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REPORT

of the

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41st International Co-operative Seminar

Nicosia, Cyprus. 14-25 October 1973

SELF-HELP AND OUTSIDE HELP IN  
FINANCING  
CO-OPERATIVE ACTIVITIES



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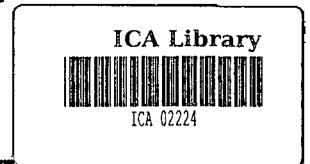
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Mr. D.L. Wilkinson, for acting as Rapporteur

Mr. W.P. Watkins, for the preparation of the  
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# SELF-HELP AND OUTSIDE HELP IN FINANCING COOPERATIVE

## ACTIVITIES

Report of the 41st International Cooperative Seminar

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### PART I - THEME, ORGANISATION, PROGRAMME

#### Theme

The choice of a financial theme for the 41st International Cooperative Seminar was largely determined by the consideration that the proceedings of such study courses shall be of practical benefit to the affiliated organisations of the International Cooperative Alliance invited to nominate participants. Finance is of universal concern to cooperatives of all types. If an understanding of Cooperation's true principles is the animating breath of Cooperative enterprise, a sound method of financing is the blood-stream which nourishes its growth. Self-financing is indispensable to Cooperatives, not only in order that they shall maintain their democratic independence of external control, but also in order that they shall effectively preserve their character of institutions based on and inspired by self-help. This however, does not mean in this day and generation that cooperatives should not seek and should even decline outside financial help. Neither in the countries of advanced industrial development nor in those in the early stages of modern economic evolution can many kinds of cooperative afford to dispense with outside financing if they are to perform the tasks which their members or their governments expect of them.

Historically many Cooperative Movements could never have been effectively launched without external financial help. If they have been successful they have been able to an increasing extent to capitalise their own activities and so embody the idea of self-help. On the other hand Cooperative Movements, especially of consumers, which in past generations have been able to follow the Rochdale Pioneers in providing their own capital from their own surpluses and their members' savings, find today that they are unable to keep up with their competitors in trade or play new macro-economic roles on their internal resources alone. Self-finance and outside finance at any stage of cooperative development are not alternative, but complementary to each other. The practical questions are to find the proper balance between them and determine their respective roles in an adequate financing system.

## Location and Sponsorship

The Nicosia Seminar was not the first which the ICA had held in the Eastern Mediterranean. The previous one was held in Athens in 1961. The object of both was to enable the ICA's members in the region to participate more fully and at less expense than is possible for them if the annual Seminar is constantly located in Europe and North America. The choice of Nicosia as a centre was obviously indicated because of its geographical position, its excellent air communications and its importance as the headquarters of both the Greek-speaking and the Turkish-speaking Cooperative Movements of Cyprus which can offer for study considerable variety of flourishing co-operative enterprises, supported by an efficient banking organisation. These advantages had been well-known and utilised for many years by the UN Specialised Agencies, ILO and FAO, promoting Cooperation. Their successive seminars and courses had given the Cooperative organisation valuable experience in entertaining Cooperative students from other countries and answering their enquiries.

At all stages of the preparation and conduct of the Seminar the International Cooperative Alliance had the assistance of the officers of the Cooperative Central Bank Ltd., which appointed its Deputy Secretary Manager, Mr. G. Petrides, to serve along with Dr. L. Sieber, ICA Secretary for Education, as Co-Director. The Government of Cyprus through the Department of its Commissioner for Cooperative Development and the Cyprus Turkish Cooperative Central Bank Ltd., also lent active support. The International Labour Organisation was represented by a member of its Cooperative, Rural and Related Institutions Branch.

## Opening and Reception

The opening session of the Seminar was attended by the Chairman of the House of Representatives, Ministers and other members of the Government, the Mayor of Nicosia, the Commissioner for Cooperative Development and members of the Diplomatic Corps. The Seminar was formally inaugurated by the Minister for Commerce and Industry who was the representative and spokesman of the Government of Cyprus. A cordial welcome was extended by Mr. A. Azinas, Commissioner for Cooperative Development, in the name of the national Cooperative Movement and the Cooperative Central Bank, and by Mr. M. Eshref on behalf of the Turkish Cooperative Movement in Cyprus. The President of the Republic, His Beatitude Archbishop Makarios, sent a message of greetings and later received the whole body of participants at the Presidential Palace. The Seminar participants were also received by the Vice-President of Cyprus in the course of their visit to the Turkish quarter of Nicosia.

## Participation

Nowwithstanding the outbreak of war in Egypt, Israel and Syria within a few days of the opening date, with four consequent cancellations by National Organisations which had nominated participants, the total attendance exceeded 60, representing 15 nationalities. Dr. S.K. Saxena, Director of the ICA, was present for the first part of the course.

The countries represented can be grouped, according to their economic regimes and degree of cooperative development, in three categories. The largest group comprised market-economy countries:- Austria, the German Federal Republic, France, Japan, Sweden, the United Kingdom and the U.S.A. The second category consisted of four European countries with socialist planned economies - Czechoslovakia, German Democratic Republic, Hungary and the U.S.S.R. The third comprised newly emancipated countries with developing economies - Malaysia, Zambia and Cyprus itself, with its Greek and Turkish Cooperative Movements.

In respect of cooperative allegiance, it is noteworthy that the majority of the participants came from consumers' cooperative movements which constitute the largest element in the ICA, but the other forms of Cooperation such as agricultural, credit, workers' productive, and marketing societies were also represented. If these were somewhat under-represented, it may nevertheless be accepted that the composition of the Seminar reflected almost all the important points of view from which the problems of financing could be considered and therefore constituted a sample from whose varied experience, enhanced by discussion, some valid general conclusions and recommendations might be drawn.

## Programme and Methods

The work of the Seminar was planned in two parts: theoretical and practical. In other words, a series of discussions, lasting the whole of the first week, for which a number of working papers had been prepared in advance, preceded a series of study-visits to cooperative enterprises of various types in different regions of the island. Two lectures on the opening day of the course provided a groundwork of information for these visits, which brought the participants from abroad into close contact with the institutions' activities and, not least, the personnel at all levels of the Cooperative Movement in Cyprus. For details the reader is kindly referred to the Appendix.

The discussion of the main theme began on the 16th October, two and a half days being devoted to the presentation and consideration of the working papers in plenary sessions. These provided the basis for a wide-ranging exchange of experience, not merely from country to country but from one branch of Cooperation to another on the organisation, practical problems and techniques of financing. With a useful body of common

knowledge and information the participants were able to pass on the third afternoon to discussion in groups, the questions for which were partly proposed by the Directors of the Seminar and partly thrown up in the course of the course of the preceding plenary sessions. Group discussions continued the following morning when the conclusions of the different groups were reported, discussed, and summed up by the general rapporteur of the Seminar, Mr. D.L. Wilkinson (UK). A return to plenary session was made for an exchange of experience on international aspects of financing and on training programmes. The final day was divided into group discussions for the formulation of recommendations and a concluding plenary session for the rapporteur's summary and a concluding address by Dr. S.K. Saxena, Director of the ICA.

## PART II - PROCEEDINGS

For the following report of the proceedings the ICA is indebted to Mr. D.L. Wilkinson, the general rapporteur of the Seminar, and to Mr. W.P. Watkins who edited the material.

### A. PLENARY DISCUSSIONS

Monday, 15th October, 1973

#### Introduction to Cooperation in Cyprus

The first day of the Seminar was devoted to two papers from Cyprus. In the first Mr. G. Petrides gave an outline of the Movement in Cyprus, its origins, its achievements, its place in the economy today, and its prospects for future development. This paper served as an introduction for all the participants, and gave the opportunity of learning at first hand the structure, size and scope of cooperatives in Cyprus. Mr. Petrides also referred to the role played by the Cooperative Bank in the Movement's activities and the Movement's role in the national development efforts. He emphasised the importance of 'self-help', practised by cooperators, as a method recommended by the Central Organisation to all the cooperatives which it helped establish over the years.

The second paper on Cyprus, "Thrift as a major factor enhancing Self-finance", was presented by Mr. A. Mavrommatis, Assistant Commissioner for Cooperative Development.

In his paper Mr. Mavrommatis made out a strong case for thriftiness



for individuals, for cooperatives, for organisations and for nations. He illustrated this by the wide range of savings and banking facilities provided by the Cyprus Cooperative Movement for its members, and in this way showed how the encouragement of thrift had been a major factor in cooperative development in the island. In this manner he conveniently gave, at one and the same time, a further insight into the Cypriot Cooperative Movement and introduced the theme of the whole Seminar. This also helped greater understanding of the role played by the Department of Cooperative Development, which could be described as supervisory, but also as a spur to the Movement to explore new possibilities.

Both papers on Cyprus provoked a great deal of question and comment, while presenting a reasonably concise account of the Cooperative Movement in Cyprus today. Whilst the Movement was pleased with the progress which it had made with credit, consumers' and marketing cooperatives, there were a number of matters with which it would need to concern itself in the future:

- stabilisation, i.e. the need to be more broadly based, as exemplified by the repercussions of the present drought;
- increasing competition from private firms;
- intensification of the structure, i.e. import or manufacture of a range of goods for re-sale;
- establishment of light industries to reduce imports;
- investment in marginal industries when sufficient capital becomes available;
- investigation of new techniques for raising capital.

Tuesday, 16th October, 1973

#### Financing Consumers' Cooperation in Advanced Economies

A series of papers based on the theme of the Seminar were presented by various participants. The procedure usually adopted was that two lectures were presented, followed by a question and answer session under the chairmanship of another participant. This gave every one the opportunity to clarifying any points which had been made by the lecturer, and enabled the lecturer to expand on aspects of the paper which presented a particular interest.

(1) "The Financing and Credit System for Consumer Cooperatives in the USSR"

In her paper Mrs. E.P. Vassyukhina of Centrosoyus gave a detailed descriptive account of how cooperatives in the USSR are financed, and how the objectives of this financing formed a part of the State Five Year Plan.

Own capital came from:

- (a) profits from the organisations' economic activities and
- (b) from members' entrance fees and share contributions.

Outside finance was provided by the State Banks,

- (a) as a source of working capital, and
- (b) to finance new developments and activities - i.e. direct aid.

It was explained that 35% of gross profits were paid in tax to the State. The distribution of profits was determined by the Union or Congress on recommendations from Centrosoyus. A typical distribution was as follows: dividend - up to 20% (most of which was utilised for the development of new shops); capital investment - up to 35%; training - up to 4%; social and cultural purposes - 3-6%; personnel remuneration fund - 3-6%; and the balance (about 35%) allocated to the fixed fund. Details of these various funds, and how they form part of the overall financial structure, are given in the full text.

Mrs. Vassyukhina explained that all development policies were decided by Centrosoyus, although prices for goods were determined by the State, taking into account the costs of production, the nature of the goods themselves, and the market for them. Goods received by cooperatives were subject to an average discount of 11% from which all expenses had to be met. Profit after tax represented about 1.3% of retail turnover. Interest payable on loans from State banks was at a very low level - as was interest paid to members on their savings with the cooperatives. The only conditions attached to loans from the State banks were repayment to the agreed time scale. A higher interest charge was made when any loans were not paid in accordance with the time scale.

(2) "Problems of Financing Consumer Cooperatives in the GDR"

This paper was presented by Dr. L. Schmidt, Vice President of the Consumers' Cooperative Union, VdK, who stressed the importance of finance in the development of consumer societies, which were most important economically from the national view point. In the GDR, consumers' cooperatives had 4 million members, 30,000 sales points and 35% market share with an annual turnover in excess of 25 billion D. Marks. Yet there

was still scope for further expansion and for improved efficiency and this would require further large scale finance.

Own funds provided 96% of total funds, and therefore there was only a very small amount of outside finance. New projects were generally financed 35% from credits (loans) – the balance coming from own funds. Some 90% of 'circulating' capital was self-financed, the balance being provided by credit facilities.

All credits were provided by central funds, which had to be repaid before the end of the maximum period of 3 to 5 years. Members' share capital provided only a small proportion of development finance, and the societies centralised a proportion of their profits so as to have them available for the weaker societies. In some cases such loans became free and non-repayable by the recipient societies.

Dr. Schmidt referred to the need to give attention to good management if economic progress was to be achieved, and pointed to annual increases in profits of between 6 and 10% which had been achieved. Nevertheless, this was not to say that there were no problems – indeed there were and these were being vigorously tackled.

(3) "New Methods of Financing in French Consumers' Movement"

Presented by Mr. J. P. Miège of the regional consumers' cooperative, 'Les Coopérateurs de Champagne', and of the Banque Centrale des Coopératives, Paris, this paper expounded three aspects of financing which were somewhat removed from the traditional approach in France:-

(a) Conversion of dividends into share capital:

Some societies were making provision to convert a proportion of dividend due to members into share capital, thus enabling the society to increase its own funds, without liability to 50% tax payable if similar amounts were put to reserve.

(b) Balance sheet analysis:

The conventional approach to analysis by a comparison of ratios was being developed by looking more closely at what was called 'the dynamic concept of circulating capital'. This involved trying to find the necessary and adequate level of the circulating capital by investigating the various elements which form part of the ratio calculation. It was explained that an excess of circulating capital meant that a society was being wasteful in its use of resources, and that in the light of such an analysis, steps could be taken to rectify the matter.

(c) External Finance by Guaranteed Credit:

An arrangement between the local society and the bank whereby an agreed amount of credit was available at any time at the society's request, for a specified period and up to an agreed ceiling. The advantage to a society of immediate availability coupled with the ability to adjust the amount exactly to requirements and thereby minimise costs was seen as a distinct improvement over other forms of credit which are available.

M. Miège explained that traditionally the main source of finance for societies had been capital provided by the members, but this was now insufficient. The need for new shops and warehouses, the adaptation and modernisation of existing premises, and hypermarket development were all very expensive. Therefore, new forms of raising money had to be explored, and in view of its scarcity, more sophisticated methods of assessing priorities for its use had to be developed.

This paper provoked considerable interest. It was suggested that in times of inflation there must be some doubt as to whether self-financing was better than outside financing. On the issue of converting dividend to share capital, it might be considered preferable to undertake the alternative, i.e. make allocations to reserve funds and meet the tax due, for at least the amount retained was by this means collectively owned capital and not subject to withdrawal - even at a deferred date. It was also suggested that compulsory allocations to share capital might produce an unwanted situation in that membership appreciations were consequently reduced. Therefore, it appeared essential that some limit should be specified so as to keep the correct balance.

(4) "New Aspects of Financing in the Consumers' Cooperatives in the FDR"

Dr. Rewerk of Co-op Centrale AG, Hamburg, Federal Republic of Germany, in opening his lecture made reference to the reconstruction of the Movement in his country which had been necessary after the last war. Rebuilding had started in 1948 and much was achieved without government or state help. Self-help had been the only option open but this had not been sufficient to undertake the scale of development required. The consumers' cooperatives had to turn to outside sources for capital, and the average level of outside financing was as high as 75% in the late 1950s and early 1960s.

However, development was essential and forced the Movement to create a number of special finance institutions. With the coming of self-service a much higher level of finance was required, for, whereas some 300 to 350 DM per square metre was needed to develop a traditional style shop, the requirement for self-service stores was in the region of 1000 DM per square metre.

Whilst there was a pressing commercial need to establish self-service stores, the effect of their introduction on the relationship between members and their societies was causing some concern. Members became anonymous under the self-service system. It was necessary, nevertheless, to keep abreast of changing methods of retailing, and therefore capital requirements continued to increase.

The specialised institutions established were Co-op Real Estate Fund, which provided a means of investment in consumers' societies' land and buildings; a Leasehold Premises Company which was mainly concerned with providing finance for equipment (i.e. movable assets); a holding company for trade and industrial buildings; and a co-op construction company to provide guarantees in respect of consumers' societies' fixed assets.

Dr. Rewerk explained that whilst these specialised institutions were successful, it was only to a limit extent, and they did no more than reduce the reliance of the Consumers' Movement on outside sources of finance.

