

IMPACTS OF CYPRUS' EUROPEAN UNION INTEGRATION ON TURKISH CYPRIOT COOPERATIVES WITH EMPHASIS ON THE FINANCIAL SECTOR OF COOPERATIVES

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ABSTRACT: This paper is about Cooperative enterprises in the European Union (EU) and how they fulfill the needs and aspiration of their members and stakeholders. It considers the contribution that they make to European economy and society. Additionally, a detailed discussion is provided for the impacts of a probable Cyprus' integration to the EU on the Turkish Cypriot co-operative movement. In this study, the following sections will take place:

- Introductory part related to concept and importance of cooperatives
- History of cooperatives in the European Union
- Principles of cooperatives
- Development of cooperatives in the European Union
- Impacts of Cyprus-EU integration on Turkish Cypriot cooperatives
- Conclusion

Keywords: *Cyprus, EU, North Cyprus, Cooperative, Impact.*

ÖZET : Bu çalışmanın temel amacı Kıbrıs'ın olası Avrupa Birliği (AB) üyeliği karşısında Kuzey Kıbrıs kooperatifçilik sektörünün nasıl etkileneceğini ortaya koymak ve bu sektörün gelişmesi için önerilerde bulunmaktır. Çalışmada aşağıdaki kısımlara yer verilecektir.

- Kooperatifçilik kavramı ve önemi ile ilgili giriş kısmı
- AB'de kooperatifçiliğin tarihi
- Kooperatifçilik ilkeleri
- AB'de kooperatifçiliğin gelişimi
- Kıbrıs'ın olası AB üyeliğinin Türk kooperatifçilik sektörü üzerine etkileri
- Sonuç

Anahtar Kelimeler : *Kıbrıs, AB, Kuzey Kıbrıs, Kooperatif, Etki.*

1. Introduction

Although it is against international treaties South Cyprus' application for membership of the European Union (EU) in 1990 has been accepted and confirmed that Cyprus satisfies the criteria for membership in 1993. As a result of this application, European Council decided to convene bilateral intergovernmental conferences in the spring of 1998 (Şafaklı ve Özdeşer, 2002). The aim of this study is to analyze the possible effect of North Cyprus' integration to the EU together with South Cyprus on the cooperatives in order to propose improvements of the cooperative system in North Cyprus.

The framework of the study is to make the analysis on the basis of EU's *acquis communautaire* related cooperatives not on the basis of country comparisons.

According to the author's field of study, more emphasis has been given to the financial sector of cooperatives in North Cyprus.

In the introductory part, concept and importance of cooperatives will be explained. As one type of the commercial organizations (Nickels and Others, 1993: 221), cooperatives are set up with a basic motive of cooperation (Mülayim; 1995 : 51). Different types of commercial organizations are set up with different motives. Primary motive behind the cooperatives is to provide a dynamic platform for individuals to get together and as members of these organizations cooperate and support each other and meet their needs (ILO, 1996: 56)

As well as economic benefits the cooperatives bring about many benefits in the social, cultural and educational fields (Hirschfeld, 1973: 22). Today the cooperatives are important part of the economy and they play important role in purchasing, marketing and consumption areas. At the same time they create jobs. As well as contributing to the national economy, the cooperatives contribute to social development, social justice, social cohesion, with reducing effects on income disparities and social gaps (Güven, 1997: 27-37). Cooperatives are driven by cooperation and teamwork, which bring about a culture of respect and democracy to each other. An effective cooperative movement can only be achieved by adopting democratic principles. In this respect the cooperatives contribute to the quality of democracy in the country (Yavuz, 1995: 28-30).

Cooperatives are an important part of the European economy and society such that they have demonstrated a capacity for providing an economically competitive and sustainable solution for a fusion of the information society and socio-economic development. They are enterprises and they face problems similar to those of the traditionally capitalized firms – globalization, concentration, organizational and technological changes, and the changing needs of clients (members). In spite of these problems, Cooperatives in nearly every country around the world have been instrumental and successful in their work for the benefit of the people. They have done so under all kinds of governments, within every kind of economy, and among different gender, race, religion, politics and culture. There are few limits to what people can accomplish when they work together for their mutual benefit. The past accomplishments of the Cooperative movement demonstrate that simple truth and the present strength of Cooperatives around the world further affirms it.

