities. The distribution of duties and tasks carried out by district municipalities between departments directly attached to the ministry and municipalities (See Reform Recommendation 2.7.4).

Note: Additions to the current organizational chart are shown in light green boxes.





This report has been prepared in the framework of the “Project on the Functional and Institutional Review of the State in the Turkish Republic of Northern Cyprus (KKTC-FOKUS)”. The project is part of the studies that were included in the “2010-2012 Programme for the Improvement of the Effectiveness of the Public Sector and Competitiveness of the Private Sector”, signed by the Republic of Turkey and the TRNC in 2010. The study was carried out and completed by the Economic Policy Research Foundation of Turkey (TEPAV) between April 2011 and June 2012.