These problems were the major topic at the Reform Congress held in 1972, when a programme of rationalisation was agreed upon, together with the conversion of GEG into Co-op Zentrale AG - which was to be a limited company. The effect of this was to give the Wholesale Society a new capital structure, and, it was hoped, enable additional capital to be raised, whilst at the same time ensuring that the majority of capital was always held by the consumers' societies. Dr. Rewerk explained the five stages in the process of capital formation which were proposed, and which are set out in the outline of his lecture. Co-op Zentrale AG came into existence early in 1973.

In response to questions on the techniques being employed by the consumers' societies in the Federal Republic, Dr. Rewerk expressed the view that there was no difference in the techniques as between cooperatives and the private sector, but the substance was different. This he considered was justified in view of the difficult period which the societies were experiencing.

(5) "The Optimum Combination of a Cooperative's Own Capital and Loan Capital"

The paper presented by Mr. H. Perklen was based on studies made in Sweden, which had set out to determine the optimum combination of 'own' capital and 'loan' capital. Whilst on the face of it

this paper appeared to be a theoretical exercise, it proved to be a highly stimulating one, and its presentation clearly demonstrated the value of such exercises.

Commencing with the premise that the objective of any enterprise is to expand, the studies had taken into account that borrowing would be necessary to sustain rapid growth. But it was essential to be able to answer the questions "How much should we borrow?" and "Have we borrowed too much?"

Whilst the lecturer could not give an unqualified answer in all circumstances, nevertheless the programme which had been developed could give a useful indication in the circumstances postulated. The paper is reproduced in Part III.

One aspect of the paper which raised queries from a number of participants was concerned with the question of definition of 'own' capital. The theme of the Seminar concerned "self-help" which clearly embraced all funds from "within", as opposed to funds from "outside" organisations. However, the Swedish definition of 'own' capital was not quite so clearly understood. In Swedish terms 'own' capital was defined as share capital plus reserves, but it was apparent that the nature of the share capital would need to be clarified. In some countries, it was pointed out, share capital was withdrawable either on demand or at relatively short notice.

In certain circumstances 'own' would be understood to be the 'free' or collectively owned element in an organisation's funds, upon which there could be no call by individuals. Own capital would, therefore, be that which had been retained from profits over a period of years.

#### (6) "Finance for Developed Consumer Cooperatives"

In 1972 the Annual Congress of Cooperatives in the United Kingdom set up a "Capital Resources Study Group" to make an assessment of the Movement's available capital resources, and to investigate how capital could best be provided for the purposes of necessary development and modernisation.

The paper presented by Mr. D.L. Wilkinson was based on the report and studies undertaken by this Group. In the UK consumers' societies had gone through difficult times - deteriorating trading performance had given rise to a lack of confidence on the part of members, and the Movement had experienced large scale withdrawals of share capital. There was a much higher level of competition for small savings from many sources, and societies had been slow to adapt to these changes. Owing to declining dividends, automatic accretions

to capital from dividends had fallen; and in consequence of these factors the Movement's share capital, which had traditionally been the principal source of finance, could not be relied upon to provide the capital required for development.

The study Group had concluded that much more emphasis should be placed on attracting loan capital, preferably for a fixed term, and offering a rate of interest which was comparable with the existing market situation. It suggested some national cooperative schemes for raising this form of capital which should be applied under the guidance of a Capital Advisory Committee. The Study Group had also strongly emphasised that a much higher proportion of profits should be retained for development purposes.

The lecturer stressed that a great deal could be achieved by self-help, provided that efforts were made to explore new possibilities. The introduction of dividend stamps met with considerable resistance within the Movement, but they were now accepted and used by nearly all societies. Their use had played a considerable part in enabling societies to retain a larger proportion of profits. Full support needed to be given to the central financial institutions, by channelling all surplus funds in this direction. In this way the central body was able to use these funds itself for capital-raising operations, whilst enabling the societies requiring finance to tap this source of supply.

The Study Group had played a useful role in pointing the Movement's attention to areas where there was scope for solving some of the problems which were encountered. However, there could be no instant solution; self-help could provide some additional finance; outside help was also necessary, certainly in the short term, but such finance could only be on market terms; all depended upon success in a business sense, for evidence showed that successful organisations had few problems in raising finance.

Wednesday, 17th October, 1973

Financing Cooperatives in Socialist Planned Economies

- (1) "Cooperative Finance in Czechoslovakia"
- (2) "Self-Help and Outside Help in financing the activities of Cooperative Societies in Hungary"

These papers, which were taken and discussed together, were descriptive of the situation in two countries with planned economies, and contrasted with the immediately preceding papers. Mr. Filadelfi from Czechoslovakia

and Dr. Toth from Hungary explained in turn the methods by which the cooperatives were financed in their own countries, and both particularly made reference to the relationship with the State in financial matters.

Of particular interest to participants were questions of price control, and how the cooperatives operated in such a situation. It was explained that price-control in Czechoslovakia was very strict, but the cooperatives were able to control their own prices in some areas of the economy.

Cooperatives were able to obtain loans from the State Banks, although the intention in Czechoslovakia was to use such facilities only for short-term credits. In Hungary, State subsidies are given to maintain less profitable, but socially desirable activities.

### Financing Cooperatives Other than Consumers'

#### "Cooperatives, Credit and Changes in Japan"

This paper, prepared by Mr. H. Ohmi, was presented by Mr. S. Takeda of the Central Cooperative Bank for Agriculture and Forestry in Tokyo, and very extensively described the present-day situation of the agricultural cooperatives in Japan.

The development of credit facilities had been very notable, particularly as interest rates on deposit accounts were fixed by law in Japan. A depositors' protection system had been introduced in 1964, under which members' deposits were guaranteed in advance by an accumulating fund, which was controlled by the Central Cooperative Bank.

The major problems with which cooperatives were faced stemmed from urbanisation, the rice surplus, unemployment, and the inflation of land prices. However, the multi-purpose societies had been able to increase their deposits, due in part to the increasing prices of land, but also to savings campaigns which had been embarked upon with considerable success.

These multi-purpose societies did have consumers' sections, but sales were limited to members.

Thursday, 18th October, 1973

#### 1. The State and Cooperative Financing

(1) "The State and Financing of Cooperatives in France" Mr. Sot of the French Cooperative Credit Bank presented the paper of Mr. J.B. Gins, its



Financial Director. He explained that there were various methods of help available from the State, but it was necessary to understand the State attitude towards all business. France had a mixed economy, and the government approach was to put all sectors on the same footing.

There were, therefore, no preferential financial arrangements for cooperatives. Applications for loans had to be made, backed by full details of the proposed programme. This was then examined at the highest level, and if approved, then a loan would be made available. The initiative lay with the cooperative, or any other organisation, to make an application. Mr. Sot emphasised, however, that the role of the State in relation to cooperative financing was not a simple one, and various factors had to be taken into account. He made special mention of the developments which were likely to affect the situation within the EEC.

There was an urgent need for cooperatives to develop their own resources and in doing so to work more closely together in order to make the most of the combined resources. Too much State aid might not be in the longer term cooperative interest in the French economic situation.

(2) " The State and the Financing of Cooperatives in the German Democratic Republic "

Dr. L. Schmidt of Vdk explained in a second paper that the relationship between the State and cooperatives in the GDR was an excellent one and highly favourable to the cooperatives. The State was anxious to promote cooperative enterprises, and therefore provided land and buildings free of any charges, credit on very low terms, and some subsidies for consumer goods. The profits arising from the operation of cooperatives were returned to the members.

The help given by the State did not in any way affect the independence of the cooperatives. They were quite free to make their own decisions. However, the State did expect certain obligations to be fulfilled by the cooperatives:

- (a) They were expected to pursue a policy of production and distribution of all commodities and also to develop the associated techniques, which could then be made generally available. Dr. Schmidt explained that there was a continual exchange of information on these matters between the cooperatives and the State.
- (b) The cooperatives were expected to increase their turnover, and even take up unprofitable activities which were

of benefit to the community as a whole.

- (c) The Cooperatives had to provide food for schools and factories.

Despite the aid from and good relationship with the State, the cooperatives nevertheless had their problems, and these arose every day in one form or another. They were concerned that their own objectives for the future should correspond with the cooperative idea, and also with State proposals. On the practical plane, there was considerable need for specialists of all kinds, and the problem of meeting this requirement was an urgent one.

On financial matters, credits were readily available from State banks without conditions, but of course with interest. The Movement had to pay a general tax to the State – as a percentage of current assets, and also had to pay income tax. These taxes were paid by the consumers' societies to the municipal authorities, who in turn transferred them to the State.

The State also operated consumer services in the GDR, which provided numerous opportunities for the cooperatives as the State could buy supplies and rent premises from them.

## 2. Personnel Planning and Training

"Personnel Planning and Training – An Important Instrument of Self-Help for the Economic Advancement of an Independent Cooperative Movement"

Dr. A.E. Rauter, Director of the Austrian Consumer Cooperative Union, was concerned in his paper with self-help in the field of personnel planning and training. Economic growth was not sufficient in itself, and ideological considerations should not be forgotten. Self-help was necessary notwithstanding the differing social and political systems in different countries.

In his view it was always important to keep the following points in mind:

- (a) The promotion of employees – this provided both continuity from within and a competent administration;
- (b) The widening of the range of supplies – cooperatives should not serve only a restricted market, but should compete with national and multi-national organisations, and in this way also compete in terms of management. This would be of material assistance in helping to reduce the differences between

the inducements offered by cooperatives and those of other employers. They should concentrate on improving standards, instead of blaming the lack of quality of staff. This implied setting out to attract graduates by offering competitive salaries.

- (c) The right to constant training for all employees.
- (d) The necessity of a link between officials of societies and the members.
- (e) The necessity of keeping in mind the needs of all members, both in the towns and in outlying rural areas.
- (f) The need to be prepared to take risks in providing cooperative employees with facilities for developing their abilities.

In conclusion Dr. Rauter related these points to the financial and economic aspects of a cooperative:

- (i) There must be a substantial investment in staff to enable their efficiency to be higher than average.
- (ii) There must be a widening of the decision-making process so as to involve a greater number of employees.
- (iii) There must be greater financial participation on the part of staff. The aim should be to be, as employers, at least as good as our main competitors.

## B GROUP DISCUSSIONS

Thursday, 18th October, afternoon session

Continued on Friday, 19th October, morning session

After the formal lectures, accompanied by discussion on each topic, the Seminar took the form of three separate discussion groups. The composition of each was decided upon by the Directors, mainly according to language considerations, but also attempting to achieve a balance between participants from different types of cooperative organisation.

The Directors had prepared in advance a list of topics for discussion from which each group was given the opportunity to make its own choice. Each group appointed its own Chairman and Rapporteur, who in due course reported the Group's deliberations to the plenary session of the Seminar.

## Problems of Self-financing

Group1 chose to discuss the following three topics, taking the view that these were in any event inter-related:

- (1) Advantages and disadvantages of self-financing.
- (2) Self-financing and inflationary pressures.
- (3) Needs of self-financing in consumer and agricultural cooperatives.

### Summary of Conclusions:

- (1) Advantages and disadvantages of self-financing:

#### Advantages:

- (a) Independence - by using self-financed funds cooperatives are able to stay free of government or creditor restrictions and controls.
- (b) Self-reliance and confidence - members are aware that by working together and pooling their resources they can accomplish economic objectives without reliance on outsiders.
- (c) Low cost - Members' share and loan contributions usually carry lower rates of interest than monies borrowed from outside sources.
- (d) Availability - when members are relied upon for financing they tend to develop an attitude of support for their cooperative, which makes the raising of funds for new projects or emergency situations much easier. It is also possible that outside sources would be reluctant to finance some new activity desired by members. In such circumstances self-financed funds would be the only source available for a new activity.
- (e) Lower risk in periods of low profitability - reliance on outside funds at high interest rates builds into a cooperative's financial planning a large fixed interest element which must be paid year after year in spite of fluctuating profitability. The interest burden is much easier to meet when low cost self-financed funds are used, and periods of low profitability are thus easier to survive.
- (f) Member concern over own funds - use of self-finance greatly increases the members' concern for proper management of the

cooperative's activities, to protect their funds. This member concern is of great value to the health and strength of cooperative organisations.

- (g) Educational influence and member participation – along with increased member concern over management of their monies, and involvement in cooperative activities, members will tend to increase their own participation, and benefit from the educational experience both in business and in working with their fellow members.

Disadvantages :

- (a) Limits to expansion – the overriding disadvantage was seen to be the limited amount of capital that could be provided by members, set against the need to expand services. The aim of a cooperative should be to provide all the services required by its members. If, therefore, the use of outside funds would permit the economic delivery of services sooner than waiting for self-financed funds to accumulate, then outside funds should be used.
- (b) Uncertainty and instability of members' investments – in many cooperative organisations the ability of members to withdraw at any time makes self-finance a very unstable and unpredictable source. The long-term stability provided by outside fixed-term loan agreements, even if they included interest rate re-negotiation clauses, could prove much more beneficial to the successful operation of cooperative organisations than strict reliance on unstable member funds. In this light only a small portion of members' funds can be considered permanent and the balance would represent short-term working capital.
- (c) Differences in size and circumstances of cooperative organisations – the inability of small cooperative organisations with few members to accumulate large amounts of self-financed funds, and differences in the capital needs of different cooperative organisations ( housing cooperatives vis-a-vis tourist/travel activities, for example) make a general statement about self-financing subject to many adjustments in specific situations.

General Comments:

This group felt the definition of self-financing to be very important. Each country appeared to have its own definition with small but important differences in each case. All could agree that reserves accumulated from cooperative activities are self-financing funds. The UK representatives indicated that they would consider loans (from members) and share capital,

as well as reserves, as self-financing. Swedish group members considered reserves as the only true self-financing source. Representatives of Cyprus and Japan indicated that in their case share capital was not withdrawable, so it was considered as permanent self-financing. The group concluded that "withdrawability" when defined in law, and cooperative managements' actual expectations of withdrawal, form the basis of a true definition of self-finance. Because free association is the basis of cooperative activity the fact that only a small proportion of members' funds is really permanently available to the cooperative is, in the long run, a very important consideration. The question whether financing of a local society by a national cooperative bank really constituted self-financing was raised. The group agreed that the source of the Central Bank's funds, the amount, and type of controls and restrictions imposed by the bank, and the voice that the local society had in the bank's activities were very important in determining the correct answer to this question.

Taxation policies of governments were an important consideration in some countries where income-tax rates on cooperatives were based on type of financing used. The differences in national tax policies were so great that in some countries self-financing brought a tax benefit, whilst in others it brought a tax burden.

## (2) Self-financing and Inflation:

General comments and conclusions:

- (a) In periods of inflation interest rates may be so high that borrowing funds from outside sources may be too costly to be economically wise.

Credit restrictions may also be imposed which in any case limit the amount of outside finance available. To maintain the amount of capital needed or to expand during such periods, self-financing may be the only reliable and practical source of funds.

- (b) In periods of rising inflationary interest rates, members' loan funds are subject to much volatility as members see opportunities elsewhere for greater returns on their invested funds. This means that cooperatives must be constantly aware of all competitive interest rates, and be flexible in adjusting their policies to this problem. Inflationary pressures may be one of the major reasons for the uncertain nature of self-financing funds.

- (c) In periods of high inflationary expectations the temptation to borrow long-term funds at a predictable fixed interest rate and repay the loan in the future with inflated (thus cheaper) money may be a sound financial alternative. Some stability in long-term planning may result from this method of financing. Many loans today include re-negotiation clauses which limit these benefits and render the cost of long-term debt just as unpredictable as other capital.
  - (d) A very important point of agreement is that strongly self-financed cooperatives, whether alone or together through a central bank, have greater flexibility in meeting inflationary conditions and the associated problems. Self-finance may confer the ability to make needed investments immediately rather than at some future date, thus keeping ahead of continually rising inflationary costs.
  - (e) In periods of inflation cooperatives face the same conditions as private firms in the market place, unless government provides special loans or other considerations.
- (3) Needs of self-financing in consumer and agricultural cooperatives
- (a) Generally, the group felt that agricultural cooperatives had received from governments special assistance, which has given rise to many differences between the needs of consumer and agricultural cooperatives in the area of finance and other current problems.
  - (b) There was a prevailing opinion that, because of the close small-community situation of rural agricultural cooperatives, and the large portion of the local community's business which they conduct, member loyalty and thus self-financing support is easier for agricultural cooperatives to secure.
  - (c) Both the advantages and disadvantages of self-financing referred to earlier in this report would apply.
  - (d) There was some discussion on the growing wealth of agricultural cooperative members because of rising land values, which itself makes self-financing an easier alternative for such cooperatives.
  - (e) A larger question was raised concerning the basic economic difference between the needs and demands of agricultural cooperatives as producers, compared to the consumer cooperatives as users of the market place. It was suggested that this difference would make an excellent seminar topic at some future date in the face of the continual rise in the cost of

living and food shortages around the world. If cooperatives are to carry out their goal of a better life for all their members, then it is necessary that consumer and agricultural cooperatives work closely together and understand each other's viewpoints.

