

Studies and Reports

Twenty-third in the series

CO-OPERATIVES IN EASTERN & CENTRAL EUROPE

Romania

by Gabriella Sozánski

(Edited by Margaret Prickett)

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About the Author:

Gabriella Sozánski has been involved in the international agricultural and financial co-operative movement over the past 20 years. She was counsellor for international relations with the National Federation of Agricultural Co-operators and Producers in Hungary, was a permanent contact person with the ICA and represented the agricultural co-operative movement with other international organisations.



Her main responsibility was planning, organisation and evaluation of international activities. Within the ICA Agricultural Committee she promoted and coordinated inter-co-operative trade relations between Eastern and Western Europe. She organised several international meetings and seminars on co-operative development.

Ms Sozanski was Co-editor of an FAO Handbook on training programmes for agricultural co-operatives and also published a number of articles in the co-operative press.

In 1991-92, as Technical Assistant for the European Office of the World Council of Credit Unions, she participated in designing development strategies and project proposals on financial institution development, particularly for countries in Eastern and Central Europe as well as in the CIS.

She took part as a consultant in a PHARE Programme of the European Union and prepared a study on the transformation of agricultural co-operatives in Hungary.

Ms Sozánski studied international trade, holds a degree in Business Administration and did post-graduate studies in political sciences.

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1. Main Characteristics of the Present Co-operative Structure

1.1 Brief historical background

The co-operative movement has deep roots in Romania. The first co-operative was a credit society founded in 1852. The first handicraft co-operative was initiated by shoemakers in 1879.

In 1895 the Romanian Co-operative Movement supported the constitution of the International Co-operative Alliance. Its representative was elected to the Central Committee at the first ICA Congress in London.

The first Law on the organisation of craftsmen was enacted in 1902. Shortly after, in 1909, the Law on the organisation of urban co-operatives was passed, and in 1920 the General Directorate of urban co-operation was formed.

In 1903 the first co-operative organisation at national level, the Central House of Peoples' Banks, was established.

Between the two world wars the co-operative movement developed and strengthened steadily. In 1930 the Central Union of Handicraft Co-operatives was created.

After the Second World War, in 1949, the State recognised co-operatives as a separate economic and social sector. Thus, they were able to continue their activities during the Communist regime. However, the State often intervened in a brutal and abusive way into the co-operative democracy by forced nationalisation and a series of restrictive regulations.

In the agricultural sector production-type co-operatives on the Soviet kolkhoz models were set up.

In 1950 the consumer co-operatives formed the Central Union of Consumer Co-operatives (CENTROCOOP).

In compliance with the Law N° 14/1968, which referred to the organisation of handicraft co-operatives, it was stipulated that an indemnity should be paid if part of the patrimony and assets of a co-operative were confiscated by the State or nationalized.

Despite the difficulties experienced throughout their history, the co-operatives survived and were able to strengthen their structures, increase the volume of their activities and maintain their efficiency.

1.2 Types of co-operatives and their significance

The Romanian co-operative movement at present embraces three types of co-operative: consumer, credit and handicraft. Their significance in quantitative terms is presented in the following chart:

The co-operative movement in Romania
(August 1993)

Co-op type	Number of co-ops	Number of members	Significance in economy
Consumer	2,442	5,900,000	26% of population, 15% of trade, services to half of the population
Credit	841	3,100,000	14% of population are members
Handicraft	880	230,000	45% of small-scale industry, 5% of overall industry, 40% of services

1.2.1 Consumer co-operatives

Consumer co-operatives are defined as private-type organisations based on the free association of a variable number of people pursuing economic and social activities.

There are 2,442 consumer co-operatives (Consumcoop), of which 229 are in towns and 2,213 in rural communities. The primary societies have formed 41 regional federations (secondary organisations). The apex organisation is CENTROCOOP, which also represents the credit co-operatives at national level.

The membership of consumer co-operatives amounts to 5.9 million. Together with credit co-operatives the total number of co-operatives surpasses 40% of the adult population (total population of the country: 22.76 million - 1992 Census). However, frequently the same person is a member of both a consumer society and a credit co-operative and is therefore counted as two members. Consumer co-operatives also have 150,000 employees. Before 1989 this number was much higher, i.e. 220,000.

As to the usual size of co-operatives, these vary from small co-operatives consisting of 100-150 members to large ones with a membership of 3,000 people.

The share capital of co-operatives is formed by the members' shares, which are of equal value. The minimum number of people required to launch a co-operative is 15, all of whom must buy at least one share which cannot be inferior to 1,000¹ Lei in value.

These shares are not to be transferred to third persons and are not negotiable. They cannot be used for paying the debts of the co-operative or its members, and the co-operative has to pay a dividend on the shares of co-operative members.

The members' liability for the obligations of the co-operative is limited to the value of their shareholding.

The highest organ of the co-operative is the General Assembly that approves the Statutes of the co-operative. The Statutes should lay out the conditions for joining the co-operative; rights and obligations of members; procedure for elections to the Board and the Control Committee; procedure for convening and running the general meetings; working methods of the Board and the Control Committee; details of the co-operatives' financial resources and funds; and the procedure for dissolution.

All co-operatives should be entered into the Trade Register of the district where their headquarters are located. A co-operative becomes a legal entity on the day of its registration.

It falls within the competence of the General Assembly of members to elect, by secret ballot, the Board for four years. At its first session the Board elects the President and other members of the Executive Bureau. The President of the Board is also President of the Executive Bureau. Three persons will be elected to take responsibility for internal control.

At the end of 1992 the equity capital of consumer co-operatives reached 13.5 billion Lei, turnover for the sector as a whole, including production, trade and services, being 250 billion Lei.

Number of settlements where consumer and credit co-operatives operate

Types of settlement	Number
Communes ²	2,688
Villages	13,000
Towns	230
Spas and climatic resorts	28
Population served by co-operative units	11,807,000

Network of co-operative units

Categories	Number
Commercial network - number of units	34,340
Commercial area in m ²	3,409,000
Shops and stores	845
Commercial area in m ²	419,000
Production & services	11,574

Consumer co-operatives are present throughout Romania. Their network comprises 25,000 outlets, i.e. shopping centres, restaurants, hotels, workshops, service centres, building sites, transportation companies, vocational training schools, publishing houses, etc. They supply goods and provide services to roughly half of the population.

These days, consumer co-operatives have a significant role to play in promoting and supporting the activities of small-scale producers, particularly in the rural areas, thus enabling them to adapt more easily to the new conditions set by the market economy. As they lack the necessary professional experience in this field they would certainly benefit from more technical assistance.

Total turnover of consumer co-operatives (31 December 1992)

Activity	Value in billion Lei
Retail trade	150.0
Wholesale trade	75.0
Small-scale industrial production	30.0
Services for the population	1.4
Purchase of agricultural produce from farms	2.1

Last year consumer co-operatives' share capital and other funds amounted to 122 billion Lei.

Consumer co-operatives have been engaged in the following main activities:

- retail trade in food and non-food products;
- public catering, hotels and tourism (both domestic and foreign);
- wholesaling, mainly to supply their own units but also other business organisations;
- industrial production;
- services to the population, as well as to business organisations;
- purchase of agricultural produce from farmers or processed goods from agricultural enterprises;
- supplying farmers with inputs and agricultural machinery, i.e. fertilizers, seeds, breeding stock, fodder etc.;
- hire of agricultural machines and equipment to new landowners and business organisations;
- export-import transactions;
- creation of commercial societies in partnership with domestic or foreign companies;
- investments for own needs, members or third parties;
- publicity;
- organisation of cultural and sporting activities, as well as education and social recreation for the co-operative members.

The first measure taken after the Revolution of 1989 was the repeal of the existing law and the adoption of a new Decree-Law³ No.67/1990. This legislation extended co-operative activities to urban areas and emphasized the autonomy of co-operatives, which were to be regulated exclusively by the Decree-Law and the co-operative by-laws. It was also stipulated that the State should support and assist co-operatives with raw

materials, goods, equipment, credits, favourable taxation, construction sites etc. It also brought back the old name of the apex organisation, that is Central Union of Consumer and Credit Co-operatives.

Other measures followed to permit the sale of goods to the rural population without requiring agricultural products in exchange, as was previously the case.

Emphasis is being placed on trade (representing 15% of the trade at national level) and services, as well as the purchase of agricultural products from private farms.

There is no more State interference, and many areas of co-operative activity have been subject to a decentralization process.

1.2.2 Credit co-operatives

Credit co-operatives (known as peoples' banks in the new legislation) are private associations of economic character. They are regulated by the same law as consumer co-operatives.

The first credit society was established in 1852. After the turn of the century credit co-operatives underwent a dynamic development. This period was followed by several declines during the World Economic Crisis of 1929-33 and the Second World War.

Throughout the Communist era credit co-operatives played a positive role by granting consumer loans to co-operative members, mainly small loans which cater for the domestic needs of the rural population.

The co-operative bank was among the few institutions which were not nationalized following the Second World War, although this had been stipulated in the law.

After the Revolution, credit co-operatives became fully independent and extended the scope of their lending to foster private farmers' businesses.