The importance of Cooperatives within the EU is evident and hence a probable integration of Cyprus to the EU will have an inevitable impact on the Turkish Cypriot Cooperatives. A major part of this study has been dedicated on this issue and a detailed analysis of the outcome of such an accession in economic and social terms together with some recommendations have been carefully made.

2. History of Cooperatives in the European Union

People formed the first, continuous, organized, Cooperative traditions in Europe during the tumultuous 1840s. In the industrial cities of Europe people were confronting social dislocation in slums that created living conditions unlike any experience by earlier generations. Workers were taken away from their work, family life was disrupted, and the basic requirements of life - food, housing, savings, and employment - were continuously at risk. At first, only a few people could see how

Cooperatives could improve such bad conditions; before the century ended, hundreds of thousands had grasped the possibilities.

In 1844, a group of workers in Rochdale in Great Britain organized a consumer Cooperative to provide "pure food" at "honest rates." Their effort proved to be remarkably successful and led quickly to the creation of hundreds of Cooperatives in Great Britain; they in turn joined together to form extensive Cooperative wholesaling systems in both England and Scotland. In fact, the wholesalers became among the largest and the most innovative businesses in the United Kingdom as the century came to an end. They also sparked the formation of similar movements and organizations among consumers in most other industrial countries in Europe (Memiş, 1985: 14).

Also in the 1840s, French laborers organized some of the first successful worker production Cooperatives. Their approach spread quickly throughout the industrialized countries, carried by the trades union and the political movements of the working classes. By 1900, it had become well known in many countries of Europe; it was at once a successful participant in the Industrial Revolution and a severe critic of its most dehumanizing tendencies (Mülayim, 1999 : 36-37).

In the 1850s, Cooperative banking was started, especially in the German states. The earliest successful promoter of this form of cooperation was Hermann Schultze-Delitzsch, who worked among artisans and merchants. Friedrich Raiffeisen, who encouraged Cooperative banking among rural people, soon joined him. From Germany, the banking movement spread to Italy and France. Moreover, as the century progressed, consumer and some agricultural cooperatives developed wholly-owner banking institutions to meet their own needs as well as those of their members. Many of them grew quickly, accumulating the savings of tens of thousands of people and financing large economic activities. By the end of the century, the cooperative banking movement in its different forms was well established and flourishing. Meanwhile, many young people in rural Europe moved to cities searching for work and for those who remained on the farms there was much to learn for their survival. They had to study new methods of agricultural production; they had to understand how to manage money; they had to purchase reliable supplies at the lowest prices; and they had to find out how to market their products effectively. People on the rural parts of Europe found that they could achieve all these objectives most effectively through cooperative organizations. In 1880s, farming people, especially in Denmark, Germany and Great Britain, started to form agricultural production cooperatives. This type of cooperative organizations spread later to many countries and to all kinds of commodities (Mülayim, 1999 : 38-41).

As the century came to an end, another form of cooperative action became evident in Europe. It consisted of people joining together to provide themselves with different kinds of services, such as insurance, housing, and childcare. Because of deep involvement with economic and social changes, the cooperative movement

possessed a remarkable vitality at the end of the 19th century and it even flourished more around Europe during the 20th century.

3. Principles of Cooperatives

Today, cooperatives can be found in all continents and in all sectors of the economy. The cooperative movement is based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity and these values are put into practice by the well-known seven principles (Koç, 2001: 3-7) :

1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2. Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women selected as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote), and cooperatives at other levels are also organized in a democratic manner.

3. Member Economic Participation

Members contribute equitably to and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes : developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreement with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Educations, Training and Information

Cooperatives provide education and training for their members, elected representatives, manager, and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of cooperation.

