



1988

NEAR EAST UNIVERSITY

Faculty of Economics & Administrative Sciences

Department of Banking & Finance

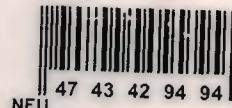


Graduation Project

EFFICIENCY OF OFFSHORE BANKING IN NORTHERN CYPRUS

Submitted to : Okan Şafaklı

Submitted by : Khaled Ibrahim / 980711



ABSTRACT

The aim of this study is to analyze the offshore banking in Northern Cyprus in order to assess its benefits and cost.

International banking sector has been developing very fast in recent years. Offshore banks have a significant contribution to the development of economies and in recent years offshore banking sector has become an important sector particularly in small states and Islands.

One of the benefits of the offshore banking is to contribute to the level of employment. The results of survey showed that there were thirty-four offshore banks in North Cyprus. There is insufficient contribution to the employment. Another benefit of the offshore banking is the contribution to the National Income. This contribution is very low in North Cyprus.

In North Cyprus there is very little direct investment of the government in the infrastructure for offshore banks or other offshore activities. An important damage that offshore banks may give to the TRNC could be bad reputation through a possible money laundering. There are some events that may demonstrate the presence of such occasions, but they are still to be proved.

The contribution to the economic development of North Cyprus is insufficient when it is



compared with the other offshore banking centers. North Cyprus has all the required qualification to become an offshore center in the region, if right measure is taken by the government.

II. THE OFFSHORE BANKING CENTERS

2.1. Definition of Offshore Banking Center

2.2. Development of Offshore Banking Centers

2.3. Factors Affecting the Development of Offshore Banking Centers

III. THE OFFSHORE BANKING CENTERS IN NORTH CYPRUS

3.1. The Role of the Government of North Cyprus in the Development of Offshore Banking Centers

3.2. The Role of the Private Sector in the Development of Offshore Banking Centers

3.3. The Role of the International Community in the Development of Offshore Banking Centers

3.3.1. Role of the Government

3.3.2. Role of the Private Sector

3.4. The Role of the International Community in the Development of Offshore Banking Centers

3.4.1. Role of the Government

3.4.2. Role of the Private Sector

3.4.3. Role of the International Community

3.4.4. Role of the International Community in the Development of Offshore Banking Centers

3.5. The Role of the International Community in the Development of Offshore Banking Centers

3.5.1. Role of the Government

3.5.2. Role of the Private Sector

IV. CONCLUSION

4.1. Summary

4.2. Recommendations

REFERENCES

TABLE OF CONTENTS

I- INTRODUCTION	1
1.1. Definition, Description and History	1
1.2. Statement Of Purpose	2
II- CONCEPTS OF OFFSHORE BANKS	3
2.1. Definition and Common Characteristics of Offshore Banking Centers	3
2.2. Development of Offshore Banking in the World	4
2.3. General Requirements From a Candidate Country	6
III- OFFSHORE BANKING IN NORTH CYPRUS	8
3.1. Procedures For The Establishment Of An Offshore Bank and Main Incentives	8
3.2. List of offshore Banks Operating In The Turkish Republic Of Northern Cyprus	10
3.3. Benefits and Cost of Offshore Banking	12
3.3.1. Benefits	12
3.3.2. Costs	14
3.4. Operational Principal and Control	15
3.4.1. General Principal	15
3.4.2. Employment Of Personal and Social Security	16
3.4.3. Company Transfer	16
3.4.4. International and Government Control	17
3.5. Exemptions, Prohibition and Obligations	18
3.5.1. Exemptions	18
3.5.2. Prohibitions and Obligations	19
IV. CONCLUSION	20
4.1. Conclusion	20
4.2. Recommendations	23
REFERENCES	24

I. INTORODUCTION

1.1. Definition, Description and History

In the last decade banking sector has become an important and fast growing sector in the world. This sector pays a big role in the fate of many countries. Offshore banking has a different place in banking sector especially in small states because they offer a lot of benefits to the host country. They provide cheaper credits for the approved investments bring new technology and increase the level of income and employment of the country directly and indirectly.

The financial environment in a small country is associated with a number of constraints such as limited availability of economies scale, a limited pool from which to employ human resources etc. In spite of these limitations, many small States and Islands have managed to establish important offshore banking Centers. Bahrain, Cayman Island, Bahamas are some examples.

