

# BUSINESS SURVEY



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**NI-CO**  
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## Executive Summary

This report is prepared with the objective to take the pulse of the business environment in the TCc and to inform policy and the development of business support initiatives to help address the challenges and take advantage of potential opportunities. For this purpose, a questionnaire was designed together with international and local experts and the fieldwork of the study was implemented during November-December 2022 with 358 companies representing the Turkish Cypriot community business environment. Data from the statistics office and membership data from the three chambers have been used to select the sample size where a sector and company size representation was prioritised. The information about the methodology is detailed in the relevant section.

One important finding of the study has been related to the labour market conditions within the TCc. It is seen that 41,4% of the companies have got at least one open job vacancy. Drastically, 84,2% of the companies looking for skilled labour positions think that their ability to fill these positions in the near future is difficult. A similar concerning data is that 68,1% of companies looking for unskilled positions think that it is difficult to fill these positions as well. The need for new employees for the Construction and manufacturing sectors is seen as the highest.

Another important aspect of the study has been the expectation of the company performances in the next year. 24% of the companies are either at risk of closure, in difficulty or experiencing a level of contraction. This shows us that almost a quarter of all the companies at a difficult situation. We have seen that smaller companies has considerably more pessimistic expectations for the coming year ahead. Almost one third (31,6%) of all respondents which are below 5 employees has given an answer that that they are in difficulty, contracting or at risk of closure.

The study has also shown that there is a significant potential to increase trade through the Green Line<sup>1</sup>. The study has found that 28,6% of the companies have plans to target new customers through the Green Line to the Greek Cypriot community. 37% of the manufacturing businesses and 33,3% of the agriculture, fishing and forestry businesses have shown interest into trade through the Green Line.

When asked about their concern in the coming year, the participants, has given two important answers as (1) *“high inflation and increase of costs”* with 47,8% and (2) *“increase of foreign currencies / currency fluctuations”* with 20,4%. We have seen that both of these two factors source from external factors that are beyond the control of the businesses and policymakers within the Turkish Cypriot community and quite related to the use of Turkish Lira as the currency.

Lastly, the study will introduce more questions in the next waves and repeat the questions already asked in this study to enable a context-bound report that will give the policymakers the opportunity to measure the impacts of several factors on the business owners in the medium term. The full data of this study is presented in the appendices of this report for the study of all interested partners, academics, individuals and policy makers.

For the detailed survey results (per sector and size) see the Appendix at the end of this report.

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<sup>1</sup> Council Regulation 866/2004 ("Green Line Regulation")

# 1. Methodology

The fieldwork of the study was implemented between the period of 11 November – 2 December 2022. Prior to the study, a meeting with all the representatives from the three chamber KTEZO, KTSO and KTTO as well as YAGA and NICO team was held where the questionnaire and the sample frame has been discussed and agreed. 358 companies' directors was interviewed, covering all the regions; Nicosia (Lefkoşa), Famagusta (Mağusa), Kyrenia (Girne), Morphou (Güzelyurt) and Trikomo/İskele. However, during sample selection sector and company size representation was prioritised rather than regionality.

Member lists of Turkish Cypriot Chamber of Commerce (KTTO), Chamber of Industry (KTSO), Chamber of Shopkeepers and Artisans (KTEZO) were used for the sample frame. The sampling frame design has been based on the NACE Economic sectors reported by the Statistics Office<sup>2</sup> per sector, per region and per size. The most significant sample criteria, besides region and sector, has been the size of the enterprises. For this purpose, official records of the statistics office have been taken into consideration where the business census had been reported in detail in various reports.

As for the questionnaire and the content; the business survey questionnaire has been composed of the following themes;

- The Business Profile
- Current Business Conditions
- Expectations around Business Performance in the Next Year
- Business Skills
- Getting People
- Support for Business
- Connectivity

The questionnaire length has been designed to be completed in 15 min. There have been pilot surveys, according to their feedback the content and the translation of the questionnaire have been controlled and finalised. No issues have been faced during the pilot, so after the final approval of the questionnaire the fieldwork has commenced. After the final approval of the fieldwork, a training has been organized by the research coordinators, covering most of the issues related to the project, questionnaire and how to approach the company directors/owners.

Interviewers have been monitored on a daily basis for their progress, together with the quality of the data collected. Different interviewers have been assigned to do interviews with different sectors or establishment lists. 12 interviewers have taken part in the field work and 3 coordinators for the data quality check. 50% of the completed successful surveys randomly have been re-called back and checked.