At present there are 841 credit co-operatives, which are associated to 41 Regional Committees and to a Central Committee at national level. Their total membership amounts to 3.1 million people.

The aim of credit co-operatives is to satisfy the financial needs of their members and to improve business performance.

Total turnover of credit co-operatives
(31 December 1992)

Activity	Value in billion Lei
Credit co-operative operations	54.6
- own activity	25.8
BANKCOOP - financial operations	86.0

The share capital and other funds of credit co-operatives amounted to 11.3 billion Lei.

According to the Statutes the minimum number of members required to establish a credit co-operative is 100. The share capital is constituted by the shares purchased by members when joining the co-operative. One share is equivalent to 1,000 Lei and the minimum shareholding is 10 shares.

Credit co-operative members have the right to:

- receive interest on the shares they have bought, as determined by the General Assembly;
- obtain loans according to the conditions set out in the co-operative's credit policy;
- deposit their savings and obtain interest on these, the rate of which will be fixed by the General Assembly.

Members must remain with the co-operative for at least two years after the repayment of their loans.

Credit co-operatives carry on their activities to the benefit of their members through:

- granting loans at favourable rates of interest and providing banking services;
- granting consumer loans to members and other individuals;
- providing preferential credit to agricultural producers for the purchase of machines and agricultural inputs;
- cash and other operations on the accounts of depositors based on their commission;
- financial participation in the creation of societies in collaboration with domestic and foreign partners.

The leading organs of the credit co-operative are:

- the General Assembly of the members;
- the Board of Management;
- the Control Committee.

The procedure for electing the Board, the President and the Control Committee is the same as that of the consumer co-operatives.

1.2.3 Handicraft co-operatives

Handicraft co-operatives are industrial production co-operatives engaged particularly in the field of small-scale industrial production and services to the population.

The radical changes started in December 1989, after the collapse of the Communist system and the economic restructuring which followed. All this exerted a direct impact on the operation of handicraft co-operatives.

In February 1990, shortly after the Revolution, a new Decree-Law N° 66 was enacted. This provided the necessary legal framework for co-operatives and encouraged them to take initiatives and adapt themselves to the market economy, which became possible because the Decree-Law eliminated excessive centralization and State dependence.

Up to 70% of the co-operatives' former joint assets have been distributed among the members in the form of shares, taking into account the amount and quality of work they have contributed to the successful operation of the co-operative. The remaining part has become the indivisible capital of the co-operative. An interesting characteristic of the handicraft co-operative movement is that the staff of UCECOM and the Regional Association have also become co-operative members, that is shareholders in the organisation. They are remunerated according to the work they do and are also paid interest on their shares.

The new legislation contained a new element as to the possible forms of co-operatives as follows:

- handicraft co-operative (CM)
- handicraft co-operative society (SOCOM)
- co-operative joint-stock trading company (SCCA)

In order to set up a handicraft co-operative, SOCOM or SCCA the minimum number of members is 50 and share capital should be at least one million Lei. A SOCOM might be described as a commercial society bearing all the characteristics of a co-operative.

In the first two co-operative forms only members are involved in the activities of the co-operative or SOCOM. However, in case of a co-operative joint-stock trading company the situation is different. There are three distinct categories:

1. Those who are both shareholders and workers in the co-operative, and who receive dividends on their capital contribution in addition to remuneration according to the work they do for the co-operative;
2. Workers/employees receiving salaries based on the work they have performed;
3. Shareholders, receiving dividends on their shares. In a co-operative joint-stock trading company shares can be held by handicraft co-operatives or any other individuals or legal entities.

The decision-making machinery also differs according to the co-operative's organisational form. In a handicraft co-operative there are three bodies: the General Assembly, the co-operative council and the executive bureau. In a handicraft co-operative society the leading organs are the General Assembly and the board of management. In the case of a co-operative joint-stock company the management consists of the General Assembly of shareholders, the board of management and (if stipulated by its statutes) the managing committee.

In relation to co-operatives belonging to handicapped persons, the employment of able-bodied personnel for specific jobs is permitted, but these cannot make up more than 40% of the total staff (50% in the case of blind people).

At present there are 880 handicraft co-operatives engaged in a great variety of activities. They provide employment for a total of 230,000 people (in 1989 this number was 420,000), including 20,000 disabled or handicapped people, 2,000 of whom are blind. This has been a noble, humanitarian mission of the movement.

According to surveys, of the 880 handicraft co-operatives 260 chose to become SOCOMs, 250 took joint-stock company form (as SCCAs) and 370 decided to remain as simple CMs.

It would be most difficult to calculate the average turnover of a co-operative owing to the rapid inflation of the currency. To define a typical co-operative in terms of membership numbers is much easier. Statistics show that somewhat less than half of the co-operative organisations have a membership below 300.

An integral part of the small-scale industry, handicraft co-operatives have a share of 45% in this sector and represent 5% of the country's overall industrial production. Co-operatives provide 40% of the services to the population.

Handicraft co-operatives operate 4,000 small-scale production units and 18,000 service units for the population. They also run 3,000 shops selling the commodities they produce. They usually carry out activities and provide services which the State sector would not be able to offer. At present they have to face growing competition from new actors emerging in the private sector.

Handicraft co-operatives have become a stable and reliable part of the small-scale industry sector, and one of the strongest organisations based on private capital. By the end of the first half of 1993 their nominal capital had attained over 22.5 billion Lei representing a 20% growth compared to the beginning of 1992.

In 1992 the volume of business amounted to 110 billion Lei, as detailed below:

Distribution of business volume in 1992

Activities	% of total business volume
Services to the population	22.5
Sale of goods	30.0
of which sold through own network	60.0
Exports	13.0
Services to third parties, mainly business organisations	34.5

The devaluation of the Lei has had a negative influence on the circulating capital of the handicraft co-operatives, diminished the possibilities for financing production and increased the interest payable on bank loans.

Various steps have been taken to combat this:

- encouraging higher shareholding, deposits or additional contributions in compliance with the statutes, by progressive deduction from salaries, i.e. following wage increases, or from the complementary incomes of the members;
- reinvesting a greater percentage of profits in the co-operative's Development Fund, as determined by the General Assembly.

At least 30% of the profits have been reinvested in this way, and the rest have been distributed among the members allowing them to contribute more to the co-operative through the purchase of additional shares;

- trying to attract capital from outside the co-operative, thus improving its efficiency and guaranteeing a reasonable return on invested capital;
- speeding up the rotation of the circulating capital by introducing and applying new technologies and modernising the means of production.

These methods have proved to be successful in increasing the capital of co-operatives. Thus, the handicraft co-operative sector has become a viable organisational form within the economic system of Romania.

As at 31 December 1992, total assets amounted to 161.3 billion Lei, of which 82.3 billion represented fixed assets and 22.6 billion the share capital.

The handicraft co-operative movement realized that the more complex and diverse the economic and social environment becomes, the more need emerges for co-operation among individuals who can now enjoy their ownership rights.

Despite the decrease in overall industrial production, the handicraft co-operatives succeeded in increasing the volume of their production by 5% per annum in both 1990 and 1991.

Turnover of handicraft co-operatives in 1992

Activity	Value in billion Lei	%
Industrial production and non-industrial services to the population	91.3	33.8
Production of industrial commodities	81.4	30.2
Services to the population	20.5	7.6
Delivery of commodities for the commercial network of the country	27.3	10.1
Marketing through own co-operative network	16.8	6.2
Exports	32.6	12.1

Total earnings in 1992 represented an increase of 70.7%, with a corresponding increase of 30.2% in dividends, over the previous year.

It is appropriate to mention that the handicraft co-operative organisations are active contributors to the State budget through various taxes and duties. This contribution amounted to 7 billion Lei in 1992.

A process of modernisation started in 1991. This aimed to change the law and set up real democratic structures.

1.2.4 Agricultural sector

Although only three co-operative types have been identified, the new associative forms developing in the agricultural sector merit some introduction. They are not called co-operatives because of the word's

poor image reminding the public of collectivism as interpreted in the worst sense of the word and copied from the Soviet kolkhoz model.

Before 1989 agriculture had been one of the most important economic sectors. Four types of ownership existed: State, co-operative, mixed and private ownership. State ownership represented 20% of agricultural land and 75% of the agricultural fixed assets; co-operatives owned 60% of the land and 21% of the fixed assets; the remaining 20% of land was in private hands. These were the statistical figures. However, as part of a centrally-planned economy, co-operative farms were not voluntary but rather collective organisations established by Government as part of the Socialist economy. The State dominated the co-operatives, both directing and supervising them.

Until 1989 agricultural production consisted of 3,172 agricultural production co-operatives, 692 inter-co-operative economic associations, 400 State farms and 260 mixed (State and co-operative) associations. In addition, 705 agricultural machinery units served the large agricultural enterprises.

The co-operatives' apex organisation was called the National Union of Agricultural Production Co-operatives (UNCAP).