Offshore banking refers to a kind of banking that serves the overseas firm and individuals instead of private business owners or firms within the host country. Furthermore, collecting local Savings Funds and using these are forbidden or limited in the host country.

International banking has been developing very fast in recent years. Especially offshore banking, which is a branch of international banking in developing, too. Offshore banks have significant contribution to the development of economies and in recent years.

1.2. Statement of Purpose

Analyze the offshore banking in Northern Cyprus in order to assess its benefits and costs and develop policies to increase their number as well as their contributions to the economy.

The study will investigate the personal profile of the offshore banks in North Cyprus to find their contribution to the employment and also their expenditure to determine their contribution to the national income. Compare the offshore banks in North Cyprus with other offshore banks in small States and Islands to specify the requirements for establishment and operation of the offshore banks in North Cyprus and determine their weaknesses.

II. CONCEPTS OF OFFSHORE BANKS

2.1. Definition and Common Characteristic of Offshore Banking Centers

The term of offshore banking centers is defined as places whether countries, areas or cities, which have made a deliberate attempt to attract international banking (non resident foreign-currency denominated assets and liabilities) by reducing or eliminating restrictions upon operations as well as lowering tax and/or other levies. Offshore banking center may be classified as either "paper" or "functional". A paper center acts as location of record, but little or no actual banking carried out there but a functional center is one, where deposit taking or final lending is actual carried out. Functional Centers serve as important links between Eurocurrency markets, helping to channel funds from major international financial centers to final borrower, in contrast. Paper Centers are basically used by international banks to minimize their overall taxes and other levies. Isle of man, Bahrain and Bahamas are examples of functional centers, while Malta and Lubuan are examples of paper centers.¹

Offshore banking centers have some common characteristics. Firstly, virtually in all of the centers, local capital requirement are low or non-existent for offshore banks. Secondly, license fees are generally low. Thirdly, entry is relatively easy, especially for large international banks. Fourthly and most important of all, taxes and levies on offshore business are virtually non-existent. In constraint to the situation in alternatives locations,

¹ Prentice, Hall (1996), *"International Finance Market"*, USA., pp. 29-30.

none of the centers imposes minimum reserve requirements on offshore liabilities or with holding taxes on internal income. Only a few impose profit taxes and these are very limited.

The contribution of the functional offshore banking centers to the economy of the host country is much more than the contribution of the paper centers and this increase the importance of the functional centers. While on the average the functional offshore banking centers are expected to employ %3-%12 to the GDP, paper centers are expected to employ under %3 of the labor force and contribution under %10 to the GDP.²

2.2. Development Of Offshore Banking In The World

Offshore banking was born by necessities of both rich economies on one hand and relatively small and poor economies on the other hand. Banks of the rich economies have enormous capital and they look to work more flexible environment, which also provide them a taxation shelter. On the other hand, they relatively small and poor economies respond to these necessities to obtain an economic motion and benefits. They need the offshore banks to overcome their capital deficiencies in investment and to brake down their limitation from their small size.

After the World War II, East and West began a cold war, Soviet block found inappropriate to invest their money to the American banks in Europe, they transferred their money to own bank in Paris, which was named Euro bank. This movement is

² Prentice, Hall, (1996), *"International Finance Market"*, USA., pp. 32-33.

considered to begin Euro dollar market. The increasing of the external trade deficit has increased. The money (dollar) presents of the foreign firm expect for the firm of USA. American authorities devised a series of measure to defend the value of dollar, which had the unanticipated effect of exporting large segments of the U.S. financial market. The government of the USA. With the decision of fixing the interest rate has caused to held the rates higher than before. This increased the volume of Eurodollar. The Eurodollar being bond and developed at short time, caused the emergence of a tax paradise, which the supervising of taxation being low. New financial centers began to emerge in the developed countries in 1960, initiating a trade and capital motion.

Supervision and tax obligations become important and their legitimate environment had to be established, so new financial center was born in country, which there were no strict exchange rate and tax supervision and any strong authority on financial matter. Basel Accord and Basel Committee were established in 1974 in order to harmonize the regulation about these financial centers.