6. Cooperation Among cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

7. Concerns for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

4. Development of Cooperatives in the European Union

Cooperatives are an important part of the European economy; the 132,000 cooperative enterprises in the European Union (EU) employ 2.3 million people (about 2.3% of full-time equivalent salaried employment). The performance of cooperatives has a major impact on the lives of their 83.5 million members and on the citizens of Europe (Commission of EC, Consultation Paper, 2001: 4). Cooperatives in the applicant countries account for an additional of 23 million members. They contribute to the welfare of citizens, wealth to nations and promote entrepreneurship and participation. In 1996, 35% of cooperatives were in the primary sector (agriculture, fisheries, forestry), 20% in the secondary sector (crafts and workers) and 45% in the tertiary sector (banking, insurance and credit unions) (Commission of EC, Consultation Paper, 2001 : Annex 2).

More established cooperatives are represented in many sectors of industry. They account for a substantial part of these sectors and are of great importance to the economy of the most EU member states. They contribute to the effective organization of markets in many sectors. In several member states cooperatives have demonstrated a capacity for providing an economically competitive and sustainable solution for a fusion of the information society and socio-economic development.

The market share of cooperatives in economic activity has grown throughout the 20th century in the EU member states. In most of the member states cooperatives hold substantial market shares in important industries, especially in primary and tertiary sectors. For example, in 1996 the market share of cooperatives in agriculture was 83% in Netherlands, 79% in Finland and 55% in Italy. In forestry, cooperatives held a 60% market share in Sweden and 31% in Finland. In the tertiary sector, cooperatives accounted for over 50% on the market in banking in France, 35% in Finland, 31% in Austria and 21% in Germany. In retail, consumer cooperatives held a market share of 35.5% in Finland and 20% in Sweden (Commission of EC, Consultation Paper, 2001 : Annex 2).

In the EU, the current trend in many of the sectors where cooperatives are active is in concentration and competition; this is particularly the case in the retailing, food processing, banking and insurance sectors. In recent years, cooperatives have been concentrating their activities by mergers within the member states. Mergers and strategic alliances have also been made between cooperatives in different member states and even with candidate and other non-member states.

At the other end of the cooperative life-cycle, new small cooperative enterprises are emerging in most member states, These enterprises have been established particularly in the sectors of social and health care, local and regional development,

education and housing as well as in services to businesses and knowledge-based services.

4.1 Cooperative legislation in the EU

Cooperative legislation in the EU varies from one member state to another (Commission of EC, Consultation Paper, 2001 : Annex 1). Cooperatives are explicitly recognized in the EU as a type of “companies of firms” under the Treaty of Rome (Article 48). Within all member states cooperatives have a legal framework within which they can operate (although there is not always a specific cooperative law) and which protects the interests of members and third parties. In order to enable cooperatives to reach financial markets and to loosen restrictions and requirements for the formation of cooperatives, significant innovations (reforms) have been introduced to the rules and laws governing cooperatives in the member states. Although some of the recent reforms can be considered to run contrary to the cooperative principles, they have been considered desirable in order to take into account the needs of growing cooperatives in the modern economy. Such reforms have included (Commission of EC, Consultation Paper, 2001: 8);

- Reducing the minimum number of persons required to create a cooperative;
- The possibility of giving some members more than one vote;
- Broadening the limits on activities and on trading with non-members;
- The possibility of issuing specific bonds, representing risk or debt capital;
- Allowing third parties to participate in share capital;
- Permitting the transformation of cooperatives into joint-stock companies.

4.2 The European Cooperative Statute

The European Cooperative Statute has been the latest development concerning the co-operative activities in the EU. The need for the Statute has arisen from the recent years significant increase in cross-border cooperative activity including mergers and groupings of major entities. In the EU there are cooperatives with different types of international activity: Export represents the basic element for the cross-border activity of cooperatives in the EU and some of them have set up selling structure in relevant foreign markets. At the same time, some cooperatives carry out a production activity beyond its borders in another member state.

On the other hand, cross-border cooperation and activity between cooperatives is currently hampered in the EU by legal and administrative difficulties, which are not acceptable in a market without frontiers. The Statute consists of a Regulation (directly applicable in member states) which lays down the rules for the creation of a new form of cooperative, European Cooperative Society (SCE), and provides cooperatives with adequate legal instruments to facilitate their cross-border and trans-national activities, in other words, it will provide the necessary basis for the internationalization of the European cooperatives. It also consists of a Directive (to be implemented in national law in all member states) concerning worker involvement in the major decisions of the enterprise through information, consultation and participation on the board. The Statute is expected to be adopted this year; it will be directly applicable in all member states, and candidate countries will have to adopt as a condition of membership.