The privatization of Romanian agriculture began in 1990 and has not yet finished. As compared to other sectors of the national economy, Romania's agriculture has experienced the most rapid pace of privatization, mainly as regards land. Co-operative ownership (co-operative farms, inter-co-operative economic associations, State and co-operative mixed economic associations) has been completely abolished, the farms passing into private ownership.

The transfer of a significant part of the farm land into private hands was considered to be a basic condition for fostering agricultural production and developing a free market for the sale of agro-food products.

From early 1990 onwards measures have been taken, in stages, to secure the continuity of output and the preparation of agricultural privatization. The first step was the adoption of Law No. 42/1990, which provided for the assignment of 2.2 million hectares for personal use (5,000 m² each for the co-operatives' former members and 2,500 m² each for individuals in other categories). This led to a considerable growth in production.

1.3 Membership relations in existing co-operatives

The observance of co-operative principles becomes increasingly necessary for co-operatives in Romania. The decree-laws passed in early 1990 already reflect some of them. If we examine the new draft Law on handicraft co-operatives even more references are made to the internationally accepted co-operative principles. This starts with the definition which contains the principle of free, voluntary association of people and ranks co-operatives as part of the private economy in a state of rights.

It states clearly that co-operatives are regulated by the Constitution of Romania and the international co-operative principles.

All the institutions of democratic control are in place in the new co-operatives, but in practice they do not always function as they should. One reason is that division of power between elected and employed leadership is not evident. Within the former political system the President (the elected chairman of the Board) was also the most senior manager of the co-operative. This has not changed. It applies to the national organisations, too.

The principle of one member, one vote prevails in the co-operatives.

Members are obliged to participate in the common activity of the co-operative, and the obligation of the co-operative to guarantee employ-

ment for its members still exists. This means that they are considered primarily as salaried workers and are paid monthly wages. The law permits members to make their financial contribution to the capital of the co-operative. The interest paid on their contribution is greatly inferior to their wages.

The autonomy of co-operatives has also been declared by law. Owing to the lack of experience, however, in practising democracy, this autonomy has not yet become the instrument of the members. The decision-making processes are still controlled by a limited number of professional managers who are not inclined to share this power with all the members. Furthermore, the majority of members are not prepared to participate in democratic activities, i.e. annual meetings, commissions, etc.

Although members hold shares as evidence of their ownership rights, they are not free to dispose of them.

Being or remaining a member is rather a question of maintaining employment with a safe income. The status of member does not carry with it any special benefits or privileges compared to external users of co-operative services.

The openness of co-operatives is interpreted in the creation of an 'expansion fund'. This is open to external individuals or organisations who want to invest in co-operatives. They are given an interest of 5-10% on their contributions, but no voting rights.

Board members have to accept a greater responsibility than previously for managing co-operative affairs. They are obliged to deposit a guarantee equivalent to their three-month salary and have to sign a contract for the protection of the co-operative patrimony. For the activity they carry on as Board members they are remunerated (Article 69) according to the decision of the General Assembly.

The satisfaction of members' needs and the promotion of their human development is one of the priority areas of co-operatives. Members enjoy social protection.

It is important, while safeguarding the original international co-operative principles, to adapt them to the new environment and changing conditions of the economy.

1.3.1 The capitalization of co-operative organisations

Recently, the Council of the Handicraft Co-operatives approved a decision referring to the capitalization of the organisations belonging to this sector, through individual contributions from the co-operative members. This decision stipulates that the minimum value of the co-operators' contribution to the social capital of the handicraft co-operative organisations should be established each year at its Annual General Meeting.

For 1994, the minimum value of each co-operator's contribution will be at least twice the national minimum monthly wage.

50% of the annual net profit may be used to complete or increase the level of share capital owned by each co-operator.

The AGM also determines the levels of share capital, voluntary contributions and new shares, so as to ensure that the co-operative has sufficient liquidity to function normally.

The differences between the amount of share capital subscribed and that paid is to be deducted from wages in monthly instalments over a year. However, no deductions are to be made in the following situations:

temporary incapacity for work; unpaid leave taken in order to look after a young child; leaving work to raise a child under the age of seven; military service; temporary cessation of activities in order to improve the technical and material conditions necessary to the production process.

Should the quality of work or working relationships necessitate a member's leaving the co-operative, the value of the shares and the compulsory and voluntary contributions may be refunded, relinquished or sold, and the shares reassigned following the close of the first yearly balance sheet, subject to the approval of the General Meeting.

If no one can be found to take over the share and contributions of a departing co-operator, it is possible, subject to approval by the General Meeting, for these to be taken over by the co-operative organisation, which will pay the owner its nominal value.

1.3.2 Choice of manager and the management contract

In its meeting of 21 December, 1993 the Council of the Handicraft Co-operatives sanctioned a decision regarding the introduction of the system of nomination for the manager and management contract.

According to this decision, the handicraft co-operatives may entrust a manager with the organisation and management of their activities on the basis of objectives and criteria established in the contract of management.

The manager is nominated by the Council of the co-operative organisation and elected by its General Assembly. The Council represents the handicraft organisation in its relations with the manager.

The Council has no power to make decisions regarding the day-to-day running of the co-operative organisation's activities.

The contract of management is the agreement whereby a co-operative organisation entrusts a manager with the organisation and management of its economic activities on the basis of pre-established objectives and performance criteria in exchange for payment. The prerogatives of the Council and manager are defined in the management contract.

1.4 Co-operative secondary organisations, associations, federations

1.4.1 The Central Union of Consumer and Credit Co-operatives (CENTROCOOP)

CENTROCOOP is a central and autonomous organisation, a legal entity which has been set up through the free association of the Regional Federations (Federalcoops) and carries on its activities in compliance with the Law on Consumer Co-operatives and its own Statutes. It provides technical assistance and extension services, exerts economic and financial control and supports the Federalcoops, the consumer and credit co-operatives and the co-operative enterprises.

The Statutes of CENTROCOOP are to be approved by the Congress, highest organ of the co-operative movement, to be convened every four years. They contain the following provisions: means of obtaining the legal status, rights and obligations of the members, functioning of the board, the obligations and rights of the leading organs (management and control), and financial means.

CENTROCOOP is managed by a Board elected by Congress in a secret ballot for a period of 4 years. The Board elects the President, the Vice-Presidents and other members of the Executive Bureau. The President of the Board is simultaneously President of the Executive Bureau and of CENTROCOOP.

The Congress also holds similar elections for the supervisors. The statutory, economic and financial control of the activities of CENTROCOOP and the co-operative societies is undertaken by the Control Committee.

Under the former political regime, that is from its creation in 1950 on, CENTROCOOP had played the role of implementing a centralised policy. The first legislation passed shortly after the Revolution was not able to get rid of all the negative features at once. Thus, following the provisions of the 1990 Decree-Law CENTROCOOP continued to set obligatory rules for co-operatives (Article 11). The management, however, were aware of the law's inadequacies and its elected bodies tried to modify the law's application in such a way that it be better adapted to the conditions of market economy. A further step forward will be the adoption of the new law which has almost completely eliminated the marks of centralisation.

CENTROCOOP may establish co-operative enterprises with or without legal status and can also associate with physical and legal entities in order to set up commercial societies.

**Co-operative commercial societies
in which CENTROCOOP is main shareholder**

Sector	Number
Non-food production	20
Food production	10
Construction	1
Trade and Tourism	3
Computer Centre	1
Credit Co-operative Bank - BANKCOOP LTD	1
- regional branches	41
- town offices	45

**Enterprises and other units
belonging to CENTROCOOP**

Sector	Number
Food production	2
Non-food production	7
Management Consulting & Training Centres	1
Engineering Institutes	1
Co-operative Vocational School Centres	14
Co-operative journal: "Co-operative Gazette"	1

**Co-operative commercial societies where
FEDERALCOOPS are main shareholders and,
other enterprises belonging to regional federations**

Sector	Number
Co-operative commercial societies	33
Production units	2
Trading companies	4
Transport vehicles	38
Animal husbandry farms	8

Joint ventures with co-operative participation

Organisation	Number
CENTROCOOP	6
Societies with CENTROCOOP as majority shareholder	9
Regional federations - FEDERALCOOPS	16
Consumer co-operatives - CONSUMCOOPS	3

1.4.2 Central Union of Handicraft Co-operatives - UCECOM

The primary co-operatives have formed 40 Regional Associations and two professional associations in Bucharest. Twenty of them are main share-holders in 23 production and marketing societies.

The whole sector's interests are represented by the Central Union of Handicraft Co-operatives. UCECOM operates in compliance with the Statutes adopted by the Congress and is recognised as a legal entity. Its responsibility is to provide guidance, representation and support to the associations of co-operative organisations, and to control their activities in connection with the preservation of the co-operative patrimony.

UCECOM supervises the co-operative organisations and monitors their observation of the regulations stipulated in the law and their statutes.

As the organisation responsible for representing the interests of the handicraft co-operative movement UCECOM has the following main activities:

- promotion and representation of the movement in Romania and abroad in the economic, social and cultural areas;
- protection of co-operative property;
- representation of the movement's interests vis à vis the legislative, executive and legal authorities as well as other public or private organisations, individuals or legal entities;
- representation of co-operators' interests at international level.