### Financing of Multi-purpose Cooperatives

#### Group II

In suggesting a list of subjects for discussion by the Groups, the Directors made it clear that their suggestions were not obligatory. This particular group, therefore, selected an associated topic which was of considerable interest to its members- The advantages and disadvantages of multi-purpose societies from the financial point of view. Cypriot representatives, who formed a substantial proportion of this group, were particularly keen in view of pressures building up for mergers between their societies to express and to hear opinions on the problems involved and their solution.

#### Comments and Conclusions:

The group was firmly of the opinion that, from a financial point of view, the development towards creating multi-purpose societies, through the amalgamation of different types of societies, was advantageous. This agreement extended beyond the different kinds of economic and political systems within which the various Cooperative Movements operated. Members from countries with market economies quoted examples of very big private companies which were able to strengthen their competitive position by concentration of financial resources.

Amalgamation to form multi-purpose societies did, in the group's opinion, strengthen the financial power of cooperatives. It enabled operating costs to be reduced, and increased the prospects for the more profitable use of capital, the possibilities for self-financing and for external financing, and the possibilities of expansion.

#### More specifically

- it strengthened the negotiating power of cooperatives when dealing with credit and banking institutions, and thus enhanced the possibility of securing better terms;
- it made possible the more effective use of financial resources: because of improved flexibility, allocation of resources to urgent



investment needs and funds for technical innovations, for example, could be more speedily provided;

- made possible the maintenance of some activities which might not be profitable in a strictly economic sense but which nevertheless benefited a large number of people: it made possible the allocation of resources in accordance with other than strictly economic aims;
- it resulted in more stabilised development, since temporary losses in one area of cooperative activity could be financed with profits from another;
- it gave prospects for buying on improved terms;
- it made it easier to plan the financial development of a society i.e. to manage its liquid resources, and thereby make the best use of all capital at all times.

Many more advantages were referred to, all of which were likely to lead to lower costs, improved productivity, reduced prices and payment of higher wages.

The Group also looked for disadvantages, but agreed that from the financial viewpoint there did not appear to be any special disadvantages – assuming an efficient and well-run organisation emerged from the fusion of a number of societies. During the amalgamation process it was essential to organise and develop the administration properly, and it was stressed that there could be disadvantages arising from poor administration and management.

The Group was also concerned about the implications for democracy in the formation of large multi-purpose societies, and discussed the dangers of the concentration of power into fewer hands. But in any discussion concerning objectives the many aspects of a cooperative must be discussed, and when financial goals are being discussed these may inevitably conflict with other objectives.

The Group concluded that the development towards multi-purpose societies was a means of strengthening the financial power of the Cooperative Movement, and that there were many examples from different countries which could be quoted as proof. However, it was appreciated that such amalgamation could create other problems, especially from the democratic point of view, which must be dealt with very carefully.

## Self-financing and Inflation

### Group III

This group selected "The problems of self-financing and inflationary pressures"; and in the main the discussions were concerned with the use of accounting techniques as a weapon against the effects of inflation on a cooperative organisation.

The Group was firmly of the view that a considerable measure of self-financing could help in an inflationary situation, and its report to the full Seminar was concerned with the way in which the basic stability of a cooperative organisation could be maintained through the retention of earned profits.

A society could 'plough back' surplus earned and could further 'retain' through depreciation and amortization. These means, it was explained, were 'open', whereas it was also possible to retain by 'hidden' means - by understating the assets (e.g. stocks) and by overstating the liabilities (e.g. debts). However, in an inflationary situation, such as was now being experienced in Western Europe and many other parts of the world, depreciation at the usual rates was insufficient to provide for the replacement of an asset. Therefore, a basic consideration was the level of depreciation - clearly an increase was required, but was the straight line or the reducing balance method more appropriate? The effect of over-depreciation was to reduce profits, but this might then have implications for the tax position. It was appreciated that on matters of taxation there was no common practice from one country to another. It appeared that there was a need to study accountancy depreciation as opposed to real depreciation, and that there was a need to put some part of depreciation to a special reserve to maintain the basic fabric of the organisation. The Group expressed their view that a special study of all the implications was required, for there was strong evidence to suggest that, unless new accounting techniques were adopted, inflation would have serious long-term effects on an organisation.

How far could cooperatives influence inflation? The Group concluded that, whilst there was little that they could do, cooperatives must nevertheless fight back, as inflation affects all consumers. From the point of view of an individual cooperative there was economic sense in contracting a high level of debts and stocks in such a situation.

## C. CLOSING SESSIONS

Friday, 19th October, 1973

Afternoon

### International Activities - Additional Special Papers

In addition to the papers already referred to, the Seminar was honoured by the attendance of Mr. B. Tronet, Vice President of the International Cooperative Bank (INGEBA), who represented an interesting paper on the work and role of the Bank today, and who also participated in one of the discussion groups.

Dr. L. Sieber, ICA Secretary for Education and Director of the Seminar, also presented a paper which outlined the special training schemes within the ICA's programme of educational activities.

Both the above papers are included in the Part III of this Report.

The Seminar also listened with great interest to Mr. Helmut - Watzlawick, a cooperative specialist on the staff of the ILO in Geneva, who outlined the prospects for a World Cooperative Development Bank, and referred to the present role of INGEBA.

Mr. Michael McIntyre also briefly gave some information concerning the activities and developments of Housing Cooperatives in the USA.

Friday, 19th October, 1973

### General Rapporteur's Summing-up

#### Main Points arising from the Seminar

##### 1. Definitions

- (a) 'Self-help' in the context of financing cooperative activities referred to all finance provided from within the Cooperative Movement, i.e. capital provided by members plus retained earnings, depreciation, etc. and other funds from cooperative sources e.g. central banks.
- (b) Own/free capital - that part of the capital of a movement or society in the form of reserve funds, accumulated depreciation share capital, where that is transferable only and not with-

drawable.

As definitions are important in any discussion of financial matters it seemed important and necessary to set these definitions out. Outside help, therefore, in the context of the Seminar referred to all money obtained outside the Movement i.e. loans from non-cooperative organisations to cooperative organisations

## 2. Planned/Market Economies

There were quite clearly considerable differences between methods of financing cooperatives in the planned, as opposed to the market economy, countries. It was also clear that there were considerable differences in methods between different countries in each group. The various papers presented helped the participants to a greater understanding of the different methods.

### (a) Planned Economies

The extent to which use is made of government credits varies very considerably, but it was interesting to note that, whilst there was a close affinity of purpose between cooperatives and government, in some cases the cooperatives were anxious to stand on their own feet as much as possible.

Most of the papers presented were descriptive, and more discussion on a technical level, with a critical examination of the techniques in use, would have therefore served a useful purpose.

### (b) Market Economies

There were considerable differences from country to country of the methods used for financing cooperatives, reflecting to some extent the 'mixed economies' that operate in those countries. It was quite clear, however, that all Movements are placing less reliance on capital from cooperative members than they did in the past. Other methods of raising loan capital are under consideration, because of the very high levels of investment which are required now and which will be required in the future for development purposes.

## 3. Self-help

The retention of earnings - 'plough-back' - was seen as the most important and effective method of providing for future development from current operating profits. Not only did this source provide the cheapest form of finance, but it was also wholly under the control of the cooperative.

Profits from trading operations were firstly subject to taxation and thereafter available for either distribution to members or allocation to reserves. The balance between the two was a matter for the cooperative concerned, but clearly there was a strong argument for allocating a high proportion to reserves to provide for future growth and development.

Taxation was little referred to during the Seminar, but this is a very important matter, as the tax policy of the government concerned could have a powerful influence on allocations to reserves and also on profits retained through depreciation.

The aim of a cooperative must be to minimise the amount of tax payable, within the tax laws of the country concerned, maximise allocation to reserves, and seek ways and means of retaining dividends allocated, at least for a considerable period of time.

Little or no reference was made during the course of the Seminar to the policies adopted by the Movement's competitors, but it was pointed out that in the United Kingdom, for example, between 50 and 70 per cent of company profits are retained to finance future development.

#### 4. Outside Help

It was considered that there were three principal ways by which cooperatives could obtain assistance in the form of finance from other organisations:

- (a) by direct approaches to financial institutions, accepting that the market rate of interest would have to be paid, and that use of normal commercial criteria in assessing the extent of such finance would be used;
- (b) by the formation of new financial institutions jointly with, say, the Trade Unions, or with other non-cooperative organisations;
- (c) by credits or loans from Governments. Reservations were expressed concerning this latter possibility, for it was contended that the provision of such loans might have to be subject to certain 'other' conditions. In those circumstances the use to which the loan was put would be an important consideration.

#### Conclusions and Recommendations.

Saturday, 20th October, 1973

The final session of the seminar gave all participants, working firstly in the discussion groups and then in full session, the opportunity to express views on the overall content and general format of the Seminar and to make suggestions to the ICA concerning its future activities in this area. The main points arising are summarised below, followed by the response of Dr. Saxena, Director of the ICA.

#### 1. Financial : The Seminar Recommended

- that ICA establish and improve methods of communication between National Movements concerning financial matters
- that ICA make up a detailed catalogue of the different methods and different experiences of National Movements in the field of financing.

- that ICA and INGEBA go further in investigating financing of cooperatives in developing countries.
- that ICA encourage the wider use of the services of experts from the national organisations of the developed countries in the developing countries.

## 2. Organisational

### The Seminar recommended:

- that more time should be given to group discussions accompanied by a reduction in the number of papers; and that discussion sessions should be spread throughout the Seminar, rather than being concentrated into one or two days.

## 3. Future Seminars - Subjects for discussion

- Integral unity of economic and social functions of the cooperative movement.
- The conflicts between producer and consumer cooperatives.
- The changing needs of consumers and the impact on consumer cooperatives.
- Specific problems of national organisations.
- Cooperative mergers and amalgamations.

## 4. General

### The Seminar recommended:

- That greater use should be made of international cooperative training centres existing within National Movements for bringing together cooperators from different countries.
- That the ICA should pursue the training programme outlined by Dr. Sieber in his paper.
- That encouragement should be given to National Movements to arrange exchanges of younger management personnel.

D. CONCLUDING ADDRESS : By Dr. S.K. Saxena, Director, ICA

Dr. Saxena brought the theoretical part of the Seminar to a conclusion with an address in which he commented upon the recommendations presented in the Group Reports, and discussed some implications of the Seminar for the general work programme of the ICA. He said:

First of all, with regard to Group 1: the point concerning group discussions and the distribution of time has been emphasised by all three groups and will certainly be kept in mind.

The second point related to the great differences between agricultural and consumer co-operative societies. If we look at this subject in the context of the suggestions made by Dr. Sieber, we will see that more specialised seminars would give the opportunity of discussing the problems in each specific sector more completely. Producer-consumer relations as a possible theme for a seminar is certainly an interesting idea.

INGEBA and the role of the ICA in the field of international co-operative trade was another point: there are at least two auxiliary bodies of the ICA, in addition to the ICA Secretariat, which are greatly interested in the field of international co-operative trade; one is the Inter-Coop which consists of the principal consumer co-operative organisations and which buys collectively on behalf of its member organisations from different parts of the world; the other is our Agricultural Committee. In fact, the ICA Agricultural Committee has organised a series of trade or commodity conferences, the last one being held two or three years ago in Paris on the question of Animal Feeding Stuffs. More recently, as a follow-up to the resolution adopted by the ICA Congress in 1969 in Hamburg, the Secretariat has completed the first draft of a study dealing with International Co-operative Trade. This study has been sent in draft form to a number of selected individuals and organisations for their comments, which will then be incorporated in the study. There has been a feeling for some time within the Agricultural Committee, voiced particularly by our Japanese member organisation, that this is an area which ought to receive more attention from the ICA.

A number of other international organisations also have an interest in this particular field. I am thinking specially of the International Federation of Agricultural Producers (IFAP) and the United Nations Conference on Trade and Development (UNCTAD), with both of which we have close functional relations.

On the question of document distribution, I must confess that we find it extremely difficult to form a master list of addressees to which documents should be sent out: certain documents are of general interest, others are of interest only to certain organisations and individuals.

Correspondents keep changing, and organisations' addresses keep shifting. However, we will look into this matter once again and see that at least our member organisations, and perhaps selected individuals who have a special interest in a particular field, are able to obtain copies of our documents and publications.

Dr. Sieber has already commented on increased participation of developing countries in our seminars. Perhaps I should make one general observation. It has been our feeling that, save in exceptional cases, or on exceptional occasions such as the ICA Congress when you have co-operators coming from all parts of the world, we will never actually succeed in organising a seminar which is truly international; and I am thinking now of African, Asian, Latin American countries which, even in this seminar, are very much under-represented. Within the Alliance, therefore, we have felt that, if we want participation to be actual and comprehensive, we should increasingly regionalise our activities and also utilise the possibilities of occasions such as ICA Congress, to secure adequate participation from the developing countries of the world.

Group 2 raised the question of multi-national corporations and the relevance of self-financing of Co-operative Movements. We discussed the question of finance at our Central Committee meeting in Bucharest in 1971. This was followed by a major discussion at our last Congress in October 1972 in Warsaw, where the subject of "Multi-national Corporations and the International Co-operative Movement: Managerial and Financial Imperatives" was introduced by Sir Robert Southern (UK) and Dr. Peters (Federal Republic of Germany). We see this Seminar as a follow-up, emphasising our continuing concern with the problem of finance.

'ICA and INGEBA should examine ways to finance projects in developing countries': the only comment I have on this point is that so far our assistance to developing countries has been mainly in the field of education, because we regard that as a basic input for the development of the Co-operative Movement. But in the next few years we will have to concentrate increasingly on supporting projects which have an economic substance: there is nothing educationally more effective than a successfully functioning co-operative society.

On the problem of communication, in the context of Coop Nederland, one of the basic lessons which we learned is that the viability of a co-operative organisation is dependent, not only on its financial soundness and other economic parameters, but also upon member participation and member control, because it is quite clear that if these had been present the 'sell-out' of Coop Nederland would not have been possible. Dr. Sieber suggested that I should perhaps give a little more information about the discussions in the ICA Executive and Central Committees on the subject of Coop Nederland, of which the main points were:



1. Co-operation among Co-operatives - it was clear that the stronger co-operatives stayed outside Coop Nederland.
2. Weakening of Co-operative democracy.
3. Aggressive development of national and multi-national corporations.
4. The influence of legislation - it was pointed out that it could never have happened in France because of the legislation in force in that country.
5. Errors of investment.
6. National Co-operative planification - it was mentioned that in Norway there are 730 consumer societies, of which 400 are very small, and unless concentration takes place at an accelerated pace the economic results will not be as good as we would like them to be.
7. The important role of Inter-Coop.
8. The crucial problem of management.
9. The importance of continuing discussions on problems related to the changing structure of Co-operative organisations throughout the world - this was a subject which, starting in 1960, has been debated for almost a decade throughout the Co-operative movements of the world.

It is now suggested that Inter-Coop and the Secretariat ought to look into the matter and make recommendations to the Executive Committee in February 1974.

Intensifying international training: this is a very complex subject, involving: the selection of participants; the extent to which participants should be brought over to the advanced countries; the countries in which selection of participants should be made. Some kind of competition seems to be developing among the training facilities being made available in the advanced countries of the world, but perhaps the fundamental question is how the National Co-operative Movements which provide international training to people from developing countries assess the needs of those countries in structuring their courses.