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<sup>2</sup> <https://stat.gov.ct.tr/TEMEL-%C4%B0STAT%C4%B0ST%C4%B0KLER/%C4%B0%C5%9EYER%C4%B0-%C4%B0STAT%C4%B0ST%C4%B0KLER%C4%B0>

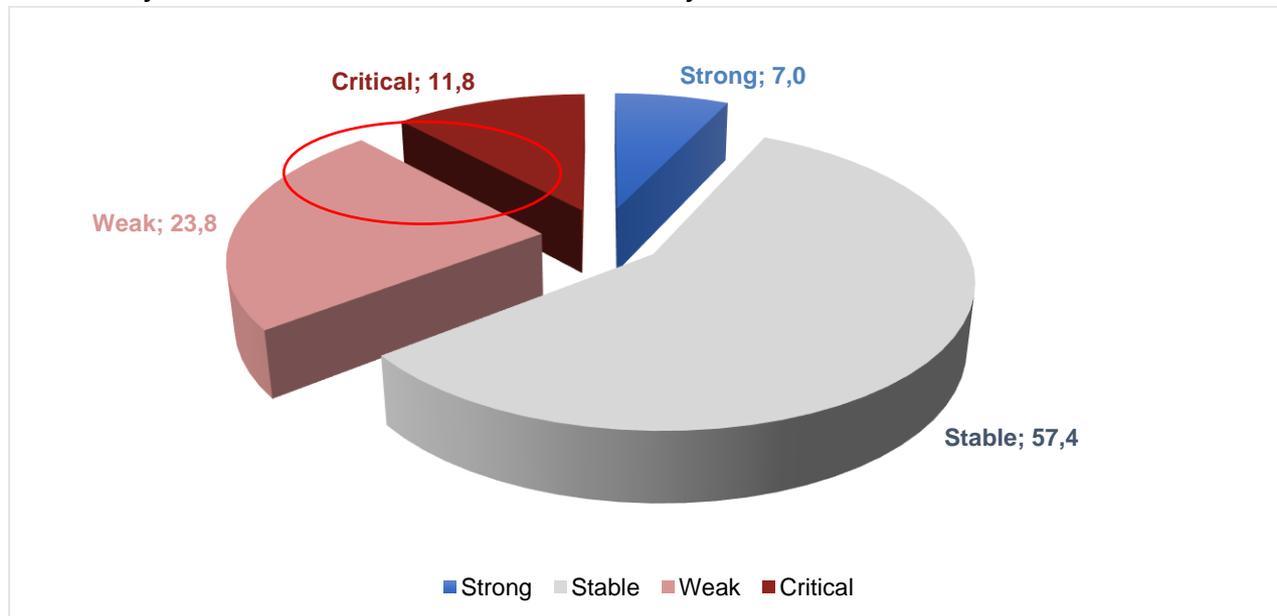
## 2. Main Findings

The questionnaire used for this report has got 5 main topics of which the main findings are grouped under. Each group of questions has a different theme and these questions are analysed based on the sector and number of employees. Some questions are also found to be relevant based on regions. Below, we analyse the major findings where the data is shared in the appendices.

### 2.1. Current Business Conditions

The participant companies were asked to describe their cash flow situation and 23,8% of them answered as “weak” and 11,8% as “critical” (total 35,6%). More than one third of the companies has got a negative description on their current cash flow situation. Only 7% has described their cash flow situation as “strong”.

*How would you describe the current cash flow situation of your business?*

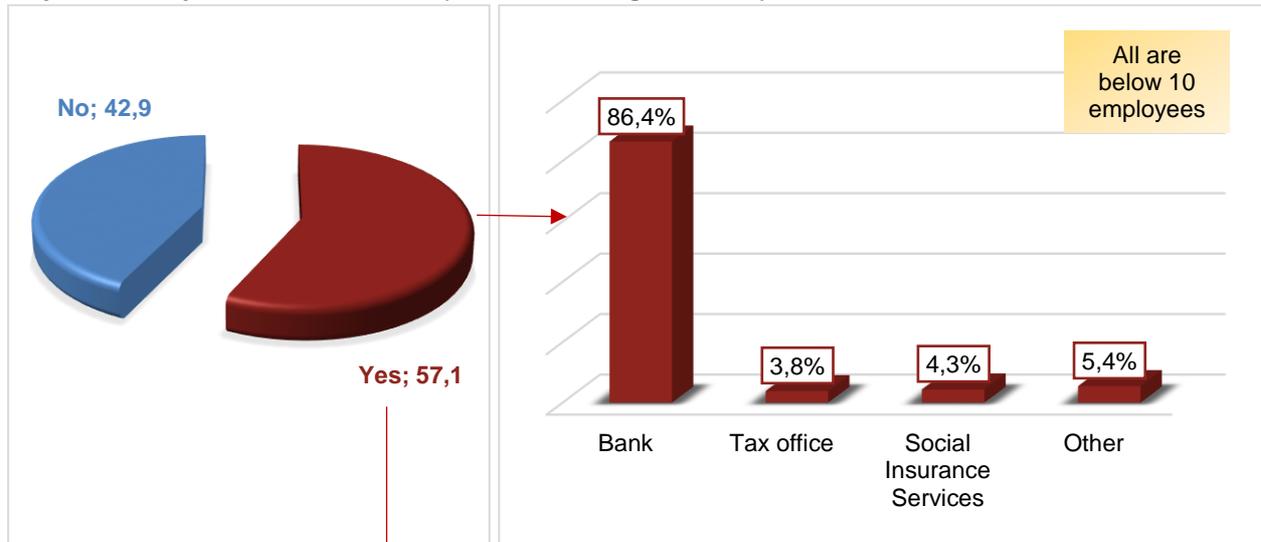


Among the major sectors with the most “strong” and “stable” cash flow income has been the agriculture and construction sectors with both 66,7% of participants defining their current cash flow situation as strong or stable. This is followed by wholesale and retail (64,2%), manufacturing 60,6% and accommodation and food services (55,9%).