5. Impacts of Cyprus' EU Integration on Turkish Cypriot Cooperatives

Before making an analysis of the impacts of the EU integration, it is thought to be useful to briefly discuss the current situation of cooperatives in the northern part of the island.

According to the recent research (Koop.İşleri Dairesi, 2001 : 48) there are 86 credit, 88 development, 24 savings (banks) and 9 consumer cooperative societies, totaling to 207 (Table 1). The total employment in the cooperative enterprises is 1243. Regardless of their type all cooperatives function under the Cooperative Societies Law (Chapter 114). Cooperative Credit Societies and Development Societies are mostly organized in the rural parts of the country, while the cooperative savings societies (banks) are mainly in the urban areas. C.T. Cooperative Central Bank founded by all cooperatives is the upper financial body and acts as the main deposit-taker and lender for all.

Table 1. Active Cooperatives in North Cyprus (1997-2001)

| Type | 1997 | 1998 | 1999 | 2000 | 2001* |
|---------------|------------|------------|------------|------------|------------|
| 1.Credit | 86 | 86 | 86 | 86 | 86 |
| 2.Consumption | 12 | 12 | 10 | 9 | 8 |
| 3.Savings | 23 | 25 | 24 | 24 | 24 |
| 4.Development | 93 | 91 | 91 | 88 | 88 |
| Total | 214 | 214 | 211 | 207 | 206 |

* Until June

Source : DPÖ (2001), *2002 Geçiş Yılı Programı*, KKTC Başbakanlık Devlet Planlama Örgütü, Lefkoşa-KKTC. Pp 418.

Cooperatives in Northern Cyprus, like anywhere else, play an important role by focusing on meeting the needs of their members; hence they are considered to possess both economic and social values within the Turkish Cypriot community

5.1. The Impact of The EU Integration On the Financial Sector of Cooperatives

The impacts of the EU accession on cooperatives differ on a sectoral basis, with the tertiary sector (cooperative banking and credit and savings societies) being the most affected. It is thought that cooperative credit and savings societies are not aligned with the *acquis* (laws, directives and legislation of the EU). The cooperative credit and savings societies fulfill an important role in the financial intermediation for their members; the cooperative sector accounts for around %32 of all bank deposit¹ (including those of C.T. Cooperative Central Bank-CTCCB and Limassol Turkish Cooperative Bank – LTCB). The credit and savings societies alone (excluding CTCCB and LTCB) hold US \$ 43.1 million (Solyalı, 2002: 7) as deposits as of 31.12.2001. In spite of this striking financial table, cooperative credit and savings societies are currently not considered as banks (with the exception of the C.T.C.C.B

¹ Compiled from data obtained from TRNC Central Bank and Cooperative Affairs Department, 31 December 2001.

and L.T.C.B). This shows that the cooperative credit and savings societies remain a separate segment of the financial sector, in parallel to the banking sector, which raises obvious questions on their supervision and competition. Although operating alongside the commercial banks, this sector is not regulated under the Banking Law and remains subject to less stringent prudential standards, outside the supervisory purview of the Central Bank. Moreover, the levels of non-performing loans (mainly agricultural loans, 5.7 trillion TL) (Solyalı, 2002: 9) is quite high in the sector, and in recent years bad-management and irregularities have pushed some societies out of the business, leaving behind several hundreds of deposit makers as victims. It should be pointed out that the sector used to enjoy much higher deposits till the end of the first half of 2000 totaling up to US\$ 93.7 million (Solyalı, 2002: 7) when compared to the current amount of US\$ 43.1 million. The fall in numbers is mainly due to the bankruptcies of the Peyak and Vipkop savings cooperatives, which demonstrated how vulnerable was the sector. As a result of all these negative financial attributes of the cooperative credit and savings societies, the sector constitutes a weak segment in the financial system (as seen in the Peyak and Vipkop cases) and currently represents a source of risk in the point of view of the EU *acquis*.