On the point of less documentation - about a couple of years ago I was asked by the United Nations Resident Representative in London to attend a meeting on the subject of proliferation of documentation. It is not easy to strike a balance with regard to the amount and relevance of the documentation which is made available.

Group 3 recommended that in future seminars there should be better documentation provided as a basis for discussions: there can be no two opinions about this.

'ICA must inform itself of the problems and the needs of the Co-operative Movements': this process is difficult to define, but it takes place all the time through, for instance, the meetings of the various committees. This very seminar has given us some indication of the problems exercising the minds of co-operators at the national level.

Multi-purpose Co-operatives, and what specific advantages they have: we have not discussed this problem in the context of the advanced countries, and it may be time that this is done. On the other hand the question has been discussed in detail within our regional offices, and in 1973 we have organised a seminar on the subject of Multi-purpose Co-operatives. However, to the extent that the question relates to the advanced countries, we have not yet paid this matter a great deal of attention, with the exception of a certain amount of discussion which has taken place in our Agricultural Committee on multi-purpose and single-purpose co-operative societies.

Reference was made to the Research Group of the Alliance: there is within the ICA a Research Group which consists essentially (1) of advanced co-operative movements and (2) mainly consumer co-operative movements. This Group, which has been functioning for a number of years, has felt that it ought to be strengthened and perhaps rationalised in some way, and the question was discussed within the Group in Vienna a few months ago. On that occasion we looked closely into the Group's methods of working and the subjects which it ought to discuss, and the next meeting, which will take place in Florence some time in 1974, will discuss the question of structural re-organisation of the Consumer Co-operative Movements. So the subject suggested in the Group 3 Report is going to be considered by the Research Officers' Group.

New forms of Co-operative activity: in a fundamental sense, we in the ICA see our role as continuing to extend the relevance of the Co-operative form of organisation to all kinds of human endeavour. But when we try to do this we come up against strong resistance from people who look upon the Co-operative Movement as engaging itself only in traditional activities like consumer, marketing, credit or what have you. However, we have to deal not only with economic subjects under the ICA educational programme, but also with the education of man as such. The ICA has been deeply involved in this aspect, and a number of discussions have already been held with UNESCO on this particular matter.

### The Vocabulary

One of the things which has come out of this Seminar and which has recurred all through is the differences in expressions and terminology in different languages. We have recently compiled a vocabulary of

1,700 words, mostly Co-operative terms, in five languages. It is a vocabulary, not in any sense a dictionary: it does not explain the words but gives, as far as possible, the exact equivalent of a particular term in five languages: English, French, German, Russian and Spanish. Spanish is not our official language, but we felt that in view of Latin America this would be extremely useful. The ILO is considering the possibility of producing a dictionary of Co-operative terms, and the dictionary would obviously explain the terms as well.

#### Distribution of Seminar Report

Once the report of the Seminar is ready, which are the relevant bodies within the ICA which ought to receive it? First, of course, will be the participants and the member organisations, perhaps those which are not purely educational but are concerned in some way with matters of finance etc. The Banking Committee is another body which ought to receive a copy, because it is important to make sure that the suggestions of the International Co-operative Movement on matters of finance, of inflation, on the current monetary situation, are reflected at the appropriate level; I see at least part of the function of the Banking Committee as conveying the views of the International Co-operative Movement to the highest authorities, whether the International Monetary Fund or whichever body it may be.

Another body which will certainly be interested in receiving the report is what we call the Informal Liaison Committee (\*) which deals with questions of co-operative thrift and credit. This body was created in 1970 as a result of the Paris Conference, and brings together some of the world's major institutions which are involved in matters of thrift and finance, for instance, the World Council of Credit Unions, a number of French organisations, the Japanese Bank for Agriculture and Forestry and the ICA.

Finally the International Co-operative Insurance Federation might well be another body which will be interested in receiving this report.

These, briefly, are my reactions to some of the suggestions made by the Groups and by the seminar.

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(\*) Changed in 1974 to 'The International Liaison Committee on Co-operative Thrift and Credit.

## PART III - WORKING PAPERS

### COOPERATIVE ACTIVITIES: IS THERE A LIMIT?

By : G. Petrides, Cooperative Central Bank, Cyprus

#### 1. INTRODUCTION

Cyprus is the third largest island in the Mediterranean, situated in its north-eastern corner. It is an island of ancient settlement, with an area of 3572 square miles, roughly 140 miles long, by 60 miles broad at its widest point.

The economy of Cyprus is primarily based on agriculture, the main products being cereals, vine products olives, citrus, tobacco, carobs, potatoes, various other seasonal products, vegetables and livestock. Mining was formerly carried on extensively. Small industries have emerged since Independence but still most consumers' goods, other than agricultural, are imported. An appreciable improvement in tourism has been recorded and our ambition is for Cyprus to become a first class tourist attraction in the Middle East.

About 20 per cent of the inland area under cultivation is irrigated. The remainder depends for water on rainfall. Droughts are of frequent occurrence and cause severe damage to agriculture. This year it has been exceptionally severe and farmers suffered great losses. The per capita income of Cyprus is now approximately £450.- per annum which is considered high by Middle East standards.

#### 2. THE COOPERATIVE IDEA:

It is generally accepted that Cooperation is born and flourishes in countries where poverty, usury, exploitation and the like are imposed on the people, either as individuals or as groups. In this respect Cyprus had manifold grounds for the genesis of Cooperation. Looking back at the end of last century one would be astonished at the situation of the rural population, a class of people which emerged out of the masses of serfs under Turkish rule. The means available for cultivation were primitive, crops were poor, hardly sufficient to cover domestic requirements. Communications within the island and with the outside world were very primitive. Money-lenders were the only source of finance and charged rates of interest ranging from 10 to 50 per cent. Poverty, illiteracy and superstition were the handicaps of the farmers. Exploitation was beyond description.

#### 3. ATTEMPTS TO INTRODUCE COOPERATION:

The first attempt to introduce any form of Cooperation was made in 1905 by the British Director of Agriculture, who in his attempt to introduce the cooperative idea published a book with the title "Agricultural Banks" (Raiffeisen).

His intention was to make known to the farmers what benefits were to be expected and to persuade them to organize themselves under the flag of Cooperation. But the farmers were not prepared at that time to accept this "extraordinary idea", at they used to call it.

Three years later, another attempt was made, this time by a progressive

Greek Cypriot who was a member of the Legislative Council. He was conversant with the deplorable financial condition of the Cypriot farmer and the exploitation that existed at the time. For this reason he was very cautious at the beginning and tried first to inspire only the farmers of his own village, where he finally succeeded in establishing on the 22nd November, 1909, the first Cooperative Credit Society of Cyprus. Four years later, his incessant efforts succeeded in persuading Government to enact the first Law, by which Cooperative Societies were recognized as legal entities. That law was based on the Austrian Cooperative Law which provided for the establishment of Rural Cooperative Societies, independent of any Government or outside influence.

#### 4. ESTABLISHMENT OF COOPERATIVE CREDIT SOCIETIES

The persistent exploitation of the Cypriot farmer by merchants and money lenders, the enactment of the Cooperative Law in 1914 and the enthusiasm of the few people who were in a position to judge and acknowledge the benefits of Cooperation, brought about a big drive for the establishment of Cooperative Societies in the villages. The very simple and realistic Raiffeisen type of Cooperative Agricultural Credit Society was adopted, its basic characteristics being the unlimited liability of members, the principles of self-help and mutual help, self-management and democratic control. In other words, such Societies were to operate without any outside assistance, dependent wholly on their own resources. The main idea behind the establishment of Credit Societies was to free the heavily indebted farmers from the clutches of the merchants and money lenders, so as to enable them to regain their self-determination and security of economic status through mutual Cooperation. In a few years' time the masses of Cypriot farmers gave overwhelming support to Cooperation.

The Cooperatives gradually introduced the system of accepting deposits of all kinds from their members, of issuing small loans for cultivation purposes and of supplying their members with basic agricultural requisites.

The Raiffeisen type of Cooperative is still the backbone of the Cooperative Movement of Cyprus. By the end of 1935 there existed 339 Cooperative Societies spread all over Cyprus.

The Colonial Government followed this progress very closely and with interest, realizing the importance of Cooperation as a useful means of improving the financial condition of the rural population. As a first step, in the year 1935, under the Cooperative Law, a Registrar was appointed, whose primary duties were the registration of Cooperative Societies, the auditing of their accounts, and the dissolution of those Societies which were not functioning properly. Special provision was also made in the Law

for permanent exemption of Cooperatives from various taxes (income tax, property tax, stamp duties and Land Registration fees). The Law also provided for setting up a judicial procedure for arbitration, the awards of which can be executed through the Courts, thus diminishing litigation costs.

#### 5. COOPERATIVE CENTRAL BANK LTD:

A unique event in the history of Cooperation in Cyprus was the establishment of the Cooperative Central Bank, in 1937. The main objects of the Bank were to provide credit for Cooperative Societies in need of funds, to promote thrift among its member-Societies and to supply agricultural requisites. The Bank was registered under a Cooperative Societies' Law. Only successfully functioning Cooperative Societies could become members of the Bank. It started operations early in 1938 with a small capital subscribed by 50 original member Societies (£550.-) and an overdraft which was obtained from a local commercial bank. Its early functions were the issue of short-term loans to member-Societies which were in need of funds, and to supply such Societies with fertilizers, sulphur, seeds etc, While extending credit facilities to their members. The progress of the Bank kept pace with the progress and expansion of the Cooperative Movement.

Its success was beyond all expectations and its role in the Cooperative Movement acquired paramount importance. By the end of 1972, that is, after 34 years of life, the Cooperative Central Bank was considered one of the biggest local banking institutions, with branches in all the important towns, and a net-work of correspondents all over Cyprus. 450 Societies of all types are now members of the Bank. Its reserves and provisions amount to almost £3 million and total resources to over £25 million. In 1962, the Bank absorbed the Agricultural Bank of Cyprus. By its doing so the whole agricultural economy of the island was concentrated in the hands of the Bank which now satisfies fully the short, medium and long term credit requirements of the farmers. Pursuing its agricultural policy, the Government invested with the Bank in 1962 a sum of £1,000,000 at the low rate of  $3\frac{1}{2}$  for the issue of long-term mortgage loans to farmers for agricultural development. The rate chargeable by the Bank for such loans is  $4\frac{1}{2}$  per cent. The Bank accepts all types of deposits from Cooperatives and from the public, extends financial assistance to all Cooperative Societies and Cooperative Industries besides acting as agent of the Government for financing concentrations of various products (cereals etc.). It operates an Insurance Department; it has an Agricultural Technical Service and affords all kinds of Banking facilities to the Cooperative Movement. The lending rate of the Bank until 1972 was 6 per cent. From January of 1973 it was increased to 7 per cent which may be considered still very low under existing conditions in the money-market.

In the supply of fertilizers, agricultural chemicals, seeds etc., the Bank is by far the biggest importer and distributor, covering almost 90 per cent of the needs of the whole island. The sales of agricultural requisites at the end of 1972 were of the order of £2,500,000. The most important

role of the Bank in this field is, no doubt, the stabilization of low prices to the farmers and ensuring a low cost of production for Cyprus agricultural produce.

#### 6. COOPERATIVE SAVINGS BANKS IN URBAN AREAS:

Along with the expansion of the Cooperative Credit Societies in the rural areas, another type of Society was introduced into the towns and areas where existed a predominantly working-class population, the Cooperative Savings Banks, with limited liability. Such Savings Banks step by step embraced practically all classes of working people in Cyprus: the civil servants, the school teachers, bank-employees, policemen, employees of various public corporations for example, the Electricity Authority, the Inland Telecommunication Authority and the like. The idea behind the setting up of these Savings Banks was again the need of the poor wage-earners living from hand to mouth, to free themselves from the hands of money-lenders. The immediate pecuniary needs of the members were covered by means of compulsory deposits from members, deposits from the public and loans from the Cooperative Central Bank. These Savings Banks have expanded tremendously in recent years, they now afford all kinds of financial facilities to their members, but they are still lacking funds. This is obvious because of the constant and firm movement of the rural population into towns and the recent rapid rise of the standard of living of the Cypriots.

#### 7. SCHOOL COOPERATIVE SAVINGS BANKS :

Cooperative Savings Banks were introduced to primary and secondary schools in 1950. These were set up in the beginning with the object of cultivating thrift and the cooperative spirit among the school children. In a very short time, it was proved that, apart from the original purpose, there developed another as important as the former, that of securing funds. At the middle of 1972 there existed 560 School Savings Banks with a total of £2,427,000 deposits. The school deposits are transferred to the local Credit Societies which in their turn make productive use of the money.

The Cooperative spirit is very widely cultivated among the school children. Cooperatives for various purposes are being run by school children, such as canteens, poultry and rabbit-rearing, bee-keeping, stores for consumer goods, book-shops etc.

#### 8. CONSUMER' COOPERATIVE MOVEMENT:

In the years before World War II, there existed a very limited number of Cooperative Stores. During the war, Cooperative Societies in the rural

areas acted on behalf of Government as distributing agents of controlled goods. They did a very good job, and the people adopted the idea of continuing to buy their requirements through the Cooperatives by setting up their own Cooperative Stores.

Contrary to what usually happens in other countries where consumer stores are established in towns and in industrial centres, in Cyprus cooperative stores were first set up and started business in the rural areas. By the end of 1952, there were about 200 cooperative stores, all working independently, according to the Rochdale Principles. Thus another aim of the poor farmer and the worker has been fulfilled, because he could now buy his consumer goods from the cooperative store in his village completely free from any exploitation.

In 1954 three Cooperative Wholesale Supply Unions were established, with the object of further promoting the Consumers' Movement by assisting the cooperative stores to organize their supply system. The work done by these Supply Unions exceeded expectations and cooperative stores were established in practically all villages and towns. Their activities expanded enormously, both in villages and in towns, and they now cover all the needs of the consumer in food-stuffs, clothing, household utensils, luxury goods, T.V. sets, airconditioning units, cooking gas, wireless sets etc. In the towns as well as in big villages one can see big selfservice cooperative stores of the same standard as in developed countries.

The Cooperative Central Bank extends finance to the Supply Unions and the Unions, in their turn, extend credit facilities to the cooperative stores. During the last ten years most of the cooperative stores acquired their own premises with up-to-date offices, stores, cold stores and show rooms.

## 9. COOPERATIVE MARKETING SOCIETIES:

The necessity of pooling and marketing agricultural products on a cooperative basis became predominant soon after the second World War. This was the result of the expansion and proper functioning of the cooperative credit societies in all the villages and producing areas of Cyprus. The first attempt at pooling and marketing was made in 1945 when 10 credit societies took the initiative and pooled the Carob produce (locust beans) of their members and sold the quantity pooled at remunerative prices. This marked the beginning of a new era in the Cooperative Movement, particularly for carob producers. Carob is one of the principal products and is called "the black gold of Cyprus.

Twenty years later we find 5 Cooperative Marketing Unions operating with an apex Cooperative Federation pooling 45,000 tons of carobs, that is



70 per cent of the total production of an approximate value of £750,000.-  
The Unions have their own stores, factories, kibbling plants, private quays for loading etc. etc.

The example of the carob producers was followed by practically all classes of producers in Cyprus; citrus and vine, tobacco and olive, vegetable and producers of various seasonal fruits.

The marketing of agricultural products is of paramount importance to the farmers and it was only natural that the Cooperative Movement was called upon to play the most difficult role, that of securing local and foreign markets. In order to achieve this, marketing organizations were set up for the main products. Their activity was the pooling, storing, processing and finally disposal of the product. The Cooperative Central Bank has been extending to these organizations financial assistance for the erection of their own premises, stores, processing plants, degreening, packing and grading installations and for advances to their member-producers.

For example, for citrus there are four Cooperative Marketing Organizations, each one functioning independently of the others, but all of them cooperating.

- (a) The Famagusta Citrus Growers Cooperative Marketing Organization, known as SODEA in the Famagusta Area, East of Cyprus.
- (b) The Morphou Citrus Growers Cooperative Marketing Organization, known as SODEM which operates in the Morphou Area, North-West of Cyprus.
- (c) The Kyrenia Lemon Growers Cooperative Marketing Organization, specializing in the marketing of lemons, operating in the Kyrenia Area, North of Cyprus.