UCECOM issues mandatory internal rules relating to the following areas:

- social security provisions of the members;
- activities of common interest to the organisations of the handicraft co-operative movement;
- technical training of co-operators;
- training and selection of the management;
- protection of the patrimony of co-operators and the co-operative organisations;

- merger, division and dissolution of co-operative organisations;
- control over the observation of the law and the statutes of the handicraft co-operative movement;
- any other areas defined by the Congress.

The national organisation is empowered to set up units for social insurance and complementary pensions, publishing houses, banks, trading companies technical-scientific or socio-cultural foundations, sports leagues, schools, universities or colleges.

The leading organs of the Central Union are:

- the Congress of the handicraft co-operative movement,
- the Board of Management,
- the Executive Office of the Board,
- the President of the Central Union.

The Congress is the supreme organ of the co-operative system, and is convened every five years. The Board of Management is elected by the Congress and meets at least twice a year. From among its members the Board elects an Executive Office to guide activities between the two Board meetings. The Board also elects a President, Vice-Presidents and a Secretary, who are ex-officio members of the Executive Office. The President of the Central Union is also President of the Board and of the Executive Office.

The control of the UCECOM management is ensured by the Audit Committee elected by the Congress for five years.

A registration tax must be paid by the Regional Associations when affiliating to the national organisation. Otherwise, the maintenance of UCECOM is financed by income from its own activities and by the returns on shares held in the commercial companies and the bank.

The following societies are affiliated to UCECOM (all of them have a majority of handicraft co-operative shares):

- ELVEST, a Centre for the design and production of ready-to-wear clothing;
- ROMARTIZANA, a Centre for the design and production of new folk-art and handicraft prototypes;
- ICPCOM, a research and forecasting institute;
- ICECOOP, a foreign trade company;
- PUBLITER, a public relations company;
- VIATA CM, the newspaper of handicraft co-operation;
- SADCOP, a supply and marketing society.

The handicraft co-operative movement also publishes a Newsletter; has a Training and Education Centre (CEPECOM); a cultural-social-scientific foundation (ARTIFEX); 12 vocational schools; and 15 clubs and sport associations (VOINTA).

This sector's organisations are also main shareholders in the Bank of Small-scale Industry and Free Initiative (MINDBANK).

UCECOM management adopted two decisions regarding the competence of the national organisation following the Decree-Law of 1990.

1.4.3 Secondary organisations in the financial sector

Credit co-operatives are associated at regional level in 41 co-operative federations together with the consumer co-operatives, and also at national level in CENTROCOOP. However, Federalcoops have their Commission of credit co-operative societies, and within CENTROCOOP there is a Central Commission of credit co-operatives to represent the particular interests of the financial co-operatives.

Capital intended to strengthen the Romanian economy has to be channelled with particular care due to its shortage. The obvious solution for co-operatives should be to take advantage of their own banks. However, at present, these do not serve purely co-operative interests. They operate just like any other commercial bank with no limitations as to their shareholders, depositors and beneficiaries of loans.

Towards the end of 1990, on the initiative of consumer and credit co-operatives, Government Decision No.992 was adopted. This provided for the setting up of a co-operative credit bank under the name of BANKCOOP, with the aim of:

- mobilising domestic and foreign capital resources,
- promoting the market relations of co-operatives and of other shareholders,
- supporting the privatization of small and medium size enterprises,
- relaunching agricultural production and trade.

BANKCOOP was established in the form of a joint-stock company. Its activities were authorized by the National Bank of Romania on 1st November 1990 and it was entered into the Trade Register in early 1991.

The share capital subscribed amounted to 2.5 billion Lei, divided into shares of 2,500 Lei each. At the end of 1991 the paid-up capital amounted to 1,700 million Lei.

Main shareholders of BANKCOOP (1992)

Types of organisation	% of shares held
Consumer co-operatives	39
Credit co-operatives	17
Other organisations (private, mixed or State business organisations, as well as individuals)	44

Origin of deposits

Types of organisation	%
Private commercial companies	45.0
Joint ventures	25.0
Consumer and credit co-operatives	18.5
State companies or individuals	11.5

Loans are usually short-term only (90%) due to hyper-inflation. Of these, 26% of the loans are to consumer and credit co-operatives, 40% to enterprises and private commercial companies and 5% to individuals. A considerable source of credit for business organisations has come from inter-banking loans made for refinancing.

A similar bank existed before the Second World War. Some of the bank's activities were carried on during the Communist regime, essentially by the credit co-operatives formed in 1954.

Since its foundation BANKCOOP has become an important part of the new Romanian banking system. It is one of the first and largest private commercial banks in Romania, ranking

fifth - after the big State-owned banks - according to its yearly turnover, and first regarding its profit in relation to the subscribed capital (2.5 billion Lei).

This high performance was due to the following key elements:

- The establishment of BANKCOOP was based on the network of existing credit and consumer co-operatives that provided an appropriate environment for private initiatives;

- BANKCOOP could rely, from the very beginning, on a wide national network of branches (41, in all districts of the country) and sub-branches (77, mainly in big towns), all equipped with modern computers; the establishment of some 50 more sub-branches up to the end of 1993 has been envisaged;
- In addition to the credit and consumer co-operatives the vast majority of its clients are private companies;
- Particular attention has been given to international contacts and foreign banking transactions. BANKCOOP has contacts with 80 major banks, primarily in Europe and North America.

For 1993, BANKCOOP anticipates a balance sheet amounting to 150 billion Lei, over 100,000 clients, a much higher profit than the previous year and dividends in the region of 50% return on shares.

MINDBANK, the Bank for Small Industry and Free Enterprise started its activities on 1 October 1990.

The bank provides a wide range of domestic and international banking services and has obtained the status of an authorised bank according to the provisions of the Law and the licence granted by the National Bank of Romania.

Quite unusually, for a new bank, MINDBANK also concluded its first business year with a rather significant profit.

Main shareholders of MINDBANK

Organisations	% of the capital
Central Union of Handicraft Co-operatives	17.3
320 handicraft co-operatives	31.1
Central pension fund of the handicraft co-operatives	14.5
40 handicraft co-operative pension funds	24.5
2,314 individual shareholders	2.6
14 other private corporate shareholders	10.0

Last year the bank's share capital amounted to 1.5 billion Lei.

The dividends paid in 1992 represented 46 % of the net profit.

The 1992 balance-sheet reflected a significant growth in the bank's assets and liabilities on the one hand, and a massive increase in profits on the other. This was due mainly to the high interest rates which it needed to pay its depositors in order to maintain a reasonable balance given the inflationary trends prevailing in the economy.

The increase in income from commissions and other fees is of particular importance. Its total amounts to 2.1 times the bank's expenses, and illustrates the positive evolution of the services provided to its customers. As to the turnover of foreign exchange related services, these represent roughly 20% of the overall activity.

Banking efficiency and caution can be evaluated by presenting the following figures:

risk-asset ratio	19%
gross liquidity	46%
gearing ratio	6.7:1

According to the provisions of the Romanian Law no taxes are to be paid by a Bank in the first two years of its activity. For the next three years, a reduction of 50% of the payable taxes can be granted by the Ministry of Finance. MINDBANK started to pay taxes from 24 October 1992.

In order to facilitate economic and financial activities within the agricultural sector, an agricultural banking system was organised. The Agricultural Bank has 17,800 shareholders, both individuals and legal entities. It has a large network, consisting of 41 branches, 126 subsidiaries, 76 agencies and more than 300 offices (August 1993). When it began its operation on November 12 1990 it took over the assets and liabilities of the Bank for Agriculture and Food Industry. It started with a registered capital of 6 billion Lei, and increased this through capitalisation and share issue to a total of 64.2 billion Lei.

The first Agricultural Bank was established in 1894, so the Bank will soon celebrate 120 years of agricultural credit in Romania. In addition to the Agricultural Bank, a network of 841 credit and savings co-operatives has also been providing services to the rural population, with 250 of its offices mainly at the disposal of individual farmers. In 1990-91 they benefited from loans of 2.2 billion Lei through the agricultural banks and 14 billion Lei from the savings and credit co-operatives.

Banking reform

Prior to 1989 the financial markets were an integral part of the central planning mechanism. In December 1990 a two-tier banking system was created. This left the National Bank of Romania to carry out the functions of a central bank and entrusted the commercial functions to the Romanian Commercial Bank. The two banking laws adopted in 1991 provided for the transformation of banks into joint-stock companies and granted them a significant level of autonomy.

In addition to the National Bank of Romania the country's banking sector now consists of 17 commercial banks, of which 6 are State-owned

banks and 12 private and foreign-based joint-venture banks. Of these 12, four are relatively well-established private banks.

1.5 Evaluation of the existing co-operative system

There is no doubt that co-operatives have survived extremely difficult periods of time and have always succeeded in serving the population, even if this was not always in the most democratic way.

Co-operatives are present in virtually all of the country's settlements, operating in places where no other services exist due to their lack of attraction to profit-seeking societies.

Not only primary co-operatives, but also their regional and national organisations have been authorised by law to become directly involved in production, processing, trade, services and banking. An exception was made in the case of the agricultural co-operatives, which have had to limit their scope of activities to production.