In the light of the current situation of the financial sector of the cooperatives, there is a particular need for the restructuring of the cooperative credit and saving societies sector in accordance with the *acquis*. Such a restructuring scheme is currently underway and is instrumental to harmonize the cooperative credit and savings society sector with the *acquis*, although initial objective of the planned scheme might have not been so. Several amendments have been proposed for the current Cooperative Societies Law and the new Cooperative Savings Guarantee Fund Law enforcing a Deposit Guarantee Scheme (similar to that of the commercial banks) for deposits held by the cooperative credit and savings societies has been passed for the timely implementation of the restructuring of the sector. The Amendment to the current Cooperative Societies Law is expected to pass later this year. On the other hand, it is argued that the amendment and the possible following Committee proposals may hamper the way cooperatives have been functioning over several decades. It makes several impositions, especially by restricting services only to members and the amount of deposits that can be accepted to the total capital equity of the society (proposed deposit-to-capital equity ratio is 1). The fact that actual ratio is around 8% (0.08) (Solyalı, 2002: 9) - and it is even as low as %4 with the particular group of cooperative saving banks accounting for the 51% of the deposits made with the cooperative societies - will in return result in an inevitable dissolution of several cooperative societies as the amount of deposit that can legally be held in these societies will be even below their non-performing loans.

Since a possible exclusion of the cooperative credit and savings societies from EC Banking Directives seems out of question for EU integration, the impacts of EU Integration on these societies will create a dilemma such that a certain restructuring scheme is needed but there is always a possibility that this scheme will push back by bringing the cooperative credit and savings society sector to an end due to the reasons mentioned above. On the other hand, the restructuring scheme can be instrumental for a few larger societies making them transform to cooperative banks and become full credit banking institutions just like commercial banks with cross-border operation authorities. This is actually made possible by a recent amendment

to the Banking Law, which permits the inclusion of the word "Bank" in cooperative society's name if it opts to be regulated by the Banking Law (it is to be noted that the requirements put forward by the Banking Law, especially on the capital sufficiency and disposable cash reserves, can be well beyond a cooperative society's financial capabilities.)

Consequently, in the light of the planned restructuring for the cooperative credit and savings societies, there seems to be two alternatives: larger and stronger cooperatives may opt to transform to cooperative banking institutions and act just like commercial banks, and the smaller ones may merge to form stronger enterprises and avoid extinction. However, recently it is argued that the planned restructuring's financial burden on most cooperative credit and saving societies and its probable undesirable outcomes might outweigh the anticipated returns and could in fact hamper the whole cooperative movement in the country. Therefore, some work is currently underway to simply make some enhancements in the restructuring scheme itself. Since the exact content of the enhancements is still unknown, it is too early to conclude whether the proposed enhancements will deviate the cooperative societies' alignment away from the *aquis* or not.

The financial sector needs to be supervised in a consistent manner and the fact that the cooperative credit and savings societies have constituted large but a weak segment of the financial sector will necessitate special attention. The Cooperative Affairs Department as the supervisory agency for the cooperative sector is responsible for the supervision. Although the Cooperative Societies Law dictates a proper inspection of each cooperative once a year, this has never been accomplished. In alignment with the *aquis*, supervision of the credit and savings societies has to be sufficiently coordinated and carried out in a uniform way; in other words, the supervision on this sector must be improved. The main impact for the need of improved supervision on cooperative societies will be on the Cooperative Affairs Department. The Department will need to improve its administrative capacity by receiving additional resources and training facilities. As the administrative and the supervisory body for all cooperatives, the Department will play an important role for accomplishing the task of harmonizing the sector with the EU *aquis* (Kooperatifçilik Özel İhtisas..Komisyonu , 1999).

As mentioned earlier, the harmonization process will bring a restructuring process of the sector along with it. The issue underlying this restructuring process is that the public authorities together with the lawmakers and the politicians may need assistance in developing appropriate regulations for cooperatives. In most cases, some of these authorities do not possess the concepts of the cooperative identity and hence the resulting regulations are likely not to serve the purposes of the cooperatives (as observed in some parts of the amended Cooperative Societies Law, especially in the part which unrealistically restricting the deposit-to-capital equity ratio to 1). So the main impact here will be on the need for educating the public authorities on cooperative issues.