Apart from the above three Marketing Organizations, each operating in its own area, another one was recently formed under the name of SEDIGEP whose operations cover all of Cyprus. This specializes in the marketing of all kinds of agricultural products. Representatives of these organizations meet regularly during the high season, exchange information and synchronize their activities.

#### 10. COOPERATIVE INDUSTRIES:

The establishment of cooperative industries marked a new era. This was a welcome evolution for the expansion of the activities of our producers' cooperatives. A fine example is the Vine Products Cooperative Marketing Organization Ltd., known as SODAP, which was established in 1947, with the object of pooling for collective sale two major vine products, i.e. raw alcohol and raisins. Members of SODAP are all vine-growers of Limassol and Paphos Districts. A year later SODAP took a step forward and established

a winery in Limassol to produce matured wines and spirits. This was the beginning. Not many years later SODAP was operating two most up-to-date factories, one in Limassol and one in Paphos and it has become the largest wine and spirits industry in the Middle East.

The original purpose of the establishment of SODAP, some twenty years ago, has been fulfilled because now the vine producers, members of SODAP, are confident that their produce will be disposed of through their organization. Seventy per cent of the island's industrial grapes every year are being processed by SODAP. The big vine problem of Cyprus, which was dominant some twenty years ago and is now reaching an end, has been solved through Cooperation. SODAP is an affiliated member of the I.C.A.

#### 11. SPLITTING OF THE COOPERATIVE MOVEMENT :

At this stage reference must be made to the split of the Cyprus Cooperative Movement. For those who are not aware Cyprus was a British Colony from 1878 until 1960 when it gained its independence and was declared a Republic and a member of the United Nations. Its population is slightly more than half a million, of which the majority, 82 per cent are of Greek origin, and 18 per cent of Turkish origin. As a result of the Zurich and London Agreements of 1959, the Cooperative Movement of Cyprus was split on a communal basis into two Departments for Cooperation, one for the Greek and one for the Turkish Cooperative Societies, with two Registrars.

The Turkish Cooperative Movement also established its own Cooperative Central Bank. At the time of the partition there existed 750 Greek societies and 190 Turkish Societies. In this connection I wish to stress that my paper, after the year 1960, will be referring exclusively to the Greek Cooperative Movement.

Cordial relations exist between the Greek and Turkish Departments of Cooperation, as well as between the two Banks and, in fact, existed even at times when the political situation in Cyprus was at its worst.

#### 12. DEVELOPMENT SINCE INDEPENDENCE :

Outstanding progress of the Cooperative Movement in Cyprus has been recorded since the year of independence and in particular after 1961. The traditional Cooperative Organizations were given all possible financial and moral support to continue rendering good service to their members. In fact, very little further progress was expected in the credit and consumers' sectors. The Department for Cooperative Development had been active in encouraging amalgamations between Societies in certain villages (credit,

consumers and other types ) by creating the Multipurpose Cooperative Society with unlimited liability.

All along, the financial position of the Cooperative Movement has shown steady progress. Increasing deposits permitted the planning and establishment of new types of Cooperative Organizations mostly for the processing and marketing of agricultural products, the import and supply of basic and luxury consumer goods, heavy and light agricultural machinery and implements, building materials etc. In other words, Cooperatives penetrated and covered almost all sectors of the economic life of Cyprus. The rapid growth of tourism was also another line in which Cooperatives took a very keen interest.

The followin is a brief outline of certain of these Cooperative Organizations, their objects, ambitions, importance and role in the economic life of the Island.

(a) THE COMPOUND FODDERS COOPERATIVE PRODUCTIVE UNION LTD:

was set up in 1961 for the production of all types of animal and poultry fodder. A want which existed among the Cypriot stock and poultry breeders has now been satisfied. The SOPAZ factory is the biggest on the island, equipped with most modern machinery, fully automatic, electronically operated. Sales in 1972 reached a peak at £1,375,000.- compared with 1962 when, sales were only £200,000.- SOPAZ products are of the best quality and prices most competitive.

(b) "SYNERGAZ" COOPERATIVE SOCIETY LTD:

Bottled gas has become a basic commodity in Cyprus, all the more with the rise in the standard of living in rural areas since the last ten years. Reports of exploitation on the part of the private sector promoted the Cooperative Movement (the three Cooperative Wholesale Consumers' Unions) to step in and establish in 1965 the SYNERGAZ Cooperative Organization. The result was that prices immediately dropped to low levels and since then SYNERGAZ has become the safety valve for the stability of the selling price of gas on the Cyprus market.

(c) THE CYPRUS MARINE SERVICES COOPERATIVE ORGANIZATION (COMARINE) LTD:

The import/export trade of the Cyprus Cooperatives has increased considerably during the recent years. Exports of agricultural products, namely citrus, potatoes, carrots, fresh fruit etc. and imports from markets

abroad of all consumer goods, basic agricultural requisites for the use of Consumers Cooperative and other Societies, revealed the necessity of setting up an organisation for extension of such services as chartering of ships and/or aeroplanes, shipping goods in chartered ships, discharging them at various ports, providing facilities of all kinds, organizing tourist excursions, issuing of air/ship tickets etc. etc.

Such an Organization, called COMARINE, was established in 1966 and in a very short time it has become one of the biggest shipping and tourist enterprises in the Island. COMARINE is a member of IATA, holds agencies of various regular lines and ranks very high in efficiency and service. It is the representative body of the Cyprus Cooperatives in the tourist industry.

(d) THE COOPERATIVE ORGANIZATION FOR THE SUPPLY OF AGRICULTURAL MACHINERY "AGROTECHNICA " LTD:

It was previously mentioned that one of the objects of the Cooperative Central Bank was the import and supply of basic agricultural requisites (fertilizers, sulphur, seeds, agricultural and veterinary chemicals). The only sector of basic agricultural requisites which was not entered by the Cooperative Movement was the import and supply of agricultural machinery and implements.

Acute exploitation of the Cypriot farmers by the private traders was endured for many years until it could be endured no longer. Very keen discussion on this subject was started in the House of Representatives by members representing Agricultural Organizations who severely criticised the private traders for unfair exploitation of the farmers.

In June 1969 a secondary Cooperative Organization for the import and supply of agricultural machinery was established known as "AGROTECHNICA". Its activities, four years later, cover the whole of Cyprus with offices, stores, workshops in the principal agricultural centres. Prices of spare parts and other machinery are now established. The farmer can now secure through his own organization all that he requires for the cultivation and maintenance of his land. The private trader cannot any more dictate his own terms and conditions.

(e) COOPERATIVE ORGANIZATION OF GENERAL TRADE (CYPRUS) LTD:

The export of agricultural products has always been the major and most difficult problem of the Cooperative Marketing Societies. The contribution of the private sector to marketing in recent years has been declining and the contribution of the Government was limited to signing bilateral barter agreements with various countries, especially of Eastern Europe.

In the year 1965 the Cooperative Organization of Tobacco Growers (known as SOK) faced an acute problem in disposing of about 1,000 tons of tobacco. The tobacco was lying in its stores and there was no market for it. After incessant efforts some interest was shown by the U.S.S.R. and a small sale of about 150 tons was effected on barter terms. Goods of Russian origin were imported by SOK. This was the beginning of the idea of establishing an island-wide Cooperative Organization of General Trade, specializing in the import and sale of goods in general, either against hard currency or through the barter system. SOGEK, as it is now known, was established in May 1971 and since then it has assisted in placing agricultural products of Cyprus in different foreign countries, importing from them consumers' goods, especially building materials etc.

It has now its own big stores spread over Cyprus and in this very short time SOGEK has become the Organization which dictates the prices on the Cyprus market of most of the most widely used industrial goods and building materials.

Like all big Cooperative Organizations, SOGEK is financed wholly by the Cooperative Central Bank Ltd.

(f) COOPERATIVE CANNING INDUSTRIES (SEVEGEP) LTD:

Citrus is one of the principal products of Cyprus. Recent figures show that more than £12,000,000.- flow into Cyprus every year from exports of citrus (oranges, grapefruit, lemons etc.) to foreign countries.

The Cooperatives are handling more than 70 per cent of the production and the marketing, as previously mentioned, is being handled by the four Cooperative Marketing Organizations, SODEM, SODEA, SELEK and SEDIGEP.

Export prices, until recently, have been more or less remunerative, although a decrease in the prices is anticipated. This will be the result of increasing production (present overall production of citrus is 250,000 tons and in 5 years time it will double), competition from neighbouring countries, bigger wastage from culls (citrus not intended for export) etc. etc.

All the above and the desire of the Unions to keep pace by using up-to-date methods of processing agricultural products led to the decision to establish an industry for processing culls as well as other agricultural products. Operations of this new industrial unit started in 1972. Its first product was single strength citrus juices, essential lemon and orange oil, at a speed of 40 tons per day, with a programme to reach 100 tons per day. Citrus segments, canning of various other fruit and vegetables as well as concentrated juices, are the future lines of production of the factory.

SEVEGEP is the second cooperative industry with vertical integration of production, processing and consumption. It is wholly financed by the Cooperative Central Bank Ltd. , with a foundation capital of £500,000.- and a working capital of £1,000,000.-

(g) COOPERATIVE ORGANIZATION OF GENERAL SERVICES  
(CYCOOPS LTD :

The United Kingdom has always been the principal foreign market to which products from Cyprus are exported, West Germany running second.

The Cooperative Marketing Unions, in collaboration with other Cooperative industries, reached the decision in 1970 that much money would be saved by way of commissions and other expenses, if the Cyprus products were placed directly in the U.K. or Germany without the intervention of merchants and middlemen.

A Cooperative Organization for General Services (CYCOOPS) was thus established with principal offices in London and Hamburg.

The services of CYCOOPS now extend to all Cooperative Organizations wishing to market their products in U.K. and/or Germany. It extends assistance to the Cyprus Potato Marketing Board in placing every year more than 120,000 tons potatoes and 25,000 tons of carrots in the market of the U.K.

To quote a few more examples of cooperatives now in operation covering practically all activities of all sectors of life I would mention the Handicraft Societies, tailors' supply, bicycle supply, shoemaking, wine-making, land-leasing, transport, bee-keeping, rosewater producers, hair-dressers, pottery producers, hunters, deaf and dumb cooperatives, cinemas etc. etc.

The total number of Cooperatives of all types operating in Cyprus at the end of 1971 was 900 with a total membership of 250,382, i.e. more than half of the Greek population.

The apex Organization is the Pancyprian Cooperative Federation, which was established in 1961. It represents the Cyprus Cooperatives at the highest level and deals with questions involving cooperative principles, voices Cooperative policy on organizational and other economic problems to the Government of the Republic and has an overall responsibility to ensure that the internationally accepted cooperative principles are observed and applied in Cyprus.

The Federation publishes a monthly magazine called "The cooperator"

and organizes weekly radio bulletins on Cooperative affairs.

### 13. SOME OF THE COOPERATIVE MOVEMENT'S SOCIAL FUNCTIONS

So far Cooperation in Cyprus has been described as an economic approach to the solution of the various problems of the common people. But Cooperation had another role to perform, this time in the solution of problems within the spheres of social, educational and intellectual progress of its members and the Cyprus community in general.

A helpful hand was also extended to those people who have worked and are still working very hard, with enthusiasm and faith for the promotion of the Cooperative idea. I mean the Cooperative employees.

Since 1969, all Cooperative Institutions adopted uniform rules for provident funds for their employees and Cooperative Medical Schemes, covering medical and pharmaceutical requirements, operate on a contributive basis now in all five districts for the employees and their families.

In 1970 the Cyprus Students' Cooperative Savings Bank Ltd., was established with the object of helping poor and promising students to continue their higher education abroad. It is worth mentioning that 11,500 students from Cyprus are studying abroad and that Cyprus is the second country in the world (after Canada) with the lowest percentage of illiterates. Through cooperation, it has been possible to offer equal chances to students with little or no financial means. This revealed the good will and unlimited concern of the Cooperative Movement for the future citizens of Cyprus.

The Savings Bank has now 700 members out of which 600 are receiving financial assistance under the best possible terms. The loans approved for the members are approximately £600,000.- and an amount of £250,000.- has already been advanced.

#### COOPERATIVE INSURANCE, ACCIDENT AND SAVINGS SCHEME:

In 1971 the progressive Commissioner for Cooperative Development introduced a scheme by which all the employees of the Cooperative Institutions, numbering 2,700 persons, would be insured against death and accident for the duration of their service and until retiring age. The scheme was the result of repeated consultations with an English firm of actuaries and provides for equal contributions by the employees and employers. The scheme serves as a Savings Fund for the employee because after retirement at the age of 65 he will receive his own contribution plus a flat rate of interest at 5 per cent.

#### CONTRIBUTIONS - DONATIONS:

Contributions for charitable purposes by the Cooperative Movement

have always been welcomed. This, after all, is one of the provisions in the Cyprus Cooperative Law that contributions for charitable and/or public purposes can be made by Cooperative Societies for amounts not exceeding one tenth of three quarters of their net profits of each year.

A recent example of the concern of the Cooperative Movement for the welfare and education of the Cyprus school-children was the donation of one TV set and one Radio pickup to all the elementary and secondary schools of Cyprus. Contributions to the fund created by the Commissioner for Cooperative Development for this purpose were made by all Cooperative Societies, big or small, rich or poor.

#### 14. OTHER ACTIVITIES BY COOPERATIVES:

Since 1964, the Cooperative Movement of Cyprus has been participating regularly in International Fairs, for example, the Leipzig Fair, the Green Week Fair in West Berlin and the Brno Fair in Czechoslovakia. Friendly and trade relations have been developed with the countries concerned and it is hoped that more contacts of the same nature will be made in the near future with many other countries.

Modern trends in business relations, at least in an experimental stage, are being followed by the Cyprus Cooperatives. Last year an agreement for business collaboration with the private sector was concluded by buying 70 per cent of the share capital of a privately owned canning factory. A small share in the equity of two more private companies (the Cyprus Cement factory and the Leonard Fairclough Hotels Company) has also been subscribed by the Cooperatives.

Loans are also granted by the Cooperative Movement to statutory bodies, like improvement boards, schools, village authorities, irrigation associations etc. etc. An amount of £250,000 has already been provided in the form of loans.

#### 15. SOME ECONOMIC INFORMATION ON CYPRUS:

The economy of Cyprus just after Independence had all the symptoms of an under-developed country. There was stagnant economic activity, a high rate of unemployment and emigration, an under-developed agricultural and an insignificant industrial sector.

The primary efforts of the Government were to revive economic activity and to lay the foundation for future development, thus putting an end to the economic uncertainty which prevailed. Efforts were also directed towards development planning in order to achieve a certain rate of growth by mobilizing unemployed resources. A first five year plan for



1962 - 1966 was set up, and the results were more than satisfactory. Limited in scope and concentrated mainly in the economic sphere, its coverage was mainly confined to the public sector and a series of targets were set for development expenditure.

The excellent results of the first five year plan led to the second five year plan, 1967 - 1971, which was launched at a time and in a situation radically different from that of 1961. The basic philosophy of the second five year plan was to speed up the process of growth, to promote the restructuring of the economy, with more emphasis on the social and welfare aspects of development. It also sought to provide solutions to the problem of spreading the benefits of economic growth among the various income groups and among the various geographical areas. It was wider in scope than the first plan.

The following statistical data taken at the end of 1971, the last year of the second five year plan, will illustrate the achievements recorded:-

The G.D.P. at 1970 constant factor cost increased from £114.6m in 1961 to £226.9m i.e. at an annual rate of 7.1%, the G.N.P. from £128.3m in 1961 to £251.4m. i.e. at an annual rate of about 7%. The per capital income in 1961 was £140 reaching in 1971 the height of £405. It is envisaged that in 1972 the figure will reach £450.

Government has recently inaugurated the third five year plan, 1972 - 1976. It is understood from the report of the Minister of Finance that during the third five year plan all sectors are expected to expand and emphasis will be laid again on the further development of agriculture, industry and tourism, the three most important sectors of the Cyprus economy.