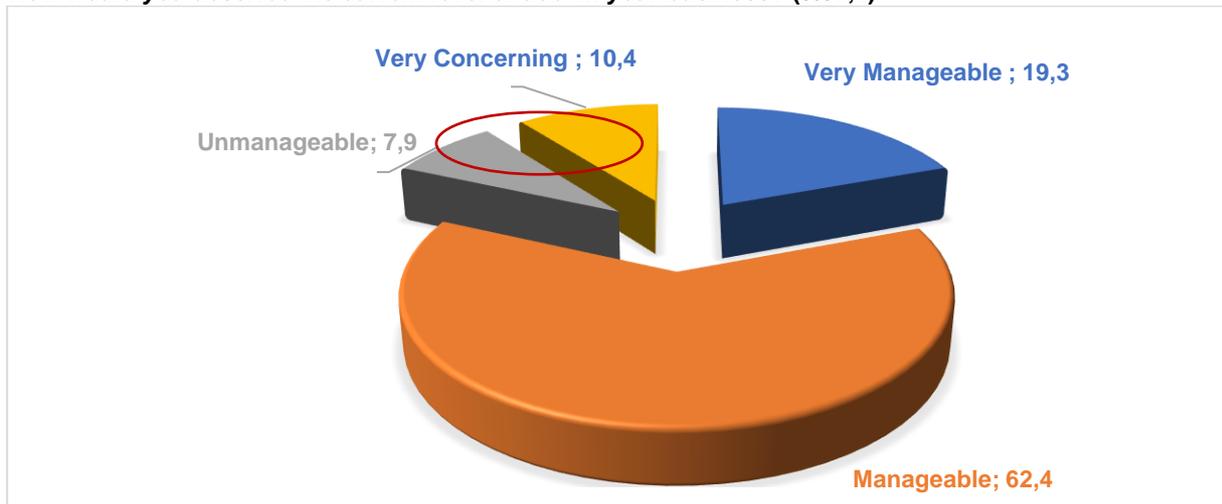
Moreover, when we analyse the current cash flow situation as per company size based on employee number, then we see that the smallest companies has a worse cash flow situation compared to bigger ones. This can be due to that the bigger companies can have multiple sources of income and they can have more access to the benefits of the banking system. So, it’s clear that any disturbance in the cash flow status within the business environment affects the small companies first.

Another set of questions targeted the debt situation of companies. 57,1% of all companies has stated they have got a debt/loan. 72% of bigger companies as per employee size (more than 51 employees) has got a debt/loan, whereas only 53% of 1-5 employee companies has got dept. So, it is seen that the bigger the company size, they more access they have to financial tools such as loans/debts.

**Do you have any business loans/debt (and to which organizations)?**



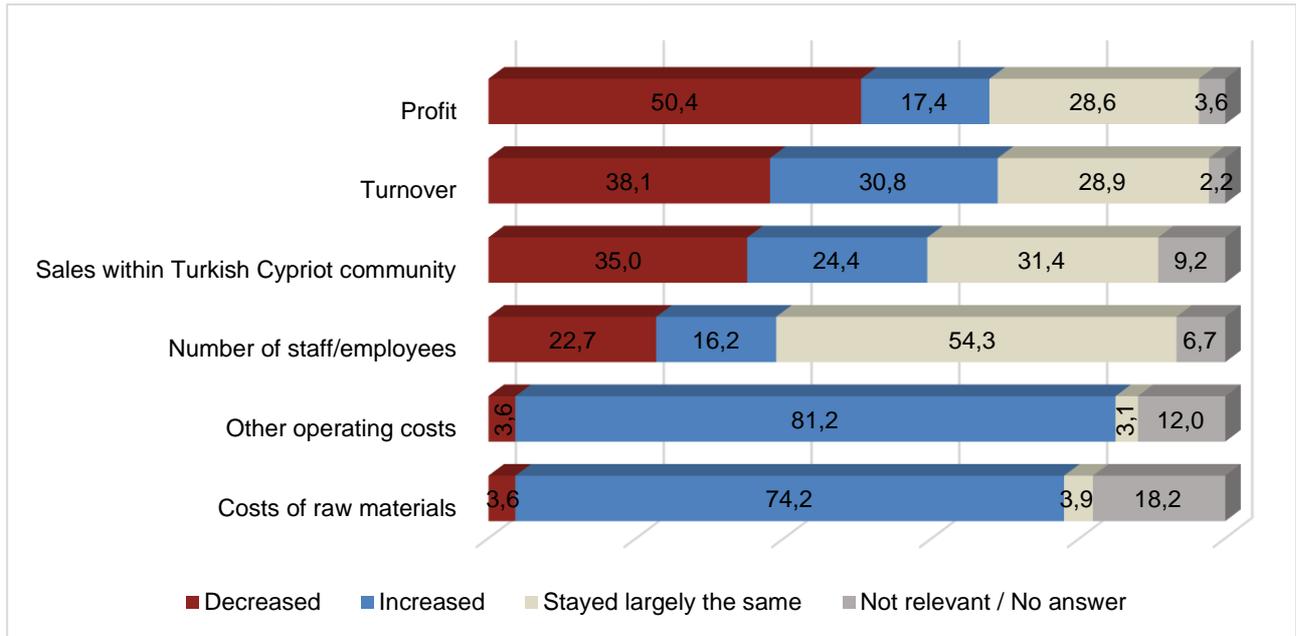
**How would you describe the current level of debt in your business? (%57,1)**