Reasonably sized production units have always given co-operatives the flexibility to rapidly adapt themselves to changing conditions, particularly during the transition to the market economy.

Co-operatives have provided continuous employment and the security of a regular income for large numbers of people. They employ a highly qualified labour force to produce high quality, labour-intensive goods.

As members and employees became holders of co-operative shares they got more interested in the efficient running of the co-operative. The fact that shares are not negotiable provides a protection for the co-operative system.

Consumer co-operatives have set up a wide network of shops, restaurants, hotels, workshops etc. They have always played an essential role in purchasing, processing and marketing agricultural produce.

In addition to economic efficiency co-operatives have paid particular attention to providing social services. This has remained their moral obligation. Handicraft co-operatives still assume the responsibility for employing handicapped people.

Credit co-operatives granting both consumer loans and business loans (mainly to farmers) have helped to satisfy the financial needs of the rural population, which had no access to other sources of credit.

There is, in effect, no limitation on the range of activities co-operatives can carry on.

Notwithstanding this, the principal weakness of the co-operative movement is related to the members' poor participation in the management process. Democracy cannot be learned overnight. Four decades of Communist dictatorship forced Romania to forget what democracy meant. It has to go through a time-consuming learning process. Although the decree-laws relating to co-operatives shortly after the Revolution declared co-operatives to be independent, the co-operatives had little idea as to how they should interpret democracy. This is a key area in which education and training is indispensable.

It is questionable whether the radical liquidation of agricultural co-operatives was a wise step. In any case, it has led to a substantial decrease in production, which has resulted in a shortage of food supplies. The present associative forms have not lived up to expectations.

Although the development of democracy does not necessarily require money, the general lack of capital exerts a negative influence on co-

operatives and slows down their transformation and economic growth. The low level of technology characteristic of the whole economy is also a factor which delays development.

2. The Co-operative Reform Process

2.1 Government co-operative policies

Shortly after the Revolution the Government recognized the existence and independence of the consumer, credit and handicraft co-operatives and confirmed this in appropriate legislation. This was already a positive sign.

At the same time the then Government liquidated the agricultural production co-operatives which had been set up according to the Soviet kolkhoz pattern. It was understandable that the Government should refuse anything which had been forced upon it by the old Communist regime, but it had failed to consider the negative consequences of such a rapid measure on the food supply.

The Government recognized that co-operatives belong to the private sector. More precisely, in the category of small and medium sized enterprises.

The Government appreciates the social responsibilities of co-operatives, particularly in case of handicapped people employed by handicraft co-operatives, and remunerates them for these. Their benefits are tax exempt. Previously co-operatives undertook other social charges as well, such as old age pensions, sickness benefits, maternity leave etc.

In all other aspects, all Government regulations apply to co-operatives just as they do to any other business organisation. The specific characteristic of co-operatives, their non-profit character, has received no Government recognition.

Co-operatives' involvement in political lobbying is increasing.

The independence of co-operatives has led to a situation where there is no Government promotion of co-operatives, which is not encouraging in the long run.

Co-operatives are looked upon as any other business organisation in that they are expected to be economically viable and profitable. However, they are also social organisations which reduce certain burdens, such as employment difficulties for the State.

At present no subsidies, tax exemptions or preferential treatment are granted to co-operatives.

The Government recognized agriculture as a key economic activity of the country, therefore it has designed a programme for the 'Rehabilitation of Agriculture'. Although the programme does not specifically mention co-operatives, certain sections referred to below might suggest co-operative participation and encourage co-operative structures to implement the objectives fixed by Government policy. The Ministry of Agriculture and Food does appear to be open to genuine co-operative models.

The Rehabilitation Programme contains strategic options concerning:

- The gradual dismantling of the present system, in which the land and animals are owned by the private sector, whereas the agricultural machinery is owned by the State.

- Strengthening the farming units by endowing them with tractors and agricultural machinery and by gradual diminishing of the role played by intermediary institutions.
- Ensuring the whole range of agricultural services are available to farmers, in order to obtain the best results in agriculture.
- The consolidation of the agricultural commercial companies (ex-IAS).
- Stimulating the process of creating and supporting the professional farmers organisations.

Among the short-term objectives figure measures referring to the following issues:

- The application of privatization is most difficult within the agricultural sector. The Government has thus decided to give maximum priority to the completion of this process, using all available means. Of those agricultural commercial companies funded by State capital, the actual percentage owned by private land owners is between 10 and 60%. This could lead to the future privatization of more than 1/3 of the total number of commercial companies. The Government intends to organise this with the support of domestic and international financial and consulting institutions.
- In order to bring the present decline of agricultural production to a halt the Government urges the establishment of a 'Rural Development and Project Agency' to stimulate the setting up of viable agricultural farms.

- The whole agricultural service system should be reorganised and restructured according to the principles of the market economy. In this framework, support will be given to initiatives aiming at associations, in order to establish a versatile system of distribution structures, which should facilitate a good source of supplies to individual agricultural farms. Well-established and efficient commercial structures, able to ensure direct purchase from the farmer and quick distribution of all kinds of agricultural produce, will also be promoted.

Due to the particular features of the agricultural sector, a series of indirect support alternatives for farmers will be considered:

- Establishment of several non-governmental, associative institutions in the processing industry, and agricultural producers' associations dealing with specialised products or product groups.
- Application of a suitable taxation policy, capable of maintaining the prices of agricultural and industrial products within reasonable limits (especially those which are directly related to the agricultural production process).
- Creation of the specific institutions - private or associative capable of protecting farmers against risk factors, and thus restricting the losses of capital.

2.2 Co-operative property rights and privatization

According to the new Constitution of Romania there are two types of property, one public and the other private (including individual, co-operative and other associated ownership).

The patrimony of the consumer and credit co-operatives is in private ownership guaranteed by the Constitution. It is composed of a divisible part originating from the membership subscriptions (shares) purchased on joining the co-operative, the dividends or interest and part of the development fund. The non-divisible part of the capital is represented by the fixed assets and liquid assets owned by the co-operatives, Federalcoops and CENTROCOOP as at 31 December 1992, and part of the development fund.

In case of dissolution, co-operative property cannot be transferred to the members or employees. After having repaid all the debts it will be transferred to another co-operative - in compliance with a decision to be made by its General Assembly - which will take over the co-operative members as well. The same applies to Federalcoops if they are liquidated.

Decision N° 2 adopted by the UCECOM Council provided for the personalisation of the patrimony of handicraft co-operatives. Accordingly, the effective value of the joint assets was estimated on 31 December 1990. Of this initial reserve fund (equal to the value of shares), the education and promotion fund (10% of the shares) and at least 1 $\frac{1}{2}$ times the amount deposited as shares by members up to 31 March 1991 had to be deducted.

What remained of the assets was allocated to the co-operative members and employees who worked there on 31 March 1991, in proportion to the time spent and the salary received during the last 5 years in the co-operative. The property shares were not distributed but registered as obligatory (minimum 10,000 Lei) or voluntary contributions to the co-operative share capital.

If the total of shares did not reach 1 million Lei it had to be topped up by members' contributions. The value of shares held by one person cannot exceed 20% of the share capital. Shares cannot be withdrawn

from the co-operative for 2 years. The level of interest to be paid on the shares will be fixed by the General Assembly.

In agriculture, privatization has been dominated by the desire to provide restitution for pre-Communism owners. By the end of 1992, around 70% of all farm land had been transferred into private hands, mainly in the form of small plots.

The legislative framework concerning land privatization in Romania was established by the adoption, in 1991, of Land Law N° 18 and Law N° 36 concerning the setting up and organisation of agricultural companies and other associative forms of agriculture (associations for the production and sale of agricultural products, with or without legal status).

The provisions of the Land Law apply to the farm land which belonged to the former agricultural co-operatives but with the exception of the land previously belonging to State farms (now commercial companies) or leased from the State farms by the co-operatives.

The Land Law establishes the following priorities for the privatization of farm land:

- a) the former owners (and their heirs) of the land used by (placed at the disposal of) co-operatives;
- b) members of agricultural co-operatives and those agricultural specialists who did not own farm land;
- c) other citizens who wish to start a farm business.

The law sets an upper limit of ten hectares for the area of farm land that can be assigned to a family. An inheritance of up to 100 hectares per family is allowed. According to statistics supplied by the Ministry of Agriculture, 6.2 million applications have been submitted for the

establishment of property rights. The number of new owners according to the provisions of the law amounts to 5.3 million persons, each with an average holding of 1.8 hectares.

Certain difficulties have been encountered in the delivery of certificates and property titles. This process is still not completed.

Another problem emerged due to the excessive splitting up of farm land, with shortages of money and equipment making the efficient cultivation of such small areas very difficult.

2.3 Co-operatives as part of the private sector development

Under the former regime co-operatives were considered as organisations belonging to the State sector, the function of which was to implement the tasks set by the Party-Government. From 1989 on they have become an integral part of the private sector. This is all the more important as the Government has adopted a programme to support private entrepreneurs. The programme tries to encourage the development of those Small- and Medium-Sized Enterprises (SMEs) which produce goods. Handicraft co-operatives have always been small-sized production organisations. Consumer co-operatives have also been involved in production on a small scale.