Government has always used the Cooperative Movement for the application of its agricultural policy which is being directed towards the improvement of economic and social conditions in the countryside. For the attainment of this objective, Government and Cooperation combine their efforts. Many a time, cooperation was invited to provide services for the application of a Government agricultural scheme, or to finance on behalf of the Government relief schemes for one or another class of farmers. The object has always been the same, the raising of the disparities in income between rural and urban areas, the improvement of utilities, communications and social services.

## 16. CONCLUSION:

The outstanding feature of the Cyprus Cooperative Movement is that

it grew and developed by itself, without any form of direct financial assistance from the Government, depending solely on thrift, self help and mutual help. It passed through times full of dangers, impediments, and survived thanks to the will of the people who strongly believed that the Cooperative idea and mutual help were the only acceptable means to economic independence, self respect and happiness.

The Colonial Government, after providing the minimum legal requirements for the commencement of the Movement (enactment of the Law, establishment of the Department for Cooperative Development) followed a rather reserved policy towards the growth and the development of the Movement most probably because of huge financial vested interests. In all fairness, however, it must be said that the staff engaged to run the Department was composed of active persons, full of enthusiasm, devoted to the Cooperative idea and principles who spared no time, toil and efforts, using in the old days primitive transportation (mules and donkeys) for their visits from village to village in order to preach the gospel of Cooperation, the success of which very much depended on the splendid work done by these pioneers.

The remarkable growth of Cooperation since Independence, as it is readily noticeable, and the tremendous increase of the volume of business of its various organisations confirmed the axiom that in an independent developing country a genuinely, healthy and steady Movement provides the basic incentives for economic progress. Unlike the Colonial Government, the Republic showed a very keen interest in the economic and social development of the people, particularly in the rural areas. It realized that, as a prerequisite for the successful application of its agricultural policy, it had to abandon the colonial policy and apathy of the past. For this reason the Department for Cooperative Development had to be re-organized and a new Commissioner had to be appointed who should be a person of high integrity, energetic, with new ideas, imagination, forethought and above all planning.

We are living in a changing world. Cooperation cannot afford to lose pace in this rapidly changing world by simply waiting for natural economic, social and cultural evolution, or stop at a certain point and say "that is enough, nothing can be attained further". Such a policy would be a fatal mistake. Cooperatives of all countries in their own interest, must plan and carry out far-reaching changes, never relax or rest on victories, never cease to escalate perfection, but always look ahead and exhaust all possible means for embracing all branches of activity in the life of the country, bearing in mind that nothing but their own endeavours and achievements can provide an answer to the permanently valid question: what, if any, are the limits to the possibilities of Cooperative action?

## THRIFT AS A MAJOR FACTOR ENHANCING SELF-FINANCE

by A. Mavrommatis, Assistant Commissioner for Co-operative Development,  
Cyprus

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Co-operatives, being "organisations wherein people voluntarily associate together as human beings, on a basis of equality, for the economic interest of themselves", need to have money to carry on their operations.

When a number of persons associate together and form a co-operative for economic action, the next matter is to devise methods of securing the object. And since the object is economic action, the co-operative must search for capital - for money.

A thrift and credit co-operative exists to provide sound controlled credit for its members, and so it must somehow secure funds. To do this it has before it one or more or all of the four sources: Shares, Savings, Loans and Realised Profits (Reserves).

Savings: With the establishment of a Thrift and Credit Co-operative the question of finance arises; and at this point the possibility of savings comes up for consideration. The inclusion among the primary objects of a co-operative society of the words "the encouragement of thrift and of self-help" is but the beginning. Ways and means have to be found to enable the words to become deeds, so that the members feel it their duty towards themselves and their fellow members to make a positive effort to save. After all, co-operation means self-help. The best way to save can only be arrived at after much argument; if people are persuaded to appreciate that an effort has to be made, the battle for savings is half-way to being won.

In the early days of the Co-operative Movement in Cyprus, not many people believed in the idea of savings. They used to think and say that the members are too poor to have money to save! People associate together in order to borrow and a person who borrows cannot really afford to make deposits at the same time, was the argument.

Nevertheless, the believers in the idea of thrift prevailed and much emphasis was laid on savings. In fact, borrowing was married with savings, and the three stages of borrowing/savings were understood, and most important still, practised.

- (i) The people borrow to spend .... The co-operative must teach the people to save even while spending the money borrowed.
- (ii) The people save to spend .... The co-operative must feel happy when this stage has been reached and the talk of the "need for borrowing" ends; there is only need for borrowing when there has been insufficient foresight and saving. So it is wise for everybody always to remember to save to spend!
- (iii) The people save to save .... This stage follows the second, when the member has saved what he needs to spend and can now begin to save for some unknown purpose in the future.

This third stage is, of course, open to discussion; it involves a sacrifice of present enjoyment for some future advantage and this requires foresight. In the second place, in times of turmoil such savings may be lost or lose much of their value because of inflation and devaluations.

So, the opposition to thrift has a certain reason on its side. Yet the practice of thrift on a systematic scale is absolutely essential if the people of a country are to improve their economic lot. England, Germany and other advanced countries are rich today because their people for years were saving money and investing it in productive enterprises. During the last war all the savings were practically lost when the money became worthless, but the people have not been deterred and today again the systematic encouragement of thrift amongst rich and poor people continues with great success.

Thrift is perhaps the surest weapon against poverty, both for people and organisations.

Combination of credit with savings. The Cyprus example: It is strongly believed that the combination of credit with savings is probably the main factor responsible for the sound Co-operative Movement established in Cyprus over the last few decades. A local credit society in this Island is a real "people's bank"; it is a lending institution for those who are in need of credit and at the same time a savings bank in which the common people can deposit their savings when they have surplus and let them accumulate to use them later, when they will need them for some useful purpose.

The combination of thrift with credit is serving a three fold purpose:

Firstly it encourages people to save so that they may look forward to the day when they will have money of their own to draw on and not always have to resort to borrowing;

Secondly it provides the movement with working capital without having to run to commercial banks or to the Governments for finance; and

Thirdly it has a moral effect both on the individual depositors and borrowers and also on the management. It is obvious that the elected committee will take more active interest and see that the money is properly handled and wisely used when they know that this money belongs to the common people of their community. This is in contrast to handling the money of a commercial bank and, still worse, Government money. People will usually be inclined not to worry very much and probably tend to think that Government has an 'obligation' to finance them and at some time write such debts off as if the finance were charity or a grant.

Conducive factors. Safety, secrecy, liquidity, interests.

No thrift programme can be successful unless practical steps are taken so that, under normal conditions, the savings of the common people are safe with the co-operatives. And whereas the shares, the reserves and the unlimited liability of members, which we have here in Cyprus, are quite a good pre-requisite, the proper use of such savings, through good and

business-like administration, and good and strict audit, by an independent audit body, are things very necessary to provide a basis for the safety of money deposited with the co-operatives. And last, but by no means least in importance, is the personal honesty and integrity of the Manager of a Co-operative. It is not an exaggeration to say that a good manager makes a good co-operative and good savings programme.

Secrecy is also a necessary ingredient to a successful savings programme. The common people usually do not like other people to know about their savings accounts.

Liquidity is a must; this requirement is necessary to create confidence, trust and continuity in a savings programme. Here is one drawback to the combination of borrowing with thrift. The committees are sometimes apt to use all available money in loans to members.

Hence the need for constantly warning the officers of Thrift and Credit Co-operatives of the need to keep liquid funds so as always to meet the requirements of depositors. It should be clearly understood that, whereas it is possible or natural to refuse a loan to a member if there are no funds available, it is most unnatural, undesirable and detrimental to a savings programme and to the co-operative to refuse the repayment of a deposit because of "no funds available".

Interest is probably the easiest to be understood and practised by the committees of Co-operatives. Money is a commodity sold and bought in the open free market. To get it, one must pay the current market rate of interest.

Here efficiency comes into play. If the co-operative is run efficiently, its running costs low and interest competitive, the result is a successful savings programme.

Some facts about Cyprus and the Cyprus Co-operatives. Cyprus is a small country - a small island - with an area of 3,572 sq. miles and a population of around 650,000 people. It is basically an agricultural country with very good tourist potentialities.

Today there are 870 co-operatives with a membership of around 250,000 people and with a working capital of around £55 million, as follows:

Share capital .....	£1,700,000
Reserve Funds .....	£6,000,000
Deposits .....	£47,300,000
	<hr/>
Total	£55,000,000
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During the last decade the Cyprus Co-operatives have not only been self-financed, but are making surpluses of £8 to £10 million, and this despite the investment in recent years of substantial capital in big basic co-operative projects, concerned mainly with the processing and marketing of agricultural products.

The main assets of the co-operatives are:

Loans receivable .....	£30,000,000
Capital investments .....	7,000,000
Goods in stock .....	8,000,000
	<hr/>
Total	£45,000,000
Cash at Banks	£10,000,000
	<hr/>
Total Assets	£55,000,000
	<hr/>

The school savings scheme in Cyprus. This is a rather interesting scheme, not so much in terms of money brought into the savings programme but because of its educational value for the younger generation. Once a week during their first six years of schooling, the children pay in their savings, in friendly rivalry amongst themselves - who should save more! The scheme has been in operation since 1950 and today all schools are fully covered by it. More than 70,000 children are today saving an average of £30,000 weekly. Total savings today £2,500,000.

A full account of the position and activities of the Cyprus Co-operatives is given in the annual report of the Department of Co-operative Development, Cyprus.

Thrift enhancing self-finance. It is known that the co-operative organisations and, in particular, the agricultural co-operatives in very many countries were and still are dependent on State financial help.

We here in Cyprus have steadily refused State aid for our thrift and credit co-operatives. Or rather, to be more accurate, State financial aid did not come when it was sought in the early beginnings of Co-operation, some fifty years ago. The commercial banks had also turned a deaf ear to requests of agricultural co-operatives for finance. So we had either to give up or seek other ways of finance. And we adopted the idea of self-finance.

Why not draw upon members and upon the public for money - for the capital the co-operatives needed for their operations?

Why not draw up a savings programme which would gradually lead to self-finance?

Why not try the Raiffeisen co-operative method which is known to have worked successfully in Germany?

Why not accept unlimited liability? The members did not have ready cash to buy shares in a co-operative and one cannot seriously expect to run and develop a savings programme - call on members and the public to entrust their money, their small savings, with the co-operative bank, if no adequate security is offered! Much has also been said and written about the moral value of unlimited liability as an effective factor in training people in co-operative business responsibility. Indeed there is much truth in all this. And it is also equally true that unlimited liability and the responsible management resulting from it, are both good security for the depositors.

Why not save the realised profits? The individual is expected to save to spend. The co-operative should also be expected to save to spend. In this way the members are saving collectively - another source of capital leading a co-operative to self-finance.

Why not link the village co-operatives together in a central co-operative bank? The savings programme to extend from local or regional to national. Long established local co-operatives, where the people had grown thrifty, would often have a balance of deposits over loans. So why not pool resources?

Why not finance new co-operative projects which call for large investments of capital with funds accumulated in the central co-operative bank?

Why not develop co-operative economic action based on thrift and self-finance? The individual is happy and his standing sound when he relies on his own savings and resources for his economic affairs. The co-operative could and should do so too.

Yes, why not, was the answer of the Cyprus co-operators to the above LHYS. And the results of 50 years' systematic hard work on such a programme have brought very positive results.

We are proud and happy that this road was followed; we feel we were very lucky to have struck the idea. Mind you, it has been and still is a hard task. It is the hard way, but it is the surest and safest way. Among other things, independence of co-operatives is preserved through this method.

Development on this basis is necessarily slow at the start. Acceleration is attained with the accumulation of funds. Once, however, the co-operatives attain a momentum the development is fast.

You have, for example, a feasibility study for expanding co-operative activity in a certain field, or you have a feasibility study for a new co-operative project and the people concerned want it; touch the button and the machine is in operation when the required capital is there through the savings programme. No application for loan capital, no special reports and feasibility studies disclosed and produced to the financing agencies - be they the Government or the commercial banks - no waiting and waiting, no degradation, no observers on boards of management and, in general, no strings.

Many people wonder whether it is really worthwhile to go to so much trouble to operate a thrift programme to raise working capital. Instead, they very likely have in mind the alternative 'easy' way of borrowing such capital from the Government, the commercial banks or other lending agencies or institutions.

It is suggested that the trouble and probably the extra expense which a savings programme may necessitate are worthwhile. Among other things it helps mobilise from a great number of persons small amounts of money which otherwise might have been lying idle, and put them into productive purposes.

The words "great number of persons" probably deserve a special note, not so much in order to say how useful and helpful such a scheme is to the persons concerned and to the national economy of a country, but to suggest also that this source of finance is superior to any other, in that the holder and user of such funds feels more at ease. The possibility of a "great number of depositors" withdrawing their deposits at once is too remote. In normal times such deposits are revolving year in year out in the co-operatives.

We do not claim to have an ideal Co-operative Movement. Nevertheless it is fairly dynamic, and it is felt that the reason for this is self-finance, which has been attained through a well organised and run thrift programme. There is no village without a Thrift and Credit Co-operative. In addition there are consumers' stores and co-operatives of various types for the export of agricultural products, import of all kinds of consumer and industrial goods as well as of building materials. The co-operative factories are very modern and have a prominent place in Cyprus industry. Special mention may be made of our winery, the animal fodder factory, the tobacco factory and the canning industries.

Cyprus provides an excellent practical example of how self-finance can be attained through thrift; and the beauty of the thing is that thrift has been and still is practised on an ever-increasing scale by the people of Cyprus, rich and poor, both in the towns and in the rural areas.

Surprisingly enough, the difficult times through which Cyprus is passing did not deter the people from practising thrift on a systematic scale. It is their strong belief that thrift and self-finance are the surest ways to improve their economic lot.

Thrift is a very strong weapon against poverty and also a vehicle for economic progress and development. And this applies to people, to co-operatives, to private enterprises and to nations.



## THE FINANCING AND CREDIT SYSTEM FOR CONSUMER CO-OPERATIVES IN THE U.S.S.R.

presented by Mrs. E. P. Vassyakhina, on behalf of  
Centrosoyus, Moscow, U.S.S.R.

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The Soviet Consumers' Co-operative Movement is a big economic and mass social organisation and an important form of organisation for trade and purchasing. Co-operatives establish many-sided economic relations between town and country; they purchase and supply agricultural raw materials for industry and foodstuffs for the urban population; they supply the rural population with consumer goods.

It is stressed in the C.P.S.U.<sup>4</sup> Programme that the role played by the Consumers' Co-operatives will expand in the period of communist construction.

The Directives of the 24th C.P.S.U.\* Congress on the five-year economic development of the U.S.S.R. for 1971-1975 set tasks for improving the supply of goods to the rural population; and for developing trading, purchasing and productive activities of consumers' co-operatives which contribute to the extension of economic relations between town and country.

During 1965-1970 the co-operative turnover increased by 51 per cent against 38.2 per cent in the previous five-year period. In the period 1971-1975 the turnover is to increase by 42.4 per cent.

By strengthening and extending the economic ties between town and country, the consumers' co-operatives actively contribute to the development of the collective farm system and help to eliminate still further the disparities between town and country.

In the U.S.S.R., consumers' co-operatives and their unions enjoy economic and operative independence.

Co-operative economic activity is carried on in accordance with the existing laws and regulations, economic plans, the price system, calculation and accounting rules, financing and provision of credit, contractual relations and other norms of socialist economic management.

The essence of the economic and operative independence of co-operative organisations consists in the following:

- they have their own Rules, fixed and working capital and sole disposal of it;
- they enjoy the rights of a legal person to conclude economic agreements and employ personnel;
- they have a complete book-keeping system, independent balance sheets and bank accounts, enjoy the right to receive loans from the State Bank;

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\* Communist Party of the Soviet Union

- they are fully responsible financially for the results of their work and also for the fulfilment of economic plans, the payment of taxes punctually and in full, the proper use of State Bank loans and their repayment where due. They are responsible for the fulfilment of their contractual obligations to other enterprises and establishments.