Of this 57,1% of all the companies having loans/debt, 18,3% describe their debt situation as unmanageable (7,9%) or very concerning (10,4). The remaining 81,7% sees it as “manageable” or “very manageable”. Agriculture and other services sectors have got the most severe debt situation where 33,3% and 30,8% of their participants have answered that their dept is “unmanageable” or “very concerning” consecutively. We have also asked the participants where they owe the money and 86,4% stated that it is to a bank whereas 3,8% is to the tax Office and 4,3% is to the social security system.

One of the most important questions of the study has been to identify how certain aspects of business has changed over the last year and we have seen that profit, sales in the TCc and turnover has decreased within the last year for the majority of companies. In relation to this data, cost of raw materials and operating costs have increased in almost every sector. 81,2% of the participants have stated that their operating costs and 74,2% of the participants have replied that their raw material costs have increased within the last year.

**How have the following aspects of your business changed over the last year?**

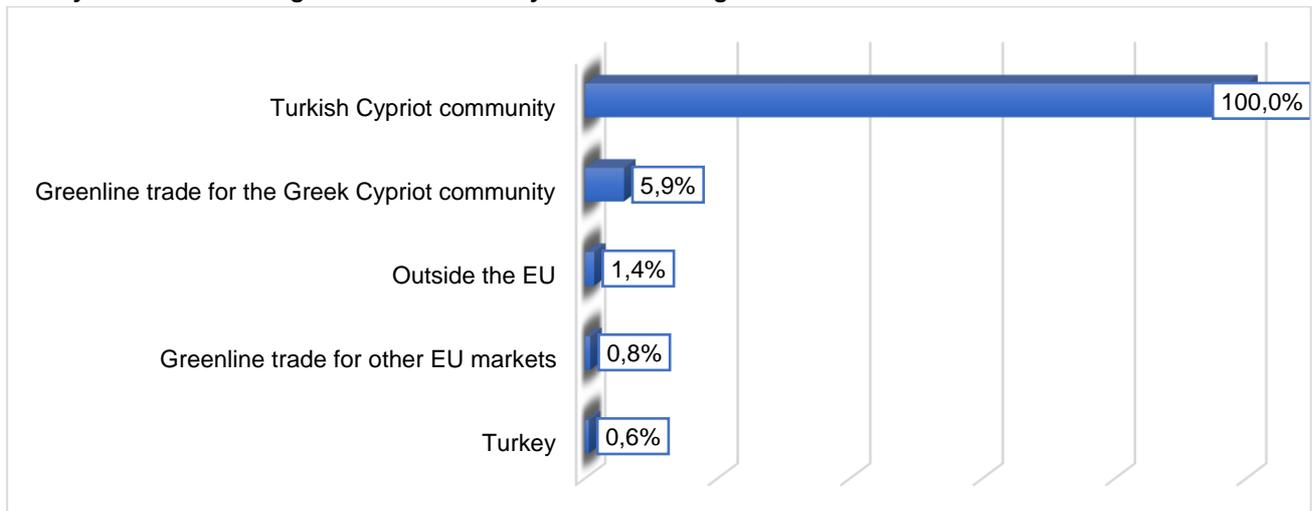


However, in relation to the labour market, we have seen that 22,7% of all the companies have experienced a reduction in their number of employees and only 16,2% have seen their number of employees to increase. 54,3% of companies have replied that their number of employees has not changes during this period.

**2.2. Green Line Trade**

We have seen that 5,9% of participants have got sales through the Green Line<sup>3</sup> to the Greek Cypriot community whereas only 0,6% has sales to Turkey, 1,4% to countries outside of the EU and 0,8% to other EU markets through the Green Line. When we asked about how the sales has changed within the last year, 40% of those companies selling through the Green Line to the Greek Cypriot community has stated that the sales has decreased, 40% replied that the sales has decreased and 20% stated that the sales remained the same.