5.2 Possible Effects of Single Market

One of the most striking impacts of the EU integration on the cooperatives will be the opportunity for access to the EU market as well as the threats associated with it in the reverse direction. Although EU accession is mostly regarded as an opportunity for most sectors of the business, it also tends to be a threat for subsidized and protected sectors. Just like any other commercial enterprise, cooperative enterprises will need to adjust to the competitive context of the Single Market, that is, cooperatives should be able to fully cope with the competitive pressures and market forces within the Union. To survive in a competitive market, cooperatives in Northern Cyprus should first modernize their management through various support programs² (Roelants, 2002: 8), enhance the quality of their financial structures (as described earlier in financial restructuring of the sector) and develop or get organized under an intermediary or an upper structure. The most effective means of doing so is to cooperate with similar enterprises that exist and thrive within the Single Market. It should be noted here that to compete is the ordinary behavior of normal businesses on the market; to cooperate is the extraordinary behavior of an excellent enterprise.

After striving under economic embargos for many years, an EU accession may open "doors" for cooperatives in North Cyprus to sell their products, but being organized in a confined environment since their start-up, it will not be easy to go through those open "doors" towards the huge and lucrative EU market unless careful preparation in areas of management, finance and intermediary (or upper) structure is done beforehand. The latter is what the sector lacks today. Its importance is enormous in its capacity that it will not only serve as the coordination agency within the sector but will also be instrumental in directing the export business to the EU market. The production and agricultural cooperative sector can even anticipate an enlargement as a result of the probable demand created by the huge EU market. (Karpaz Tobacco Cooperative has been unable to sell its crop this year; EU accession could easily be an opportunity for this cooperative in selling its crops to the EU market).

Furthermore, after integration, Cyprus is said to obtain access to the EU structural funds, which, within the framework of the European Union's regional policy provide very substantial financial aid for the purpose of restructuring and modernization of several sectors. Thus, there is a high possibility that the cooperative sector can be one of those sectors receiving EU financial aid towards its restructuring.

5.3 Tax Considerations

The tax regime applicable to cooperatives is one of the key issues that cooperatives have been probably hoping for enhancements. This issue has long been argued, as it is believed that the corporate tax imposes heavy financial burdens on cooperative

² Human resource development programs, research and management consultancy services, accountancy and audit services, management information services, information and public relations services, consultancy services on technology and innovation, legal and taxation services.

societies. However, there seems to be no problem in aligning this tax regime as it is already in line with the *acquis*. EU's State Aid and Competition *acquis* clearly support such tax regimes. However, several legal advantages, namely income and/or corporate tax exemptions, no disposable cash reserves and lower required reserve ratios place cooperatives at a competitive advantage relative to the commercial enterprises. Although it is argued that such legal advantages are rather just support measures and compensations for the social and public policy role played by the cooperatives, they contradict with the State Aid and the Competition *acquis*. On the other end, the minimum world standards being established by the International Labor Organization (ILO) Recommendation on the Promotion of Cooperatives (Roelants, 2002 : 8) clearly backs the support measures (sometimes regarded as advantages) for cooperatives and a recent policy recommendation by the European Commission (EC) has a mention of such measures; therefore, it is highly probable that the *acquis* may be amended in line with these recommendations. At the same, the same ILO study also mentions of taxation support measures for cooperatives, thus there is a chance that such measures can be implemented by the EC policy-makers in the near future, resulting in the achievement of the long-awaited tax exemptions (at least in some cooperative sectors). This will have a positive impact on the cooperatives by eliminating the heavy taxation burden on them.

5.4 Possible Reforms

The trends and structural changes in the form of reforms in the cooperatives of Member States discussed earlier in the previous section can have impacts on Turkish Cypriot co-operatives after the EU integration. As the national and international competition increase, internationalization of the cooperatives is inevitable. Though such trends and reforms for cooperatives in North Cyprus are not foreseen in the near future, it is highly possible that there can be mergers of local cooperatives with other cooperatives in Member States; it should not be surprising to see the merger (or even friendly take-over) of Koop Süt with (by) a cooperative dairy, say in Netherlands, or Koop Süt to operate a plant in Poland (a recent example is the take-over German Südmilch Cooperative by the Dutch Campina Melkunie.) The recent European Cooperative Statute which will be directly applicable in all Member State Laws (in North Cyprus' Cooperative Societies Law as well, if she is to be a EU member) will open the doors for cross-border cooperative activities.