Co-operative organisations, as well as their members and employees, are materially interested in the fulfilment of economic plans, in the economical and rational use of funds and the increase of efficiency. It finds its expression in the material incentive to the workers and members through the payment system based on the fulfilment of economic plans, the system of various bonuses paid out of gained profits, also distribution of dividends to co-operative members.

It is self-evident that the economic and financial activity of co-operative establishments is inconceivable without constant supervision. Internal supervision is exercised by co-operative boards and control commissions with the help of calculation and analyses of the work results. The State Bank and financial bodies supervise the work of co-operative establishments during the process of granting and repaying financial capital investments, as well as through the system of payments and taxes.

Financial supervision helps to reinforce the discipline of payments, to carry on a more rational savings system, to safeguard co-operative assets and use them efficiently.

The same rights and duties in respect of their economic and financial activity are assigned to many consumer co-operative enterprises and establishments, including all wholesale trade centres run by co-operative unions, purchasing agencies, big retail stores and public catering establishments, bread-baking plants, other industrial establishments and automobile parks.

They also enjoy complete economic and operative independence. They have their own working capital, balance sheets and accounts in the State Bank, enjoy the rights of a legal person to conclude economic agreements, buy and market their goods independently, bear complete material responsibility for the results of their activity and have funds to offer material incentives to their employees.

Small enterprises and establishments run by consumer co-operatives or their unions (small warehouses, shops, canteens, bakeries, etc.) are as a rule included in the general balance sheet of the board. Co-operative boards do the accounting and planning, purchasing and marketing of the production besides making payments and providing credit for these enterprises and establishments.

#### Co-operative Funds, Profits and Sources of their Formation

To carry on their economic, cultural, educational and organisational activities, the consumer co-operatives must have the requisite funds. According to their sources of accumulation and ownership, these funds are classified as "own" and "borrowed".

During the last two years alone the consumers' co-operatives' "own" funds increased by more than 16 per cent.

Profits. The main source of "own" funds is the profits gained from co-operative economic activity. The total of the profits during the first two years of the 9th Five-year Plan (1971-1972) increased by 37.4 per cent and reached Rs. 1,720 million in 1972.

Consumer co-operative profits are public wealth, i.e. they are not a means of private enrichment or a result of considerations of commercial competition. They are acquired as a result of fulfilment of economic and financial plans.

Profit (net surplus) is the difference between the gross yield and the operating costs of production.

In trade the main source of gross profit is trade discounts. The greater part of the goods produced by State or co-operative industry have retail prices fixed by the State. These are the prices at which the goods are supplied to co-operative enterprises and establishments and trade discounts at the established rates (a percentage of retail prices). The normal rate of discount differs for various goods and the place of their market, according to the level of operating costs.

In public catering establishments the profits are derived from the difference between the total of trade discounts for the goods bought, plus additions to the value of raw materials used for the production of the enterprise's own kitchen produce and the total of production and operation costs.

The profits of purchasing transactions are the difference between the sum of additions to the purchase prices of the produce (according to the established norms) and the sum of operation costs.

In bread-baking plants the profits consist of the difference between the supply price (retail price minus trade discount) and the full cost price of the product.

In the same manner is calculated the net profit of other enterprises, the output of which is not liable to turnover tax. For output on which this tax is levied the net profit represents the difference between its retail price, less deduction of trade rebates and turnover tax, and the full cost price.

In the course of actual business operations there may appear various unforeseen profits (for example, receipt of fines from suppliers for non-fulfilment of contracts) and expenses (payment of such fines).

Profits from business operations, increased by the sum of casual income and reduced by the total of casual expenses, represent the final profit carried to the balance-sheet.

Co-operative enterprises and establishments aim at a constant increase of profits. This is achieved, in the first place, by overfulfilment of their economic plans and by saving management expenses.

Distribution of profits. After payment of income tax to the State, the profits are distributed annually by decision of the co-operative members' meeting. A part of the profits is allocated to paying dividends to co-operative members. The remainder is allocated to fixed and special collective funds.

Share Contribution and Entrance fees. Entrance fees of new co-operative members and share contribution are the second source of societies' own funds. During the last two years alone more than 3.2 million members joined the Co-operative Movement.

The present membership of consumers' co-operatives totals over 61.3 million.

Co-operatives are open to all citizens who have reached the age of sixteen. A new co-operative member pays an entrance fee of 30 Kopecks and takes out one share. The amount of the share is fixed at a general meeting of members (or at a meeting of their representatives) with an eye to attracting the mass of the population into the Co-operative Movement and the importance of these contributions for the society's capital resources. The members of a shareholder's family who have no independent income, as well as persons receiving state pensions, pay one quarter of the value of a share.

By decision of a general meeting of members (or meeting of their representatives), new members may be permitted to pay for their shares by instalments over a period of two years.

The shares are paid to the co-operative board or its representatives, the latter being commended for their good work in collecting contributions.

The shares are repayable. They constitute the collective property of the members and represent their personal participation in financing the economic activity of the co-operative.

According to the principle of voluntary membership, a member may resign from a co-operative society and withdraw his share.

In case of the member's moving to a new residence in the area of a different co-operative, his share is transferred to the co-operative in the area of his new residence on application by the shareholder.

A co-operative member has only one share. This means equality of rights for all members and gives no opportunity to one co-operative member to acquire privileges over others.

Co-operative members participate in the distribution of profits and receive dividends which are paid annually out of the profits. The amount of the dividend is approved at the general meeting of shareholders (or their representatives) taking into consideration the recommendations of superior co-operative organisations, but it may not exceed 20 per cent of the distributed profits.

Recently the members of many consumers' societies have decided not to pay out dividends but to allocate them to the construction of cultural and welfare establishments collectively used (shops, laundries, kindergartens and crèches, young pioneer camps, etc.).

Consumers' co-operative funds. Increasing profits, entrance fees and share contributions continuously expand the capital resources of the consumers' co-operatives.

The funds of consumers' co-operatives form their economic basis. They are divided, according to their nature and purpose, into general economic funds and special funds.

General economic funds are the fixed fund and the share capital. They are earmarked for financing business activity.

Special funds are used for financing capital investments, social and welfare services, material incentives and other purposes.

Fixed fund. This fund is derived from entrance fees of members' (in consumer societies) and from allocations made from profits (in consumer societies and their unions). To the fixed fund also belong:

- the funds for financing capital investments, building repairs as well as for financing construction projects in execution, acquisition of fixed assets and large-scale repairs of premises and other installations;
- the money received by the organisation gratis.

The fixed fund is the principal part of co-operative's own capital. Fixed and circulating capital are drawn from this fund.

To the fixed assets belong: premises, structures, machines, equipment, transport means, implements and other articles of the material and technical facilities of co-operative enterprises and establishments.

The circulating capital comprises stocks of goods, raw materials, containers, fuel, money and other effects.

The fixed fund is entered in the balance-sheet and drawn up by the board of the co-operative. If a co-operative unit runs enterprises on a separate balance-sheet, it allocates, according to internal regulations, the money necessary to carry on their activity from its fixed fund.

The fixed fund is reduced by depreciation deductions for the fixed assets and a gratuitous transfer of property to other co-operative units. It should be mentioned that the appropriation of co-operative property by State bodies and enterprises is prohibited by law.

In case of an unprofitable year's business, which is extremely rare, the losses may be covered, according to the Rules, from the fixed fund. In 1972 as few as 0.3 per cent of the total number of co-operatives were unprofitable.

Share Capital. The existence of this fund is conditioned by the nature of the consumers' co-operative movement as a social organisation functioning on its own funds. The fund so constituted by members' subscriptions as described above.

The share capital is the property of the members of a given co-operative; in case of resignation from the co-operative or its liquidation, it is returned to them.

Every co-operative member is liable for the results of its activity. The share capital may be used to cover any losses made should the fixed fund be insufficient.

The share capital constitutes about 12 per cent of the consumers' societies' own capital.

Special funds: The fund for financing capital investments is of great importance as it is the main source of financing the expenses for the construction of the material and technical facilities of trade, purchases and production.

It is enough to cite the following data for 1965-1970: the volume of capital investments amounted to Rs. 3,800 million. There were 47,000 new shops built, 6,000 public catering establishments, 2.4 million square metres of general warehouses, bread-baking plants and bakeries with a capacity of 20,800 tons per 24 hours.

A fund for financing capital investments is formed by all co-operative organisations. It includes:

- depreciation deductions to redeem the fixed assets (according to established standards);
- allocations from distributed profits.

To achieve the most effective use of the capital investment fund it is centralised in district, regional, territorial and republican unions of consumer societies.

The following funds are not centralised and are left at the disposal of the corresponding organisations:

- compensation by the State Insurance Agencies of losses from the fixed assets caused by natural calamities;
- the cost of materials received gratis;
- sums received from the liquidation of important fixed assets;
- profits gained from marketing of produce of subsidiary farming enterprises, fishing, hog fattening, cattle-breeding and other income.

The fund for financing important repairs. This fund is created by all enterprises and establishments run by the consumer co-operatives from the following sources:

- depreciation deductions earmarked for large-scale repairs (according to the established standards);
- funds allocated by the enterprise to the repair of cultural and welfare establishments, premises and dwelling houses.

The money for large-scale repairs is deposited, as a rule, in special accounts with the State Bank, from which the finance for large-scale repairs is withdrawn. Enterprises and establishments having no special accounts finance the activity from their ordinary accounts with the State Bank.

The money of the fund is spent:

- on capital repairs of the enterprise's own basic assets;
- on participation in the construction and repair of local motor roads.

The Fund for Personnel training. A well-organised system for training personnel and improving the proficiency of the workers exists in the Soviet Consumers' Co-operative Movement.

Within the system of consumers' co-operatives there are 5 higher and 121 secondary technical specialised co-operative educational establishments, 139 trade schools and 2,066 schools-enterprises. The higher educational establishments train annually over 5,000 experts and the secondary specialised establishments 48,000 qualified workers. The Moscow Co-operative Institute trains experts for co-operative movements of developing countries in Asia, Africa and Latin America.

A sum of Rs. 110-120 million is spent annually on the maintenance of educational establishments, various courses and apprenticeships.

To finance these expenditures the Centrosoyus and co-operative unions build up funds for training personnel from the following sources:

- deductions made from profits by the consumer societies and their unions in the course of distribution, the amounts of which are recommended by Centrosoyus;
- monthly levies, based on turnover, from the co-operative economic and productive enterprises are charged to operating and production costs.

The fund for personnel training is also spent on organisational work as well as cultural and educational measures (general meetings, meetings of representatives, congresses, conferences, organisation of lectures, reports, excursions, etc.).

From 15 to 20 per cent of the total fund for personnel training is spent for these purposes.

The fund for cultural and welfare measures exists at every co-operative and consists of annual deductions from distributed profits.

The money from this fund is spent on organisational and mass work among members: lectures on scientific and public and political subjects, propagation of the best co-operative know-how, organisation of excursions for co-operative workers for the purpose of studying advanced practice. holding co-operative meetings, conferences and exhibitions.

Some of the money from this fund is spent on club activity and recreation rooms run by the consumers' co-operatives, on acquisition of equipment, musical instruments and costumes for amateur art circles, on maintenance of joint cultural establishments with the trade union organisations, and on subsidising voluntary sports associations of members.

The fund is also spent on paying for group and individual apprenticeships, travel costs of co-operative workers attending courses, seminars, correspondence courses, etc.

From this fund the co-operative workers may obtain loans for individual house building and for other needs; active co-operative members receive as an encouragement free accommodation at sanatoriums and holiday homes.

The Centrosoyuz and some co-operative unions run 9 sanatoriums and 20 holiday homes situated in picturesque places. Every year over 100,000 co-operators spend their holidays there.

Funds for Material Incentives. To encourage their employees, co-operative organisations have special funds, namely, the prize fund to encourage the best co-operative employees, the enterprise fund at the level of co-operative unions in the republics and the funds for economic stimulation.

Special allocations are made to reward workers with a premium for the over-fulfilment of the purchasing plans for some kinds of raw materials (fur, fur hides, wild plants, etc.), for the introduction of new techniques, for inventions and improvements and for successful fulfilment of socialist pledges in the All-Union Socialist Emulation.

The prize funds stimulate the fulfilment of economic and financial plans, help to mobilise internal reserves and further improve co-operative activity, as well as offer the workers incentive to interest themselves in the results of their work.

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The preceding sections have dealt with the formation and use of its own financial resources by the Consumers' Co-operative Movement.



Attaching great importance to the development and consolidation of consumers' co-operatives, V.I. Lenin and the Communist Party thought that the Socialist State should give the Co-operative Movement material support.

Lenin's view on the necessity of giving financial support to co-operatives underlay the economic relations between the State and the Co-operative Movement at all stages of its development in this country. One of the important forms of State financial assistance to the Co-operative Movement is short-term credits.

### Short-Term Credits

In the development of co-operative trade an important part is played by short-term credit from the State Bank as a source of working capital for trading organisations.

Approved by Centrosoyuz and the U.S.S.R. Ministry of Trade on 1st January, 1973, a new system of providing credit for trading enterprises and establishments has been introduced in the U.S.S.R.

Short-term bank credit is organised on the basis of a plan according to the purpose and character of the credit, its repayment, urgency and security. These principles are closely connected with each other and interdependent.

The State Bank grants credits to enterprises and establishments which are fully self-supporting, have their own working capital, an independent balance-sheet and an account at the State Bank.

Credit is granted to consumers' co-operative trading organisations, provided that:

- the enterprises and establishments have their own funds to pay for participation in the planned commodity stocks to the extent of not less than 10 per cent in the wholesale and 15 per cent in retail trade, that their accounts and other reports are submitted by them to the Bank and the loans paid off by the agreed date.

Thus, the contribution of own funds to the payment of goods must be at least 10-15 per cent, and the share of credit not more than 85-90 per cent.

To obtain short-term credits, co-operative organisations open special loan accounts at the bank where the date of granting the loan and its repayment as well as any debts are recorded.

The total sum of the turnover credit (planned limit) is fixed in the quarterly plans according to the turnover plan and the norms of circulation. The planned limit of credit takes into account the credit needed for commodity stocks required to the turnover plan minus the consumers' societies' own capital.

Trading units are also granted the following loans:

- for stocks of seasonal goods, without fixed limits;
- for temporary supernormal stocks of commodities;
- for temporary needs;
- for seasonal expenses.

Co-operative organisations also enjoy other kinds of credit; for example, for goods sold to members on credit; for invoices in transit; for accrediting the replacement of own working funds converted into debtor's debts for claims adjudged by court or through arbitration.

The State Bank, in supervising the activities of co-operative enterprises and establishments, checks the correctness and economic efficiency of credit investments.

Efficient enterprises or establishments enjoy privileges in dealing with the State Bank; for example, they are granted loans for temporary needs, if they have temporary financial difficulties through no fault of their own.

On the contrary, enterprises or establishments violating the financial and payment discipline (long delays in making payments, etc.) are subject to sanctions by the Bank, such as exclusion from crediting. But these are solitary instances. The co-operatives themselves and their superior bodies particularly keep watch on the payment position with the Bank.

#### Long-Term Credits by the State and Building Banks

Long-term credits granted to the consumer co-operatives by the State are a direct form of financial assistance. These State loans help the Co-operative Movement establish new enterprises and develop new kinds of activity.

Co-operative organisations employ loans of the State Bank for the following purposes:

Construction of wholesale warehouses, retail trading units, canneries, breweries and soft drink factories, hunting and fur farms, acquisition of fur-bearing animal herds. The loan is granted for a term of 10 years, with repayment beginning with the 5th year after the first loan was received.

Extension of the functioning and organisation of new enterprises for production of consumer goods, foodstuffs and articles of cultural and household use; construction of public catering establishments and bakeries; extension and reconstruction of retail shops; construction of a small retailing network: extension and organisation of technical facilities for purchasing, processing and storing of farm produce; expenses connected with introduction of new techniques and some other objectives. The loan is granted for a term of 6 years.

Credit assistance for construction is rather important. In 1972 capital investments in co-operative construction with the assistance of loans from the State and Building Banks amounted to 26 per cent of the total volume of capital investments.

State loans are granted at low interest: the rate of interest for loans issued for current turnover is 2 per cent a year, for loans on invoices in transit - 1 per cent, for overdue loans - 5 per cent, for capital construction loans - 1.5 per cent.