**Does your business sell goods/services to any of the following destinations?**

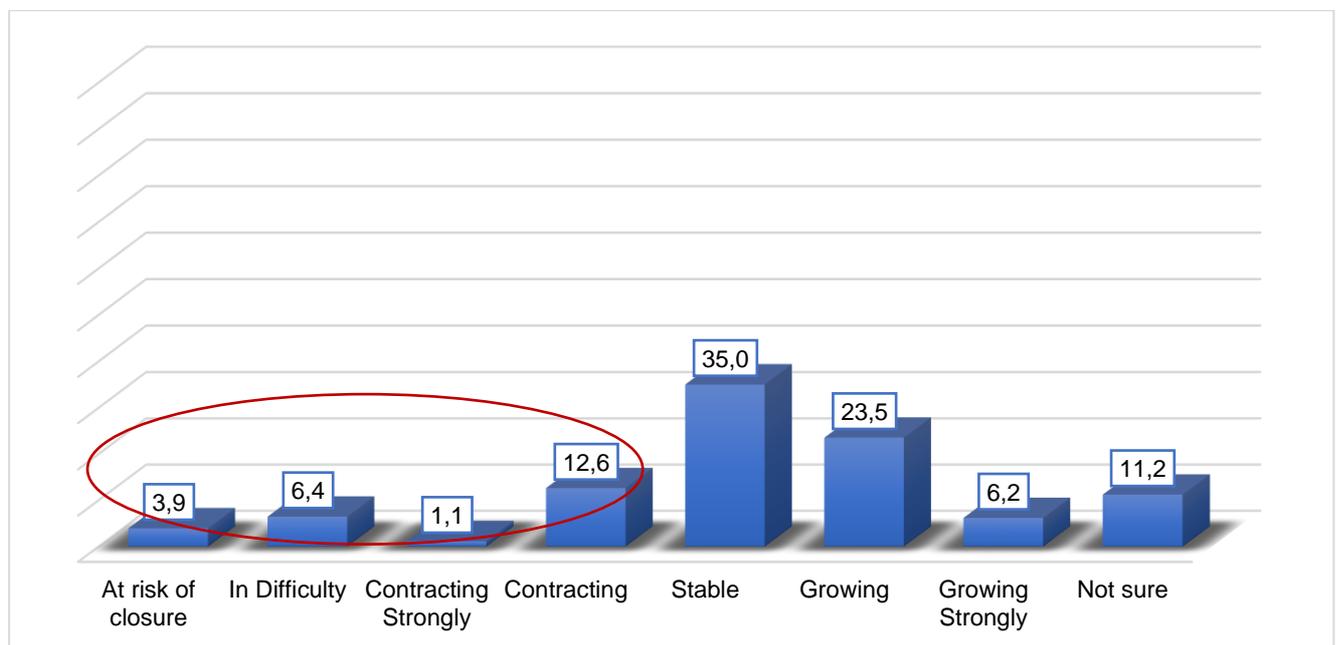


<sup>3</sup> Council Regulation 866/2004 ("Green Line Regulation")

Another significant data from the study has been that the 28,6% of the companies have plans to target new customers through the Green Line to the Greek Cypriot community. 37% of the manufacturing businesses and 33,3% of the agriculture, fishing and forestry businesses have shown interest into trade through the Green Line.

### 2.3. Expectations in the next year

In this group of questions, we targeted to analyse the expectations of the participants for the next year. The first important aspect has been that the 24% of the companies are either “at risk of closure”, “in difficulty” or experiencing a level of “contraction”. This shows us that almost a quarter of all the companies at a difficult situation. Another 35% of the companies participated at this study has been “stable” (about a third). On the other hand, 23,5% of the participants have stated that their company will be “growing” and 6,2% stated that their company will be “growing strongly” in the coming year.