In order to encourage private sector development Governmental action will take three basic directions:

- legislation - institutional measures: improving and simplifying the legal framework relating to small and medium sized enterprises and creating specialised institutions to better support the development of the sector.

- finance: the Government is convinced that the principal way of supporting private sector development is to provide assistance through direct or indirect financing.
- logistics - organisational methods: the Government intends to take firm action to remove the most important obstacles encountered by private entrepreneurs.

In March 1993 the Government appointed the Romanian Development Agency (RDA) as the Governmental body responsible for initiating and coordinating activities in support of the SME sector.

The Romanian Development Agency was established by Government Decision N° 182/20 March 1991, following the reorganisation of the former Romanian Agency for the Promotion of Foreign Investment and Economic Assistance. RDA is a separate legal entity and functions as a public institution, being directly responsible to the Government. The essential aim of RDA is to assist the Government in defining and directing policy measures that relate to economic development based on foreign capital, in order to ensure that there is a correlation between those policy measures and the economic reform programme. RDA coordinates foreign economic assistance, promotes foreign investment and distributes the funds available for development purposes. The President of UCECOM represents the co-operative movement on the Board of RDA.

In September 1993, a Government order was issued on the development of SMEs. Although it makes several references to non-Governmental organisations belonging to this sector, the final paragraph clearly states that this Government order also applies to co-operative societies. The role of those organisations representing co-operative interests (UCECOM and CENTROCOOP) has been of vital significance in bringing this about.

In this context, it is still possible that agricultural producers associated in small groups by virtue of the Law on Associations might be eligible for technical assistance through the SME development programme if they can submit viable proposals and, once in possession of the necessary funds and expertise might decide to transform their groups into co-operative societies. This is just an assumption. The legislation is very recent and often does not reach those who could really profit from such assistance. This way, however, a large proportion of the population could be mobilised for a production activity which would serve the interests of the population through a better supply of agricultural products as well as the development of the national economy as a whole.

An important step in the privatization process was the announcement of the value of the Certificates of Ownership. The certificates can now be used in the purchase of an interest in the 2,600 small-and medium-sized enterprises. The development of a secondary market for the trading of the certificates might now be possible.

Development of Private Sector (Estimates of NCS⁴)

Contribution to GDP:	25%	
Employment:	3.6 mi.	
Agriculture:		
Arable land:	80%	
Equipment, etc.:	20%	
Retail Trade (%)	1991	1992
Total sales	21.9	44.9
Food products	17.2	40.7
Non-food products	25.1	47.4
International Trade (%) (convertible currencies)		
Total exports	19.1	26.1

The Enterprise Structure of the Economy (Source: NCS)

State Sector	
Independent local Governments (regies)	859
Commercial companies	7,885
Private Sector	
Commercial companies	199,902
Joint ventures	21,056
Self-employed workers	196,306
of whom: family companies	67,385
sole traders	128,921

As of March 1993, the private agricultural sector, i.e. peasant farm households, accounts for over 70% of agricultural land; 80% of arable land, 34% of pastures, 93% of hayfields, 70% of vineyards and 66% of orchards.

The State owns 14% of agricultural land, 17,6% of arable land, 5.8% of pastures, 3.8% of hayfields, 26% of vineyards and 25% of orchards. In contrast, private farms own less than 20% of agricultural machinery, the majority of this being in State ownership.

2.4 Co-operative legislation

2.4.1 Development of co-operative legislation

The first law on co-operatives related to Peoples' Banks and was passed as early as March 1903. In July 1928 the General Co-operative Code was enacted, followed by a New Law on Co-operative Organisation in March 1929. Several amendments were made to this law between 1935 and 1941.

2.4.2 Current legislation

Those pieces of legislation currently applying to co-operatives are the following:

- Commercial Code, paragraphs 221-235, basic and general legislative standards;
- Decree-Law No.66/1990 regulating the organisation and operation of handicraft co-operatives;
- Decree-Law No.67/1990 relating to the functioning of consumer and credit co-operatives;
- Law No.36/1991 on the establishment of agricultural societies and associations;
- Law No.4/1977 concerning the social security system operated by the agricultural co-operatives for their members.

The laws and decree-laws mentioned above were followed by decisions of the national apex organisations which emphasised some of the co-operative characteristics and responded better to the new conditions of the market economy.

It is appropriate to mention that at the end of August, 1993, a Government order was adopted on the promotion of Small- and Medium-Sized Enterprises. This order also applies to co-operatives.

The legislation introduced following the Revolution in 1989 extended also to the regulation of the co-operatives. Before the Revolution, co-operatives had played an important role in the implementation of the Government objectives and linked a significant part of the population to the “Socialist” economy. The membership amounted to 3.5 million in agricultural co-operatives, 8 million in consumer co-operatives, 4.5 million in credit co-operatives and 420 thousand in handicraft co-operatives. Due to the scale of the co-operatives’ influence in the economic life of the country it was imperative that the situation and role of the co-operatives within the new economic-social system should be legally defined.

In this interest, the first step was to repeal the co-operative legislation adopted after the Second World War and “revive” the Commercial Code of 1897, which had never been cancelled officially, and which contained a special section regarding co-operatives.

As the Commercial Code currently provides the overall framework for the operation of co-operatives it is worth outlining some of the paragraphs relating to the legal status of co-operatives.

Article VIII, section VII contains fifteen paragraphs (221-235) which determine the status of co-operatives among the other commercial and civil rights companies.

Paragraph 221 declares that the statutes of any society may stipulate that its share capital can be increased by subsequent contributions from the members and can be decreased by the total or partial withdrawal of deposits. Societies whose statutes contain such a provision are called co-operatives and, in addition to their own specific rules, - the following paragraphs of the Commercial Code also apply to them. The status of co-operatives was similarly worded in the Italian Commercial Code, used as a basis for the Romanian legislation.

According to the general provisions of the Commercial Code, co-operatives are established by adopting an official document (par.222).

As far as authorization, publication of founding documents, obligations and responsibilities of elected officials are concerned co-operatives have to follow the same regulations as joint-stock companies. In respect of the General Assembly, balance sheet, auditors and liquidation, the rules applying to the commercial companies in general apply to the co-operatives as well, unless they contradict those as its provisions which relate to co-operatives.

Paragraph 225 stipulates that nobody can dispose of a share in a co-operative society worth more than 5,000 Lei. (It should be noted that this amount was fixed between the two World Wars and has been the same ever since).

Co-operatives are created if at least one tenth of the subscribed shares have been paid in by the members. Each member has one vote, irrespective of the number of shares they hold.

Members can leave the co-operative whenever they want to. Their declaration of withdrawal becomes effective at the end of the year, provided they submit the declaration before the last quarter of the year.

The new legislation following the Revolution was similar to that which preceded it, but made an attempt firstly, to decentralize co-operative activities and secondly, to reduce State interference.

Decree-Law No. 67/1990 on consumer and credit co-operatives extends co-operative activities to urban areas (Article 1) and emphasises the autonomy of co-operatives, which are to be regulated exclusively by this decree-law and the co-operative by-laws (Article 4). It is also stipulated that the State should support and assist co-operatives with raw materials, goods, equipment, credit, taxation facilities, building land etc.

Although the above decree-law was passed after the Revolution it does not take into account the newly-developing conditions of the market economy. In fact, its only advantage has been the clear definition of the legal status of co-operatives, the declaration of their independence from the State and the abolition of their “Socialist” character.

The policy issues laid down by Decree-Law N^o 66/1990 on handicraft co-operatives are no more successful than those of the consumer and credit co-operatives. Article 2 of the law stipulates, for example, that handicraft co-operatives should contribute “to the prosperity of the economic and social life of Romania”. This goal is reminiscent of co-operatives’ objectives within the centrally-planned economy. Co-operative principles are not reflected satisfactorily. Attention of the Central Union is focused on the maintenance of the co-operative patrimony. Interesting parts of this legislative text are, however, the provisions (Articles 28 and 31) concerning the organisation of social insurance, of medical care and, of social assistance to members, as well as invalidity pensions due to work accidents or to occupational disease.

The above decree-law begins by giving a definition of co-operatives as follows: handicraft co-operatives are economic associations voluntarily established by their members. Their aim is to carry out joint activities using means of production which are in collective ownership or rented. The co-operatives of handicapped persons which belong to the system of industrial co-operatives, aim to integrating these people into the production process. Handicraft co-operatives are independent economic organisations and constitute an integral part of the country’s economy. They carry out their activities in compliance with the law and their own specific decisions.

As conditions changed rapidly after the Revolution, the Central Union of Handicraft Co-operatives adopted several measures which aimed at better integrating the co-operatives into the process of privatization. Thus, for instance, Decision I of 26.04.1991 introduces the three basic

forms under which co-operatives are to be organised or reorganised: namely handicraft co-operatives (CM), handicraft co-operative societies (SOCOM) and co-operative joint-stock trading companies (SCCA).