Currently, there are 9 sectoral cooperatives in the EU. However, some of them do not exist in North Cyprus. These are basically insurance, pharmacy and tourism cooperatives (Müftüoğlu ve Diğeri, 2001: 27-30). Possible membership of Cyprus to the EU can lead to establishment of these cooperatives.

Reforms (discussed in the previous section) have been introduced into cooperative laws in several of the member states during the last two decades mainly to enable cooperatives to reach financial markets and to loosen restrictions and requirements for the formation of cooperatives. When analyzed, it is seen that none of the reforms or their derivatives exist in either the current Cooperative Societies Law or in its revised version. Although all these reforms seem to contradict to the cooperative

principles, they have been considered desirable by many member states for the needs of growing cooperatives in a modern economy. A probable EU integration will enable the regulatory authorities to fully assess these reforms and see them in practice in the member states they have been applied. It is mostly likely that careful implementation of these reforms with regulatory thresholds and limits will help cooperatives to become more competitive with their new EU identity without necessarily compromising their cooperative character.

As an overall assessment, a probable EU integration will be the rebirth and the awakening of the cooperative sector in North Cyprus. Unlike those in the member states, the Turkish Cypriot cooperative sector has long been declining hopelessly with lack of training, good management, financial coherency and support measures. It is highly anticipated that the EU integration will provide means to overcome these deficiencies and will in return flourish the sector. A modernized and a restructured cooperative sector will be the key in developing the economies and societies in our country.

6. Conclusion

In this study the role and importance of cooperatives in the economic, social and cultural life of European Union have been acknowledged. Additionally, new trends and structural changes in the development of cooperatives in the member states have been assessed.

As the main consideration of the study has been on the impacts of Cyprus' EU integration on Turkish Cypriot cooperatives, a thorough analysis has been done on this issue. The findings can be summarized as follows:

- 1.) Due to the fact that the cooperative banking and credit & saving societies sector is not aligned with the *acquis* and moreover it is this sector that will be the most affected with a probable EU integration, there is an urgent need for a careful restructuring of this sector for its harmonization with the *acquis* (this is currently underway).
- 2.) As a result of the restructuring scheme, structural and financial changes are expected in the cooperative sector. Mergers among smaller cooperatives and/or transformations to larger cooperative banks are thought to be as possibilities; on the other hand, such a restructuring scheme is believed to carry a dilemma that it may in fact hamper the well-known traditions of cooperative movement in the country.
- 3.) There will be a need for consistent supervision on the financial sector of the co-operatives. As the administrative and the supervisory body for all cooperatives, Co-operative Affairs Department should improve its capacity in its own tasks by receiving additional resources and training.
- 4.) EU integration is thought to be an opportunity for cooperatives for better access to the EU market. This, on the other hand, will bring the necessity for cooperatives to face with the competition in the single market economy. For survival in such an economy, Turkish Cypriot cooperatives should

modernize their management, enhance their financial structure and more importantly get organized under an intermediary or upper structure.

- 5.) With a EU accession, internationalization of Turkish Cypriot cooperatives is a possibility as mergers (even take-over) with other cooperatives in other member states can take place.
- 6.) Reforms that will serve the needs for growing cooperatives in a modern economy (though contracting with the cooperative principles) is to be implemented in the Cooperative Societies Law, as such reforms have already been made in several of the member states' laws.

Last but not least, recent developments in North Cyprus indicate that widening the understanding of cooperatives among decision-makers at all levels (public authorities, law-makers, politicians) is necessary for the well being of this important sector in country's financial, social and cultural life. Without a wider understanding and recognition of this sector, there will be no hope for the evolution of the anticipated modernized and restructured co-operatives for developing the economies and societies in North Cyprus.

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