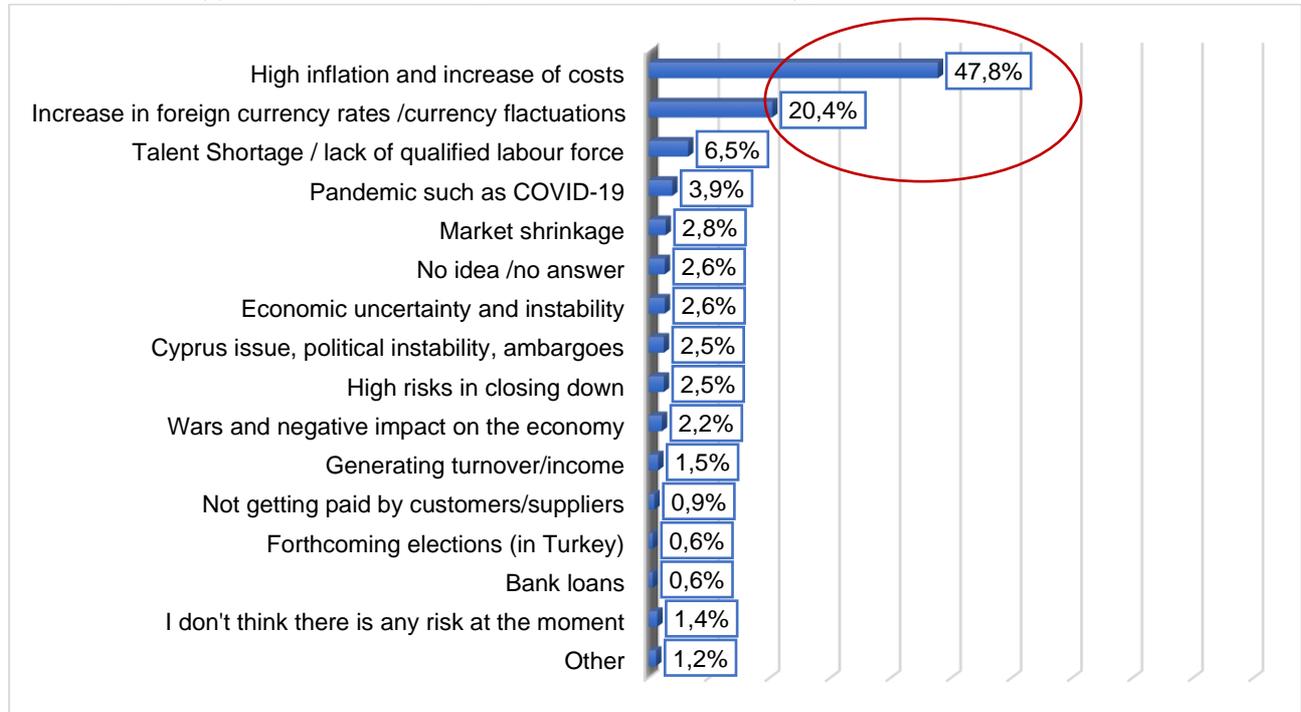


We have seen that smaller companies have given more pessimistic expectations for the coming year ahead. 7,3% of companies with less than 5 employees have stated that they think they are “at risk of closure” whereas 7,9% answered that they will be “in difficulty”. Almost one third (31,6%) of all respondents which are below 5 employees has given an answer that that they are “in difficulty”, “contracting” or “at risk of closure”. Similarly, the same percentages for the companies that have between 5-10 employees is 24,8%. On the contrary, only 16% of the bigger companies, more than 51 employees or more, have answered that they will be “contracting” and none of them have answered that they will be “at risk of closure” of “in difficulty”.

One reason for this has been analysed that the bigger companies have better cash reserves, better market penetration and have the ability to create alternative income sources whereas the smaller companies rely on more limited income sources, less market penetration and their ability to accumulate cash reserves is also limited.

When we asked the biggest concerns of the survey participants in the coming year, we have seen that the answers are accumulated under 2 big headings. One of them is the “*high inflation and increase of costs*” with 47,8% and the second one is “*increase of foreign currencies / currency fluctuations*” with 20,4%. We have seen that both of these two factors source from external factors that are beyond the control of the businesses and policymakers within the Turkish Cypriot community.

**What are your biggest 3 concerns about your business in the coming year?**



The TCc economy has experienced a high inflationary economy within the last year and the inflation rate has been above 100% consecutively for the last 6 months as calculated to the same month of the previous year<sup>4</sup> (114% in November 2022). Similarly, the foreign currency crises of late 2021 is still memorable and 2022 has been a bad year as well for the Turkish Lira which has lost 32% in value against Euro in 2022<sup>5</sup>. So, we have seen that the use of Turkish Lira and the interrelated effects of it (*high inflation and potential for another exchange rate crisis*) in the economy have been the major concerns of the companies.

We have also asked the companies “to define the priority level of several actions” for the year ahead. 75,1% of the companies, most probably in relation to the previous set of questions, have stated that they will prioritise their activities in Financial Management. 58,3% have interest in Research and Development support for their businesses whereas 49,6% wants Investment Into Marketing and Communications as a priority.

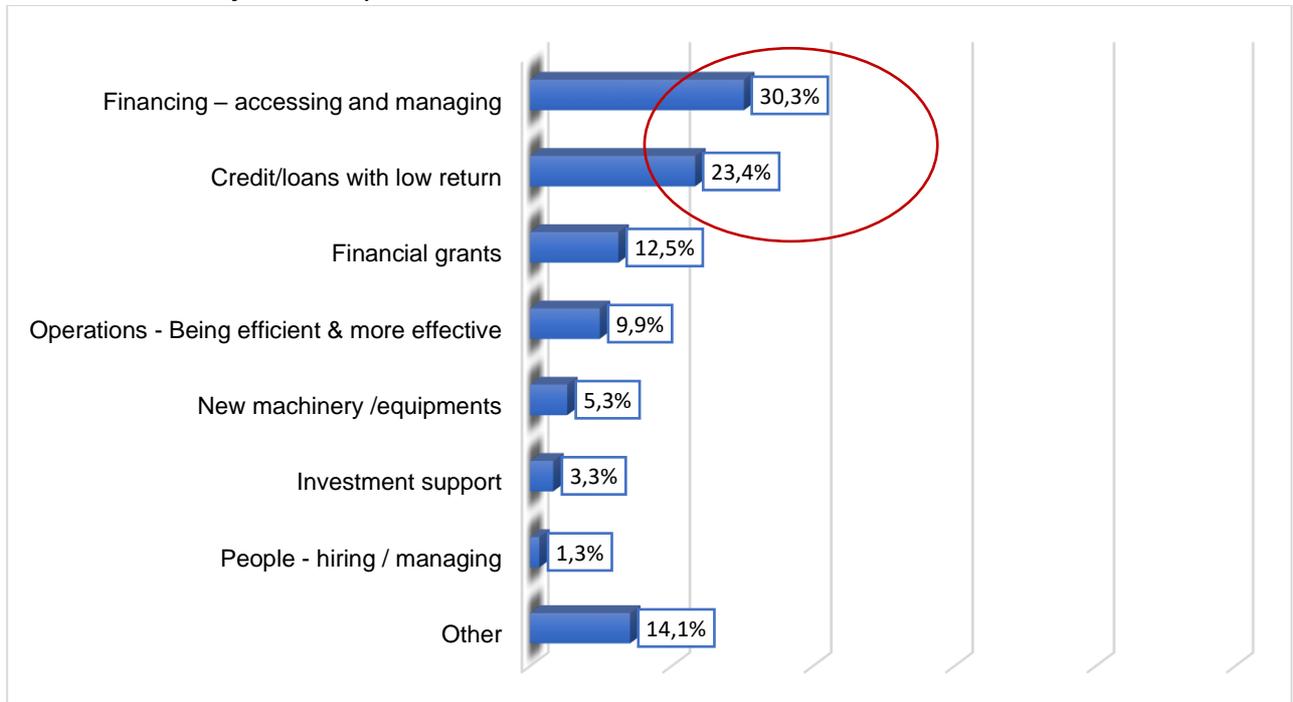
We have also asked the participants to select the business support to be received in the coming 12 months. 30,3% of them have stated Financing-Accessing and Managing and 23,4% answered as