After the 1973 Yom Kippur war, the Arab countries produced petrol. Increased price of the petrol by twice or three times as much, with this huge size "petrodollar" market was born. Especially Saudi Arabia and Kuwait's petrol richness increasing and wide improvement of Arab peninsulas by cultivating and building activities increased the economy activity. Regional banking was not capable of repaying these changes. The deficiency in the boundaries of the law infrastructure directed Bahrain, which did not have patrol but refinery only, into rupturing the offshore banking unit. In 1980s the economic and geographical advantages caused the establishment of new offshore banking

centers. Most of them are small states and Islands. Especially, republic of Panama, Bahamas, Cayman Island, Honk Kong, Singapore are some of the leading small states and Islands that have been benefiting from the offshore banking and other offshore activities. In Bahrain there were 47 (in 1995) offshore banks, which contributed %5 of GNP had a total and the assets of US \$65 billion in 1995. In Bahamas there were 263 offshore banks with the total and the assets of US \$70 billion. This sector is so developed in Bahrain, America local banks do not open any office in Bahrain, and the only pay annual license fees and carry on their activities in America.³

2.3. General Requirements From A Candidate Country

Offshore banks seek countries, which have the minimum facilities to carry out their operations easily and also escape from legal obligation. The development of offshore banking in a host country requires the provision of adequate infrastructure.

Requirements from the host country are summarized below:

1. **Financial and Legal flexibilities:** Operation of offshore banking is made free of taxation or very little taxation. They are exempted from the applied obligations on onshore banks and these exemptions are clearly stated in the laws of the country. Free repatriation of profit must be allowed, transfer of profit must be free and auditing and also, control of money authority must be minimum.
2. **Legal Systems:** Legal systems must be appropriate to solve the offshore banks problem. The base of the offshore banking is providing the confidentiality for

³ Charles W. Hultman, (1990), *"The Environment Of International Banking"*, USA., pp.139-144

accountancy. The law obtains this. In addition, bureaucracy must be held minimum.

3. **Economic Stability:** It is the main factor, which affect the offshore banking economy that gives confidence to outside world.
4. **Political Stability:** Candidate offshore center must have political stability. There must not be any rebellions or terrorist activities. There must not be any disagreement in the government.
5. **Overseas Travel:** Host country must have sufficient road and airline connection.
6. **Telecommunications:** Telecommunication service must be adequate and sufficient and also must be carried out systematically.
7. **Location:** If the host country is near the financial centers and central time zone for main financial center, this provides added advantage for offshore banking.
8. **Staff Availability:** They can find skilled and qualified local staff to employ.
9. **Social Environment:** There must be a good social environment, such as good hotels, restaurants, sport clops, social clops etc. and they must provide necessary easiness for foreign staff.⁴

⁴ Michael Bowe, (1998), *"Banking and Finance In Islands and Small States"*, London, p.149.

III. OFFSHORE BANKING IN NORTH CYPRUS

3.1. Procedures For The Establishment Of An Offshore Bank And Main Incentives

Foreign real persons and corporate bodies may apply to the ministry responsible for economic matters for the purpose of carrying on offshore banking operations.

- Real persons or corporate bodies intending to establish an offshore bank shall be; non-residents of or carrying on business in Turkey, OECD countries or countries have diplomatic relationship with TRNC and holding the control of a bank directly (at least %51 of shares) or indirectly. Corporate bodies shall have a valid business permission obtained from the authorities of banking operation in these countries.
- Documents to be submitted on application and establishment and the contents thereof shall be specified in regulation to be issued by the Council of Ministers.
- Charge payable on application is US \$1.000, which has to be deposited at the Central bank.
- The Ministry responsible for economic matters evaluates applications and if deemed auditable gives a provisional license within ten working days after receiving the views of the Central bank.
- Minimum cash paid-up capital required of offshore bank US \$500.000. Upon payment of the cash capital into a blocked account at the Central bank the provisional license is rendered absolute.