Through this, a wide economic and social autonomy has been granted to the co-operative. It is now up to each General Assembly to decide which form its co-operative will assume.

Decision 1 also stipulated that co-operatives had to be registered in the Trade Register in compliance with Law N^o 26/1990.

After nearly three years of practical experience, both consumer-credit and handicraft co-operatives designed a new draft law to be submitted to Parliament. If this law is passed all other legislation which currently regulates the co-operatives will be superseded. The new draft law, which has already been discussed by the Economic Commission of the Parliament, expected to be passed in 1994:

- better reflects the international co-operative principles adapted to the Romanian environment;
- provides legal protection for the co-operative patrimony;
- foresees a sound relationship with the State by means of a support system (taxation facilities, etc.);
- gives a detailed definition of the co-operative structures and their competences.

The draft gives the following definition of the handicraft co-operatives:

Handicraft co-operation in Romania is a national system of the private social economy which is organised and functions within the conditions of a state of rights. It is based on the principles established in the Constitution of Romania and on those set by the international co-operative movement. Participation in the organisational forms of handi-

craft co-operation is based on the fundamental right of association and on the free choice of profession and workplace.

The organisations of the handicraft co-operation are set up and pursue their activities according to the principle of autonomy and democracy. The principle of the priority of people is manifest by specific dispositions relating to the conditions for joining and leaving the co-operative and for the exclusion of members, following the principle of one man, one vote.

Co-operative organisations are societies created to promote the interests of their members. They pursue their activities in order to satisfy the needs and promote the economic and social interests of members. They enable members to carry out social and professional activities jointly, and provide their members with social protection.

The new law proposes three organisational forms:

- * only one at primary level: the handicraft co-operative societies;
- * the consortium of handicraft co-operatives, which are formed through the association of at least three handicraft co-operative societies, Romanian or foreign individuals or legal entities. The share capital should not be less than 5 million Lei, composed of 20,000 Lei shares. Co-operative organisations must hold at least 55% of the share capital;
- * the associations of handicraft co-operative organisations that are secondary organisations at regional or national level.

Fully aware of the need for independence, the consumer and credit co-operative movement seeks State support in the following forms:

- a) exemption or reduction of customs charges to facilitate the import of raw materials, petrol, equipment, spare parts and transport necessary for production, services and investment;
- b) adoption of a taxation system which encourages the development of the activities carried out in consumer and credit co-operatives;
- c) the opportunity to rent or become owners - by virtue of law - of land for agricultural production or for the construction of economic and social establishments;
- d) the sale or rent of real assets (houses, or parts of houses currently owned by the State) to co-operatives;
- e) other measures promoting the improvement and development of consumer and credit co-operatives' activities.

Law N° 36/1991 on the establishment of agricultural societies and associations has been designed with the objective of helping small family farms to benefit from the advantages of co-operation.

At least 10 members are required to set up an association. Shares should cost not less than 10,000 Lei each. The minimum share capital, as well as the number of shares to be held by any one member, will be determined by the Statutes.

The constituting document, duly signed by all members, and the Statutes have to be submitted to the State Notary and registered at the Court.

If the member leaves the association he will regain the right to control the use of his land and his share will be repurchased.

By law, land having been allocated to former co-operative members during the land reform of 1991 cannot be sold for 10 years.

The associations are administered by the board of management, which consists of three to thirteen members elected at the General Assembly. The Board elects a President and a Vice-President from among its members. A quorum is ensured if over half the members are in attendance, and decisions require a two-thirds majority in order to be regarded as valid. The associations have a Control Committee of between one and three members.

2.5 Political lobbying

Secondary organisations, the national associations of co-operatives, realize that political lobbying is indispensable to ensure a better representation of co-operative interests.

In 1990 co-operatives formed their own political party. It was called Democratic Co-operative Party and provided a good opportunity for the co-operative sector to express its opinions.

A proposal was made for some of the parties to join forces. At first the Democratic Co-operative Party was not in favour of this idea, but later it had to accept that a coalition would only benefit the promotion of co-operatives. At the end of June 1993 the Co-operative Democratic Party, together with three other parties: the Democratic National Salvation Front, the Republican Party and the Independent Social Democratic Party, joined together to form the Party of Social Democracy of Romania. It now controls roughly one third of the votes within the Parliament. The House of Deputies has a total of 341 members. 117 of these are delegates from the Party of Social Democracy. The Party also holds 49 of the Senate's 143 seats.

Within the National Council of the Party of Social Democracy (407 members) the former co-operative party has 15 representatives.

There are two co-operative representatives delegated to the leadership of the Party, which is called the Executive Bureau and consists of 47 members, including a President, an Executive President, a General Secretary and 10 Vice-Presidents. Most recently the President of the handicraft co-operative movement was elected as one of the Vice-Presidents. This increases respect for the co-operative movement, and provides an excellent opportunity to spread the idea of co-operation, to raise public awareness of co-operatives and to create a favourable environment for co-operative development.

Among the first achievements of intensive political lobbying are

- * the inclusion of the co-operative sector in the scope of the Government order on the promotion of Small and Medium-sized Enterprises and,
- * the election of the UCECOM President to the Board of the Romanian Development Agency.

The next target is to get the new legislation on co-operatives passed. It is undoubtedly a tough battle.

2.6 Changes in the co-operative movement and their impact on its structure

The most relevant change has been the elimination of State dependence and the abolition of centralisation, reflected 'in the two pieces of legislation adopted shortly after the Revolution. This new framework enabled the national organisations to adopt several decisions which,

based on the Law, provided various alternatives from which the co-operatives could choose the most appropriate structure to continue their work. Co-operatives were offered the opportunity to transform themselves into other types of society.

It is worth mentioning that both, consumer-credit and handicraft co-operatives insisted on maintaining the name of co-operative.

As far as agricultural co-operatives are concerned, these had no choice. The new Government forced the liquidation of production co-operatives, which was accepted by the members, who hoped to be allocated their own plots and to start farming on their own account.

The privatization of agriculture resulted in the redistribution of the land previously used by the co-operatives. Roughly 5.3 million people were each allocated 1.8 hectares of land.

In enforcing the Land Law and the Law on agricultural companies and other associative forms, important changes occurred in the property structure of the land, such as the redistribution of the land following the disbanding of the former agricultural production co-operatives.

In 1992, 2.7 million hectares (40%) of land were cultivated in large areas, and 9.2 million hectares were parcelled into small plots. 3,632 new agricultural associations with legal status came into being, comprising 1,655,000 hectares owned by 645 families. In addition, 11,558 other groups were formed, farming a total of 1,688,000 hectares. This was a natural consequence of the small size of private farms, the average size of which is under 1.5 hectares.

The main change over the last three years is the fact that the land and livestock tenure structures were modified in favour of the private sector. There are, however, some discrepancies which still lead to major malfunctions of the agricultural sector, namely:

- the private sector owns over 70% of the agricultural land, 80% of the arable land, 34% of the pastures and 93% of the hay-fields;
- in contrast, private farms own less than 20% of all agricultural machinery.

Therefore, the Government appreciates that the main obstacles against the strength and prosperity of the rural informal farming groups - seen as basic structures in the rehabilitation of the agricultural sector - are:

- a) the delay in applying the Land Tenure Law, means that the new ownership structure is still not fully operational;
- b) the fact that most of the land and livestock is in private ownership, whereas the majority of agricultural machinery is in the hands of the State, generates economic and social conflicts;
- c) maintaining a centralized system for the purchasing of some crop and livestock products;
- d) transferring financial bottlenecks from State institutions (commercial companies with State capital) to the producing farming units, by the late settlement of agricultural transactions.

The consumer co-operatives' production and processing units now operate in the form of limited liability or joint-stock companies. Co-operatives and their regional and national federations are the main shareholders in commercial societies and in the co-operative bank (see tables under 1.4).

Handicraft co-operatives are also majority shareholders in several commercial societies, foreign trade companies and financial institutions. Of the 880 handicraft co-operatives 29.5% have chosen the form

of commercial co-operative society (SOCOM), 28.5% the joint-stock company form (SCCA) and 42% still function as simple CM, i.e. traditional handicraft co-operatives. After more than two years of experience this choice has been re-evaluated, and the new draft law proposes to retain only the SOCOM form.

In co-operatives, privatization took the form of personalising the joint co-operative assets. This has been completed and former co-operative members and employees now have the right of ownership to a given proportion of the co-operative property in the form of shares. These shares, however, had to be kept in the co-operative.

Globally, the number of co-operatives has decreased during the past three years. This is largely as the result of an ongoing process of consolidation, particularly through mergers.

As to members, in 1988 consumer co-operatives had a membership of over eight million, credit co-operatives 4.5 million and handicraft co-operatives 420,000. The numbers fell when the retirement age was reduced, for example 60,000 members left the handicraft co-operatives. Yet more members left for the attractions of private agriculture.

At present handicraft co-operatives have no paid employees who are not members, although they might employ people, on a contractual basis for certain jobs requiring special skills. Consumer co-operatives had 220,000 employees in 1988, but now employ less than 150,000.