<sup>4</sup> <https://stat.gov.ct.tr>

<sup>5</sup> [http://www.kktcmerkezbankasi.org/tr/veriler/doviz\\_kurlari/kur\\_sorgulama/doviz\\_cinsi\\_bazinda](http://www.kktcmerkezbankasi.org/tr/veriler/doviz_kurlari/kur_sorgulama/doviz_cinsi_bazinda)

Credit/loans with low return. The third most common answer has been Financial grants where 12,5% of participants prioritised this business remedy.

**What kind of business support would you like to receive in the following 12 months (financial or non-financial such as consultancy or the like)?**

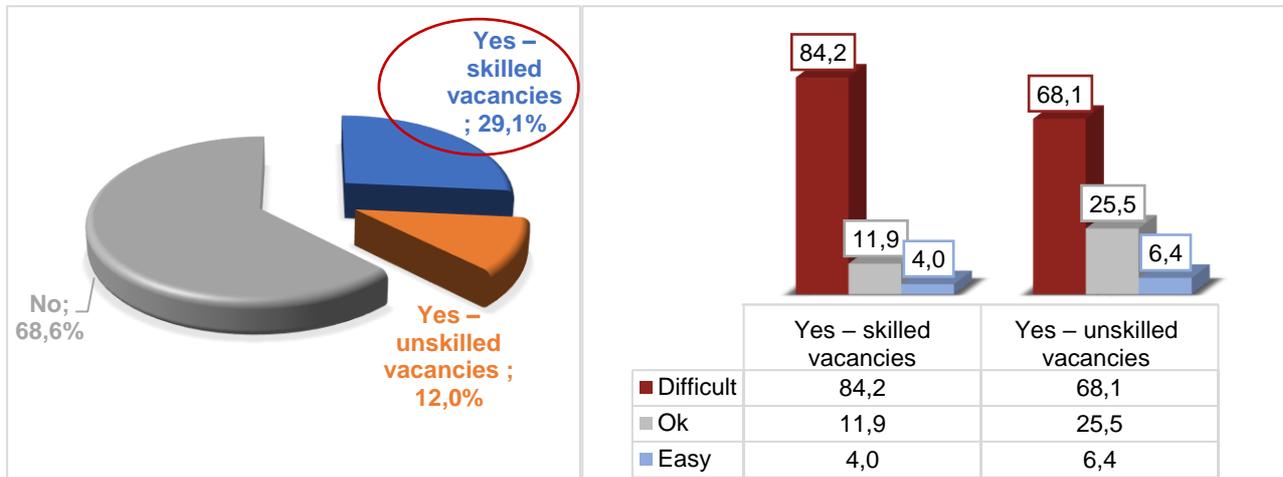


All the top 3 priority actions are quite related to improve the financial situation of the companies and adds up to 64,2% of all the survey participants.

## 2.4. Getting People

We have directed a set of questions to analyse the labour market conditions from the perspective of the companies. It is seen that 41,1% of the companies have got a vacancies, of which 29,1% is for skilled and 12% is for unskilled labour. 84,2% of the companies looking for skilled labour positions think that their ability to fill these positions in the near future is difficult. Only 4% thinks that it is easy to fill these skilled positions.