- Offshore banks, which have been issued with a provisional license are caused to be registered with the Official Receiver and Register after completion of requirements provided for the companies law.
- Having received the provisional license and completed the registration procedures, an offshore bank must deposit US \$20,000 to the Revenue and tax office as license fee. This amount of license fee has to be deposited every year in January. Otherwise the banking license shall be deemed invalid.
- An offshore banking unit must, within three months at latest after receipt of the provisional license, specify its place of business and be fully staffed. In addition the unit has to submit an approval certificate obtained from the Official Receiver and Registrar, the opening balance sheet approved by an authorized auditor and the certificate of deposit of license fee to the Ministry responsible for economic matters in order to obtain a business license.
- Offshore banks shall perform all banking operation with non-resident.
- Offshore banks have to submit the personal list to the Ministry responsible for economic matters after beginning business. At least one of the General Director or Assistant General Directors and minimum half of the personal has to be resident and national of TRNC.
- Offshore banks shall perform their international banking and other financial dealings freely and independent of the taxation and financial provisions in force in the TRNC.
- Offshore banks may transfer abroad earnings and resources they have secured freely.

- Offshore banks shall be subject to tax at a rate of %2 on taxable income to be ascertained under the provisions of the Corporation Tax Law and Income Tax Law.⁵

3.2. List Of Offshore Banks Operating In TRNC

BANK NAME
1. The Euro Textile Bank Offshore Ltd.
2. The European Business Bank (eeb) Ltd.
3. The European Commerce Bank (ECB) Ltd.
4. İmar Bank Offshore Ltd.
5. Atlas Bank Offshore Ltd.
6. Özbank Offshore Ltd.
7. Alliance Investment Bank Offshore Ltd.
8. World Vakıf Offshore Banking Ltd.
9. Cyprus Islamic Offshore Bank Ltd.
10. First Merchant Bank Offshore Ltd.
11. Şeker Bank Offshore Ltd.
12. Toprak Bank Offshore Ltd.
13. Cleveland Offshore Bank Ltd.
14. Adabank Offshore Ltd.
15. EGS Bank Offshore Ltd.
16. Yaşarbank Foreign Trade Offshore Ltd.

⁵ TRNC PRIME MINISTRY, (2002), *GUIDE FOR FOREIGN INVESTORS*, pp. 28-30.

17. Unibank Offshore Ltd.
18. Cyprus Trade Development Bank Offshore ltd.
19. Renfrew Security Bank & Trust Offshore Ltd.
20. Excess Bank Offshore Ltd.
21. Bank 2000 Offshore Ltd.
22. Efektifbank Offshore Ltd.
23. Dynamic Bank Offshore Ltd.
24. Bank Girişim Offshore Ltd.
25. Prudential Offshore Bank Ltd.
26. New York Bank Offshore Ltd.
27. Egebank Offshore Ltd.
28. Clover bank Offshore Ltd.
29. Basic Banking (North Cyprus) Offshore Ltd.
30. Economic Bank Offshore Ltd.
31. Bayindir Regional Offshore Ltd.
32. Pamukbank Offshore Ltd.
33. Kent Bank Offshore Ltd.
34. IOB (Offshore) Ltd.⁶

⁶ Central Bank Of Northern Cyprus

3.3. Benefits And Cost Of Offshore Banking

3.3.1. Benefits

Offshore banking has a lot of benefits to the host country. Countries with small economies gain proportionally more from offshore banking than large ones. It is frequently the case that small countries often suffer from disadvantages of being small size and thus most of them try to establish offshore banking center to avail themselves of the benefit of offshore banks and eliminate disadvantages of being small states. Malta, Labuan are some examples. Bahrain is one of the best offshore centers to utilize the benefit of offshore banks.

The main benefits of the offshore banks are creating employment, increasing national income of the host country, bringing new technology and know how and providing cheaper credits for approved investment.⁷

1. Creating employment: Offshore banks employ local staff and pay salaries to them. If the number of offshore banks and employed local staff (work in offshore bank) increases, this will increase the level of employment in the country.

2. Increase in national income: offshore banks pay the salaries of their personal so they contribute to the welfare of the host country. Especially the salaries are spent in the host country and the net welfare gain will be far greater if salaries are paid to local employees. Offshore banks incur operating expenditure and contribute to the increase in national income of the country. Mostly these expenditures are rents paid for office and residential

⁷ William L. SILBER, (1992), "*Principle Of Money, Banking And Financial Markets*", USA., p. 123.

accommodation, charges for the use of telecommunication facilities, payment of the municipal tax on rents, employer contribution to the social insurance and provident fund and other purchasing of services (payment for cleaning of the office, payment for the accountant etc.). In Bahamas, these expenditures amounted to 6,2 percent of GNP and in Cayman Island they amounted US \$10 million.⁸