The staff of regional and national organisations was cut back radically. In CENTROCOOP, for example, from 500 to 100.

In the scope of activities, which is unlimited, increasing emphasis is laid on trade because this branch produces the highest revenue within the shortest period of time. Profitability has fallen considerably: from 8.5% in 1989 to 5.7% in 1992 in the case of handicraft co-operatives. From

1991 onwards co-operatives have had to make more use of credit. As bank interest rates have often reached 90% this has almost totally consumed their profits.

3. Future Options for Co-operatives

3.1 Assessment of the major trends of changes

If the new legislation is passed, further possibilities and more alternatives will open for co-operatives, with the possibility to gain a growing share in the national economy.

Development as part of the SME sector, eventual support and technical assistance from international funds, promoting this sector are most likely to give an upswing to development.

The participation of co-operatives in the privatization of State companies, or the transformation of former State enterprises into co-operatives might also be a promising area to explore.

Joint-stock companies - a magic word - might grow in number for a certain period of time. At the moment this is a more attractive company form than the co-operative one because it guarantees a vote according to the financial contribution of the shareholder, i.e. a greater say in running the business as one's investment in that business increases.

Co-operative banks may develop further, serve co-operative interests more closely and be transformed into real central finance facilities for credit co-operatives.

The impact of lobbying is bound to increase, and the active participation of co-operative delegates in the political parties may improve the overall public image of co-operatives.

A better representation in the Development Agency of Romania may lead to support for the establishment of new co-operatives, even in the area of agriculture.

The concentration process will continue, and with it the decentralization of responsibilities and decision-making.

It is also probable that the provision of services by secondary organisations will cease to be free of charge, but will be placed on a business footing. If regional federations and national apex organisations want to gain recognition they will have to ensure that the services which they supply satisfy the needs of co-operatives and co-operators.

Co-operatives will have to cope with an increasing amount of competition from within the private sector.

A better understanding of market relations and the workings of democracy will help co-operatives to become strong, viable business organisations.

Independence will certainly not exclude the need for support from Government agencies.

The essential problem with the ownership structure is the family farm. These units are too small to become the main supplier of food in Romania, as in all developed European countries. In order to consolidate these family farms, certain steps should be taken. One third of farm owners are not farmers, and many do not even live in the countryside; about 23% are elderly; only 30-40% are real farmers. The findings of a recent survey indicate that 90% of those who have benefited from the

privatization of land and live in towns do not want to set up a farm; 80% of rural land-owners do not want to take out any bank loans; 56% of rural land-owners plan to rely on Agromec mechanization services; and only 1 or 2% want to buy more land.

Commercial companies formed with State capital (the former IAS) are also subject to privatization. The new economic units are organized according to the principles of joint-stock companies, in which the private farmers (those who worked in the former IASs) have shares representing 300,000-500,000 hectares of agricultural land, i.e. 15-25% of the total shareholding. The commercial companies will continue to represent an important sector of agriculture as they are great producers of commodities, owning 70% of all fixed assets. At the same time they promote economic development and technological progress in agriculture. If State property in the agricultural sector is not operated in an economically viable manner its value will continue to diminish.

The biggest challenge facing Romania in the short-term is to maintain the level of its foreign currency reserves and control inflation. The Government budget for 1993 targets a reduction in inflation by the end of the year, but it does not spell out the strategy that will be applied in the pursuit of this goal.

3.2 International assistance needs

Romania would like to benefit from the solidarity of the international co-operative movement in order to regain, first and foremost, the good image of co-operatives. Assistance of this kind would affect both public opinion and Government agencies. By making use of a convincing armoury of arguments it would be easier to convince policy-makers to provide co-operative organisations with more opportunities to become an integral part of the private sector. There are no more legal obstacles

in this respect. Examples should be made available to show how genuine co-operatives, based on private property, serve their members in the developed countries and contribute simultaneously to an overall economic progress.

In addition to technical assistance provided by consultancy firms, co-operatives and their federations at regional or national level would welcome partner organisations from countries with a well-established co-operative movement ready to make a corporate commitment to institutional support that would continue beyond the lifetime of a project. They are in need of institutional development programmes, and of information services for co-operative members. Training for the co-operative staff and management, and for the elected officials is a key issue. This would start from basic information about co-operative democracy and progress through successful business administration to political lobbying.

One way of strengthening consumer and handicraft co-operatives would be to help them establish mutually advantageous export-import business contacts, thus facilitating their access to new markets. Barter agreements, avoiding the flow of currency, would be also beneficial. The creation of joint ventures in production, trade and services enjoy full support in terms of legislation.

In the financial sphere inter-bank collaboration should be promoted in order to facilitate the development of a flexible system for efficient financial operations and better conditions of payment. The whole co-operative insurance business is still in its infancy.

If Parliament passes the new draft laws, the co-operative legislation will be more-or-less in place. It would be advisable, however, for a general review to be made in order to see how much it reflects the requirements of the market economy and whether it is compatible with European co-operative legislation, whilst still maintaining the local characteristics of the country.

Farmers, in particular, would benefit from training and technical assistance regarding how they might make a living from a small plot of land. Consumer co-operatives have traditionally been engaged in providing services to farmers. This could be reinforced, and other possible ways presented, such as agricultural supply, processing and marketing co-operatives.

The most recent Government order on the support of small and medium size enterprises indicates that some international advice or extension service could well be helpful in finding out how co-operatives could best benefit from the assistance programmes provided for SME development.

The role of lobbying is gaining ground in Romania as well. Although the co-operative movement already has a certain amount of experience in this "profession" it would benefit greatly from the advice of more experienced practitioners.

The Romanian Government has facilitated the flow of foreign capital by passing Law N° 35/1991 on foreign investment. At the beginning of May, 1993, foreign capital invested in Romania amounted to US\$ 661.5 million, and the number of commercial companies with foreign participation was 25,053.

Among the main sectors attracting foreign investments are trade, tourism, light industry and the food industry: all activities in which co-operatives are involved.

Furthermore, co-operatives could benefit from other pieces of legislation, such as the Law N° 58/1991 on the privatization of commercial companies. The question is how. This needs certain capabilities of interpreting and applying paragraphs of the law for the benefit of co-operatives.

Besides direct foreign investment, the privatization programme has had the result that existing economic units are beginning to attract interest from foreign capital in the form of portfolio investments.

Several international and national organisations, such as the World Bank, European Bank for Development (EBRD), the European Union's PHARE programme, the International Monetary Fund, the European Investment Bank, the Société de développement international Desjardins (SDID), etc, have been involved in development programmes in Romania.

4. Contact Organisations

Central Union of Handicraft Co-operatives - UCECOM

President: Dumitru Danga
Address: 46-48 Calea Plevnei
Bucharest 1
Tel: (40-1) 614 1566
Fax: (40-1) 312 0774
Telex: 10585

Central Union of Consumer and Credit Co-operatives - CENTROCOOP

President: Dr. Ioan Vetrineanu
Address: 31, Brezoianu Str.
Bucharest 70711
Tel: (40-1) 615 9061
Fax: (40-1) 614 2991
Telex: 11591

Bank for Small Industry and Free Enterprise - MINDBANK

Executive Chairman: Ioan Prundus
Address: 46-48 Calea Plevnei
Bucharest 1
Tel: (40-1) 613 0788
Fax: (40-1) 612 0031
Telex: 10585

Management, extension and training centre - CEPECOOP

Director: Petre Ispas
Address: 20 Mihail Maxa
Bucharest 1
Tel: (40-1) 659 2710
Fax: (40-1) 725 4719

The Co-operative Credit Bank S.A. - BANKCOOP

President: Alexandru Dinulescu
Address: 13 Ion Ghica
Bucharest
Tel: (40-1) 311 2957
Fax: (40-1) 312 0037
Telex: 11202

Research Institute of Soil Science and Agrochemistry

Director: Prof.Dr. Corneliu I. Rauta
Address: 61 Bd. Marasti
71331 Bucharest
Tel: (40-1) 312 3979
Fax: (40-1) 312 3979

Ministry of Agriculture and Food Industry

Director: Nicolae Dinu, Economic Policy Division,
Foreign Affairs
Address: 24 Bd. Carol I
Bucharest 1
Tel: (40-1) 614 4020
Fax: (40-1) 613 0322
Telex: 11217

National Bank of Romania

Deputy Director: Gabriela Tudor
Address: 25 Lipseani Street
70421 Bucharest
Tel: (40-1) 312 7186
Fax: (40-1) 312 7199
Telex: 11136

Romanian Development Agency

Senior Project

Executive: Leodina Muscurel
Address: 7 Bd. Magheru
Bucharest
Tel: (40-1) 613 8201
Fax: (40-1) 613 24 15
Telex: 11027

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Footnotes

- ¹ Rate of exchange in August 1993: US\$ 1 = Lei 836.
- ² The smallest administrative units are called communes.
- ³ Decree-Law = “decret-lege” in Romanian. Until the elections of 20 May 1990, the National Salvation Front (the provisional Parliament) not only enacted laws but also passed legal regulations under the name of Decree-Law.
- ⁴ NCS = National Commission for Statistics.

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