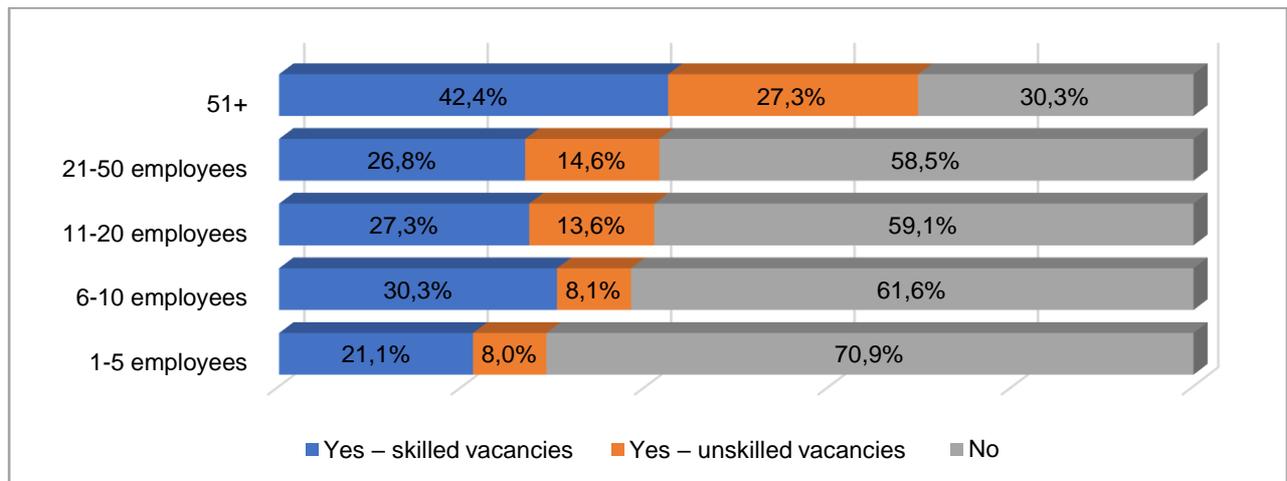
**Does your business currently have job vacancies? How would you describe your ability to fill those vacancies?**



Even more concerning data is that, 68,1% of companies looking for unskilled positions think that it is “difficult” to fill these positions as well. 25,5% thinks its “Ok” and 6,4% thinks their ability to find someone unskilled is “easy”.

Construction and manufacturing sectors are the two sectors with the most need for new employees. 38,4% of the manufacturing sector participants need skilled workers and another 20,5% need unskilled workers and the percentages are 29,6% and 14,8% respectively for the construction sector.

When the data is analysed as per company size, we see that the bigger the company size, the bigger the need for new employees and more vacancies. 69,7% of the companies employing more than 51 people have got vacancy positions. This value drops to 38,4% for those between 6-10 employees and 29,8% for businesses less than 5 employees.



### 3. Conclusion

The study has reached its initial objective to provide an understanding of the business environment in the TCc and data gathered has provided crucial guidelines to policymakers so that they can develop projects to improve the business environment for the SMEs.

One important conclusion of the study has been that the companies in the Turkish Cypriot community sees the high inflation rate and the currency fluctuations as the two major risks against their businesses within the next year. These two risks mainly source from external factors beyond the control of local policy makers and hard to control. However, there are still remedies that can be put into practice to diminish its effects on the business environment. These remedies can target to improve the financial stability of the companies through tax reductions and/or injection of finances through several methods to companies. However, these solutions will help to overcome the current difficulties in a business environment where deep rooted structural problems still remains such as low productivity, low value added products, logistical problems and such.

Another big result of the study has been about the labour market conditions of the economy. It is seen that 41,4% of the companies have got at least one open job vacancy. Drastically, 84,2% of the companies looking for skilled labour positions think that their ability to fill these positions in the near future is difficult. It is clear from data that the policymakers need to implement long lasting projects to target this structural problem. We have seen that employing non-citizens for these positions are becoming even more difficult in the post Covid-19 era due to two main reasons. One reason is the decreased labour mobility and the second is low value of Turkish Lira. Considering that the local Turkish Lira used within the TCc economy tend to lose value, it will be even more difficult to attract non-citizens to the labour market in the TCc economy. Therefore, it is not only crucial but also urgent for the policymakers to implement projects in order to improve labour market conditions.

The economy of the Turkish Cypriot community has got an important outlet to the European and world economies through the Green Line. The trade has been shown an increase in 2022 and this is a big potential for mat sectors. The study has shown that there is a significant potential to increase trade through the Green Line<sup>6</sup>; 28,6% of the companies have plans to target new customers through the Green Line to the Greek Cypriot community. 37% of the manufacturing businesses and 33,3% of the agriculture, fishing and forestry businesses have shown interest into trade through the Green Line. So, the policymakers need to implement incentives and support to the private sector to increase the trade through the Green Line. There are two important points in this regard; the trade can be increased rapidly because getting business agreements can be very fast and products transported rapidly. Secondly, even the smaller companies can become a trading partner easing the effects of the economic crisis and spreading the benefit to even the small SMEs. So, the increase in the potential of the Green Line trade can be very fast and its affects can be spread to all elements of the economy.

Lastly, the study will introduce more questions in the next waves and repeat the questions already asked in this study to enable a context-bound report that will give the policymakers the opportunity to measure the impacts of several factors on the business owners in the medium term.

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<sup>6</sup> Council Regulation 866/2004 ("Green Line Regulation")