Other benefits that effected the income related to gains are taxes and levies. Offshore bank increase the tax revenue of the host country. Host country imposes profit tax, corporate tax, annual license fees, registration charges, audit charges, liquidity and capital requirement etc. usually countries do not apply them. In Bahrain, Cayman Islands and Bahamas only annual license fees are imposed in Singapore US \$3 million capital requirement, US \$50,000 annually license fees and %10 profit tax are imposed. Lebanon imposes US \$22,22 annual license fees and %3 profit tax, South Cyprus imposes US \$15,000 annual audit fees and %4,25 profit tax and North Cyprus imposes US \$500,000 capital requirement, %2 profit tax and US \$10,000 audit fees.

3. Offshore banks also provide cheaper credits for the investment projects of the host country, they also raise the prestige of the country through out the world the inflow of foreign capital to host country gets easy and new investment areas are opened. In North Cyprus, enterprise, which are owned by the citizens of the TRNC may take permission from Council of Ministers to borrow cheaper credit from the offshore bank if the investment project is approved by State Planning Organization. Otherwise, nobody, who is the citizen of TRNC may take credit from offshore banks.

⁸ Michael Bowe, (1998), *"Banking and Finance in Islands and Small States"*, London, p. 137.

4. Know-How and Technology Transfer: Offshore banks bring modern banking services, high technology and new financial techniques so they contribute to educate skills and qualified personal for banking and other sectors of the economy.⁹

3.3.2. Costs

Offshore banks not only provide benefits but they also incur costs. For instance, the government makes some expenditure for infrastructure, which are the expenditures in telecommunication and regulations. All of them are direct cost. The diminution of autonomy of domestic monetary policy and perhaps increase the tax havens on business and individuals, which are direct costs. Another indirect cost of offshore banking could be the impact of unfair competition on the domestic financial system. Offshore banks have competitive advantages with respect to domestic markets. This problem could be avoided by forbidding or limiting offshore banks to operate domestically. These expenditures (especially direct cost) were done by the host country to create appropriate environment for offshore banks, but usually they are much less than the corresponding gains.

Another indirect cost is related to illegal money transaction, government of the host country have to be very careful with illegal money transaction because if they permit this event to occur, they may provoke the reaction of other states. They may set up the image of their country. Thus they must try to prevent any money laundering.¹⁰

⁹ SPO, TRNC PRIME MINISTRY, (2002), "*GUIDE FOR FOREIGN INVESTORS*", p. 31.

¹⁰ Roy C. Smith, (1997), "*GLOBAL BANKING*", USA., pp. 158-159.

3.4. Operational Principal

3.4.1. General Principal

Offshore banking units rendering offshore services shall perform all banking operations envisaged in the banking law entirely in an outward oriented manner. Provided that citizens of the TRNC may borrow offshore banking units on condition that:

1. Their development projects have been approved by the State Planning Organization.
2. The monetary unit is foreign currency.
3. Permission of the Council of ministers is secured.

In their international banking and other financial dealings. Offshore banking units are free and independent of taxation and financial provisions that are enforced in the TRNC.

Offshore banks may not secure funds from any bank, legal and real persons or corporate bodies within the TRNC.

Offshore banks may transfer money abroad, which they have secured or transferred from abroad as well as their profits. But they shall keep the amount necessary to meet expenditure relating to personal, administration for each accounting period in a foreign currency account opened with authorized banks and make their payments there from the amount of capital, all kinds of taxes, duties and charges payable shall be paid as foreign currency in monetary units specified by the central bank and for purpose of accounting records and transactions the monetary unit to be specified by the central bank shall be used continuously.

Offshore banks are obliged to restrict their services to customers, who are foreign nationals not resident in TRNC and other offshore units, and any case deal only in monetary units, which are not legal tender in TRNC and falling into convertible monetary units specified in the Money and Foreign Exchange Law. Provided that for the purpose of dealing with Republic of Turkey, Turkish Lira is considered foreign currency.

3.4.2. Employment Of Personal and Social Security

The number of personal to be employed not being citizens of the TRNC shall be specified by the Ministry responsible for financial matters. Personal employed by offshore banks, which are citizens of TRNC shall be subject to the provisions of the Social Insurance Law and Provident Fund Law.

3.4.3. Company Transfer

Conditions regarding transfer of licensed offshore banking units were specified in regulations to be issued by the Council Of Ministers. According to the regulations, the transfer of offshore banking units set up under license is subject to the permission of the Ministry responsible for financial matters. The steps followed are:

1. Application for the transfer of offshore banks shall be made to the Central Bank of the TRNC.
2. The Central Bank of the TRNC may require from the transfer establishment all information and documents required on the first establishment of these banks.

3. The Central Bank of the TRNC values the application of the transfer the offshore banks and submit it to the Ministry responsible for financial matters together with its recommendations.
4. The Ministry responsible for financial matters examines the application and notifies to the central bank of the TRNC. Its approval or refusal as the case may be indicating also the main reasons therefore.

3.4.4. International and Government Control

Boards of directors of offshore banks or their other top level boards are obligated to meet at least once a year to consider annual reports regarding their activities. They shall submit a copy of their approved reports to the Central Bank within one month at the latest from the date of approval and also they shall submit a copy of their audited annual accounts to the central bank within three months from the end of the accounting period.

All kinds of accounts and transactions of offshore banks are subject to control of the central bank in accordance with the provisions of the Banking Law Central Bank of the TRNC Law. Findings resulting from the control are confidential where as result of controls carried out, it established that offshore banks have in their operations contravened the provisions of this law, Banking Law and Central Bank of TRNC Law, the provisions regarding punitive specified in the Banking Law and Central Bank of the TRNC Law shall apply. Offshore banks shall pay the central bank an annual audit charge

in the sum of US \$ 10,000 but representative offices, which cannot have banking license shall pay an annual audit charge of US \$ 3,000 to Central Bank.¹¹

3.5. Exemptions, Prohibitions and Obligations

3.5.1. Exemptions

The exemptions given below to the offshore banking can be considered as some of the main advantages of operating in the TRNC.

1. In their international banking and other financial dealings offshore banking units are free and independent of taxation and financial provisions that are enforced in the TRNC.
2. Offshore banks do not have to comply with the requirements regarding liquidity, capital ratio against risk and similar reserves envisaged in TRNC.
3. Offshore banks are subject to tax at a rate of two percent on taxable income to be associated under the provision of the Corporation Tax Law Income Tax Law.
4. There shall be a reduction amounting to fifty percent of the sum due under the Income Tax Law in favor of the foreign personal employed by the offshore banking units.
5. Office vehicles and equipment imported by offshore banks for their own needs as well as an adequate number of other vehicles and equipment approved by the Ministry of Financial are exempted from customs duties.

¹¹ Nahid K. Eraslan, 1999, "Offshore Banking In North Cyprus". Master Thesis Nicosia, p. 33

6. Offshore banks may transfer money abroad, which they have secured or transferred from abroad and their profits.
7. Offshore banking units are classified as non-residents for exchange purposes and such can operate freely without any exchange control restrictions.

3.5.2 Prohibitions and Obligations

Offshore banks provide great advantage from the given exemptions given to them North Cyprus Government took some precautions to prevent unfair competition, which was born from the exemptions between the domestic banks and offshore banks. It is essential that members (owners) of the offshore banks should be foreign nationals not resident in the TRNC and not of Turkish Cypriot Stock. Expenditures incurred by offshore banks during their operations shall be secured funds from outside the TRNC. They may not secure funds from banks in TRNC for whatever purpose and under whatever name.

Any change occurring in offshore banks as regards capital, members, mortgage and the like must be notified forthwith to the Central Bank. They are obliged to give information concerning their activities upon demand of the Central Bank. The citizens of the TRNC may borrow from offshore banks on some conditions.

IV. CONCLUSION

4.1. Conclusion

During the last 20 years, offshore banking has developed very fast. It has formed an alternatives sector in small countries. Offshore banks provide benefits (as increasing national income and employment) to the host country and for this they utilize some advantages, which are provided by the host country. Over the world there are many successful offshore centers and Bahrain, Hong Kong, Canary Island are some examples. Like many offshore centers, the offshore banking in North Cyprus could be considered as alternative sector in the economic development of the economy.

Offshore banks are operating under the offshore Banking Service Law (48/1990) in North Cyprus and it regulates the establishment and operation of offshore banking. Offshore Banking Services Law is supported by the regulations. The shortcoming of the laws and their applications were detected by interviews and survey, which were carried out with offshore banks, inspector of central bank, and some officers of the tax office and company register.

The benefits and costs of the offshore banking in North Cyprus are explained. Expenditures of offshore banking, contribution to the employment, and contribution to the recognition of the TRNC and contribution to the educated skilled and qualified staff are the main benefits of offshore banking in North Cyprus. The contribution to the employment is insufficient, only twenty-seven personal being citizen of the TRNC

working in the offshore banks and this does not meet the expectations. Main cost of the offshore banks in North Cyprus is damaging the image. Whether it is true or false, money laundering in North Cyprus is not very important but this will affect the image of the TRNC negatively. On the other hand, other cost (as government expenditures for infrastructure for offshore banks) of the offshore banking is not valid in North Cyprus.

It is understood that, the offshore banking could not develop at the desire level and their benefits remained very low. Offshore banking did not response the expectations of North Cyprus and as a result, offshore banking is very far from being an alternative sector. Political factors, some registration formalities and some mistakes in Offshore banking Services Law prevent the development of the offshore banking in North Cyprus. But it is seen that, North Cyprus has all facilities to be developed offshore center and to get high level benefits; tax incentives, exemption from exchange control, duty free, confidentiality, good telecommunication system, good geographical location, staff availability and English language skills are incentives, which provide advantages to North Cyprus. So in this situation for developed offshore banking in North Cyprus, some arrangement must be made and some precautions must be taken.

It is believed that the implementation of the following suggestions offshore banking sector will be an important sector in economy of North Cyprus, and North Cyprus has the right features that could make it an important offshore banking and finance center in the region.

For providing high benefits from the offshore banking and for providing developed offshore banking some arrangement must be made, some mistakes must be corrected and some precautions must be taken. The following implementation may shorten time for success:

- Registration formalities can be simplified. The central bank can be single authority and place to apply to have permission to start an offshore business bank.
- Response time for the approval of the application of an offshore business can be shortened to fifteen days maximum and preferably to seven days.
- Some of the documents required for processing the application can be exempted and can always be asked if it is felt necessary.
- Both Offshore Banking Services Law and offshore Service Law should be complementary to the existing Famagusta Free Port Zone Law.
- Registered offshore banks, which are not active, must be brought to active position.
- Some arrangement at law must be to prevent money laundry and swindle.
- The offshore banks from the business place must be fully satisfied.

4.2. Recommendations

The most important handicap, which prevents to collect information, is security. It is created problems in two ways. Offshore banking is quite a new sector in the world when it is compared with other sectors, so publications, which contain theory of it was many and they could not be found easily.

The origin of the offshore banking will be reached and found that which country's businessmen prefer more North Cyprus. An other subject will be that if the time series data (as annually) can be obtained or found, developing and benefiting of the offshore banking can be measured year by year.

Moreover, some data about similar countries and Islands, which have offshore banking can be compared with North Cyprus. For example, benefits and costs, advantages and disadvantages of offshore centers and some important information about offshore banking can be compared.

REFERENECES

1. Bowe Micheal, Briguglio Lino and Dean W. James. (1998). **"Banking and Finance In Island and Small States"**. London.
2. Tuller W. Lawrence. (1996). **"The McGraw-Hill Handbook of Global Trade and Investment Financing"**. USA.
3. Smith C. Roy and Walter Ingo. (1997). **"Global Banking"**. USA.
4. Hultman W. Charles. (1990). **"The environment of International Banking"**. USA.
5. Ritter S. Lawrence and Silber L. Willam. (1992). **"Principals of Money, Banking and Financial Markets"**. USA.
6. Cliffs Englewood. (1996). **"International Financial Market"**. Prentice-Hall. Third Edition. New Jersey, USA.
7. TRNC Prime Ministry. (2002). **"SPO Guide For Foreign Investors"**. Nicosia.
8. TRNC Prime Ministry. (1997). **"SPO Guide For Foreign Investment"**. Nicosia.
9. Central Bank of Northern Cyprus.
10. Nahid K. Eraslan. (1999). **"Offshore Banking In North Cyprus"**: Master Thesis Nicosia. P. 33.