#### Relations of the Consumer Co-operative Movement with the State Budget

In the U.S.S.R. all enterprises and economic establishments including the co-operatives conduct their financial relations with the State Budget through loans and payments.

The relations of consumer co-operatives with the State Budget of the U.S.S.R. are based on the existence in this country of two forms of property, State and co-operative, which are essentially of the same type. Both are public and socialist property. In the first case, the owners of the property are all people personified by the Soviet State; in the second case - a group of people, a collective.

The difference between these two forms of property determines the difference in the relations with the Budget between the State undertakings and co-operative enterprises and establishments. The taxes paid by the State establishments are in fact an instrument for the distribution of profits by the State. While the surplus of co-operative enterprises and establishments, which is the property of individual associations of working people, is not distributed or used by the Soviet State, only a part of it is used in the budget in the form of tax.

The Soviet State contributes to the development of the Co-operative Movement in every possible way. It suffices to point out that co-operative enterprises and establishments are given some financial privileges, and lower taxes are fixed for them as compared with the enterprises of the State sector.

As has been mentioned above, one of the forms of financial aid to the Co-operative Movement on the part of the State is long and short-term credits carrying a low rate of interest.

In addition to loans, which have to be repaid completely co-operative organisations get sinking-fund loans to cover transport expenses involved in the delivery of certain goods and also to refund the difference in prices and trade allowances in the specified cases and amounts.

For example, delivery expenses for such goods as flour, cereals, salt, kerosene and some other goods are included in the trade allowances for the shortest distance only, the radius being up to 10 kilometres from the place of receiving these goods. Meanwhile the territory of the Soviet State is vast and these goods are also delivered over long distances, naturally involving higher transport expenses than those provided for in the trade allowances.

That is why the expenses connected with the delivery of these goods at distances greater than 10 kilometres are refunded from the budget to co-operative organisations located at a distance from railway stations and water docks.

What are the taxes paid by the Consumers' Co-operative Movement to the State? The main tax is the income tax paid on profits. The tax paid by the consumers' co-operatives amounts to 35 per cent of the profit gained. The tax is paid by: consumers' societies, district unions of consumers' societies and their purchasing agencies; regional, territorial and republican unions of consumer societies, the Centrosoyus and some enterprises and establishments subordinated to co-operative unions and having their own rules and the right to distribute their profits.

Enterprises or their units (shops, canteens, warehouses, workshops, etc.) which have no rules do not pay income tax. The profits of their activity are taken into consideration when the organisation to which they belong is taxed.

The income tax is paid on the actual amount of profits gained by the enterprise or establishment and recorded in the accounts and balance sheets.

The untaxed part of the profits is deducted beforehand from the total profits from which the income tax is paid.

The income tax is not paid for a period of two years by co-operative productive establishments newly organised and working on local raw materials, including agricultural raw materials purchased at local market prices. The State also grants many other privileges in the payment of income tax.

Payments of income tax by co-operative organisations are made every quarter of a year and are based on actual profits recorded in the balance sheet for the past period, beginning with 1st January, the income tax being diminished by the sum previously paid.

The income tax is charged quarterly and paid to the budget by the taxpayers themselves, i.e. co-operative organisations.

In addition to trading activity Soviet consumers' co-operatives purchase agricultural products and raw materials and produce some consumer goods.

Along with the industrial enterprises in the State sector, co-operative plants and factories pay turnover tax on the production of some foodstuffs and manufactured goods.

The State also grants co-operative enterprises and establishments considerable privileges when paying the turnover tax, as follows:

- if an enterprise produces goods from the customer's raw materials and is paid only for this work, it is exempt from the turnover tax, which is paid by the organisation which sells these goods;

- the produce of the consumers' co-operative bakeries is not taxed;
- the purchase of agricultural surplus produce from the collective farmers or other citizens at local market prices, or from collective farmers on a commission basis, as well as the finished articles manufactured from their products are exempt from the turnover tax;
- all newly-organised enterprises working on local raw material and waste, as well as on raw materials received from subsidiary farms, are exempt from paying the turnover tax for a period of two years after commencing operations;
- industrial establishments run by the consumers' co-operatives and located in the regions of the Extreme North, mountain and remote areas enjoy a 50 per cent reduction of turnover tax, and enterprises located in rural areas of all other regions (except the Moscow region) - a 25 per cent reduction.

Thanks to these privileges co-operative enterprises can allocate these funds to the development of production and the consolidation of their financial position.

Consumer co-operative organisations pay to the budgets of local authorities a tax on land and premises.

Co-operative factory and plant premises, warehouses, shops and other premises are taxed.

The following premises are freed from paying the premise tax:

- premises transferred by local Soviets of Working People's Deputies to the consumers' co-operative enterprises and establishments on the basis of long-term leases;
- premises built in the areas of new projects to render services solely to the construction works till these projects are completed.

The rate of the tax is fixed from 0.5 to 1 per cent a year of the initial cost of premises belonging to co-operative enterprises and establishments (without deduction of amortisation).

The land rent is paid by co-operative organisations for land plots, whether built on or not, allotted to them for permanent use and according to building agreements.

Lands destined for agricultural use, as well as earmarked for hay-making or pastures, are tax free. Land areas which have tax-free structures are exempt from land rent.

The rates of land rent are fixed by the local Soviets of Working People's Deputies and are differentiated according to the class of structure built on the land (from 4 to 18 Kopecks per square metre).

Co-operative property does not contradict socialist property. Moreover, under public ownership of the means of production it becomes one of the forms of socialist property. This pre-supposes the common nature of the tasks set by the Co-operative Movement and the State in the U.S.S.R. That is why all the relations of the Co-operative Movement with the Socialist State, and its relations with the State Budget in particular, can only be of a mutually beneficial and democratic character, contributing both to the development of the Co-operative Movement and socialist democracy in general.

## PROBLEMS OF FINANCING OF CONSUMERS' CO-OPERATIVE SOCIETIES

in the

### GERMAN DEMOCRATIC REPUBLIC

by Dr. W. Krüger, Board Member, Verband deutscher Konsumgenossenschaften, and Dipl. Ök. W. Seibt, Chief of the International Relations Department, Verband deutscher Konsumgenossenschaften: introduced by Dr. L. Schmidt.

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One of the central questions for the progressive development of consumers' co-operatives in all countries is the financing of their business activity.

The consumers' co-operatives in the German Democratic Republic have to face this problem because successful distribution in modern shops and rational own-production, assuming an annual increase in productivity of from 5 to 8 per cent, prices remaining stable, demand a high platform of financial resources.

The following gives a survey of the solution of these problems in the consumers' co-operatives of the German Democratic Republic.

#### General Outline of the Movement's Organisation and Structure

The Union of Consumers' Co-operatives (VdK) of the German Democratic Republic comprises consumers' societies, productive enterprises, regional unions and a department store undertaking.

In this system the consumers' co-operatives occupy a dominating position.

All the consumers' co-operatives, productive and other undertakings apply the system of economic accounting<sup>1)</sup> in their business operations. Economic accounting implies the principle of self-financing.

#### Common Principles and Characteristics of the different Sectors of the Movement in the Field of Financing

For all branches of consumers' co-operative activity, the same conditions in principle apply to financing. All enterprises are obliged

- in the field of basic equipment and investment<sup>2)</sup> to finance their affairs from their own profits and from cumulative depreciations. In cases where their own resources are insufficient to finance them, loans may be contracted;

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#### 1) The term economic accounting covers:

The principle of socialist economic management; full responsibility of the enterprise for all material supplied and financial obligations; all expenses covered by its own receipts; working at a profit.

#### 2) 'basic equipment' denotes buildings, installations, machinery.

- to provide circulating capital 3) to the greatest possible extent out of their own resources from bills of exchange, by obtaining favourable terms of payment from suppliers, as well as supplementary credits. The order in which financial resources are placed is identical in practice with the financial policy recommended by the VdK for its affiliated undertakings.

It should be mentioned that in the consumers' co-operatives reserves are set aside for the annual payment of dividend on purchases and these are permanent liabilities, such as accumulated wages, to be drawn upon, mainly as a basis for finance of transactions to be completed in the short term. For example, as the amount of dividend paid out each year to members is about 120 million dollars, the importance of this source of finance should not be underestimated.

### Financial Situation of the different Sectors of the Movement

The financial situation of all branches - Consumers' Co-operatives, productive enterprises and department stores - may be described as sound. All have been working for years with increasingly improved liquidity. Thus

- circulating capital is provided to the extent of about 90 per cent from own capital, bills and permanent liabilities
- basic equipment and yearly new investments have been hitherto financed 100 per cent from the Movement's own resources.

Increasing opportunities for investments, which total about 150 million dollars for 1973, require, both for basic equipment and the enterprises run by the VdK, the contraction of loans.

The interest rate for these loans, as well as for credits for circulating capital, is a uniform 5 per cent. This is exceptionally favourable. Five per cent is the basic rate, which can be varied positively or negatively according to the way in which the object of the loan departs from general economic norms.

### Significance of Foundation Capital, Members' Savings and Self-financing by Co-operatives: Differences of Financial Situation between Urban and Rural Areas

It is indispensable to mention that the high degree of self-financing now attained by the consumers' co-operatives of the German Democratic Republic is the result of a long period of development.

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3) 'circulating capital' denotes productive materials, stocks, finished products, cash



Particularly in the early stages, that is immediately after the destruction of Hitlerite fascism in 1945 until well on in the 1950's, self-help on the part of the membership, the continual increase of the members' share capital, was extraordinarily important for the strengthening of the financial position of the consumers' co-operatives and providing a basis for progressive development. Without this self-sacrificing help from the members, their constructive spirit and their enthusiasm for the rise of a stable co-operative organisation, the position achieved by 1972 would be inconceivable.

Direct help in strengthening the consumers' co-operatives was forthcoming mainly through four channels:

- through the unpaid collaboration of many members in the re-building or building of shops, factories and offices;
- direct gifts of money and the continuous increase of the share capital per member;
- generous assistance from government authorities, in that the consumers' co-operatives

received back as early as 1945 without conditions the whole of the property sequestered by the fascists,

obtained without payment buildings, equipment and material for the revival and extension of their co-operative activities,

received generous loans - mostly free of interest - which were ultimately converted into donations in later years;

- through the policy, consistently pursued, from the beginning, by which the stronger co-operatives help the weaker and parts of the profits of efficient and well-financed societies are transferred to a central fund for societies in need.

Nowadays the share capital is no longer so important. At the end of 1972 the total funds of the co-operatives amounted to about 1,400 million dollars, of which 85 million dollars represented members' share capital.

Apart from this the management of every co-operative relies upon the active assistance of the members in the establishment of new shops and other co-operative enterprises. Every year, especially in rural areas, new shops are built or old ones renovated by this means. In total this unpaid assistance is estimated at 700,000 dollars annually.

Following the 7th Congress of the VdK in 1972, the co-operative financial budget was reinforced even more through collaboration with municipal authorities, agricultural productive co-operatives and other undertakings in the following manner:

The above-named authorities and undertakings build, according to plans drawn up by the consumers' co-operatives, shops and restaurants, for example, financing their construction from their own resources, and hand them over to the consumers' co-operatives on a rental basis for the fulfilment of the latter's distributive functions. All experience gained so far indicates that this form of collaboration between consumers' co-operatives and other institutions promises to be successful in the future.

Although on the whole the different co-operative branches enjoy a good liquidity position, the situation varies in the individual undertakings.

There is a liquidity gap between large urban consumer co-operatives and those which are mainly rural in character, between societies with large and those with small turnovers and between individual sectors of production.

In order to compensate for these differences in efficiency, which partly result from objective factors, the system of mutual help and solidarity previously mentioned has been developed according to the following principles.

Certain positions of the profits of financially-strong consumers' co-operatives and enterprises are centralised in the regional Co-operative Unions and the VdK and made available to the societies and enterprises, for example, for the execution of large-scale investment projects.

The provision of this capital takes two forms: by definitive transfer to the consumers' societies without repayment, in other words, a donation, or through a long-term loan, for which the borrower will be responsible for paying interest at a rate not exceeding 5 per cent.

#### Direct Assistance from Government or other External Sources

While it is not customary for the government to make direct grants to the consumers' co-operatives, that may happen in certain branches of production. For example, subsidies may be granted to secure the stability of the prices of basic foodstuffs. The subsidies are governed by legislation and special agreements between the consumers' societies and state authorities. It should be noted that the declared policy of the government is to guarantee stable prices to the consumers. For example, the prices of the basic foodstuffs mentioned above have remained unaltered since the foundation of the German Democratic Republic, nearly 24 years ago.

#### Indirect Subventions from the State or External Organisations

It is not usual in our country for consumers' co-operatives to receive indirect financial aid from the State or any other organisation. They are not required, because of the good liquidity position of the co-operatives.

## Relations between the Co-operative Movement and the Banks

All financial relations between the consumers' co-operatives and their business partners are carried on through commercial banks. Legislative measures define the rights and duties of both organisations and in practice the consumers' co-operatives do not profit by any preferential conditions, nor are they placed at a disadvantage in comparison with other industrial or trading groups.

### How and to what extent are the activity and Policy of the Co-operative Movement influenced, changed or conditioned by the acceptance of financial aid from outside?

Collaboration between the consumers' co-operatives and the banks is based on equality of rights.

The grant of State subsidies or the acceptance of loans from the commercial banks is in no way associated with obligations which influence or restrict the independence or freedom of decision of the borrower. Nevertheless, when loans are granted, the commercial banks impose certain duties on the borrowers so that they are obliged to apply the loans to credit-worthy objects only and to use them economically for appropriate purposes.

Finally, it should be emphasised that the good liquidity position is a result of the friendly policy adopted by the government and taxation authorities towards co-operation, which leads them to promote every kind of activity of the consumers' co-operatives when this is in the interest of their membership, now numbering over 4 million.

The positive result of the financial situation of the consumers' co-operatives would be incomplete if it were considered solely from the standpoint of financial technique. Without a doubt the good liquidity of the Co-operative Movement in the German Democratic Republic rests on well-proven foundations, such as long-term planning, the development of middle-term (5 year) financial programmes, the application of central auditing systems, sound financial and economic training of top management and middle-management personnel, the education and training of all members and employees in the most economical handling of the Movement's wealth.

## NEW METHODS OF FINANCING

in

### THE FRENCH CONSUMERS' CO-OPERATIVE MOVEMENT

by J.P. Miège, Management Controller of the "Coopérateurs de Champagne" and Member of the Management Committee of the Banque Centrale des Coopératives, Paris

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As in the commercial and structural fields, a rapid evolution has taken place during the last decade in the concepts and methods of financing of French Co-operative Societies.

In view of the vast investments which are now needed each year in order to support the sustained expansion of the large societies of our Group, the traditional means of financing, of which the main one was the recourse to members' savings in various forms, have proved insufficient.

Therefore, when it is a matter of establishing, in the course of the same year, two or three stores with a very large floor area, and at the same time equipping or altering the warehouses in order to adapt them to the demands of low cost distribution, the investment programmes assume proportions with those of ten or fifteen years ago cannot in any way be compared.

Indeed, a hypermarket represents an investment comparable to several dozen small district shops and today it is not rare to see a Regional Society creating, in one single year, the equivalent of a quarter of its existing sales area.

On their part, the classical savings deposited by the Co-operators show signs of obvious strain which has been reflected, for some years past, in a general decline in members' share and loan holdings and, in spite of efforts at modernising our methods, this tendency is clearly irreversible.

New forms of financing must, therefore, be found answering to these new needs, but also new doctrines, which may upset a little the orthodoxy of our Financial Directors, are needed.

In the present outline we shall develop three subjects, the first related to self-financing, the second to the analysis of balance sheets and the third to medium-term credit.

\* \* \* \*

#### Self-Financing Through Capital from Dividend

The time is long past when Co-operative Societies were able to boast profit levels of 6 or 10 per cent and could afford to retain, with no problem, an important share of the surplus distributed at the end of the year to meet the essentials of their financing. Besides, they did not all, at that time, have the wisdom to do so.

Competition is responsible for reducing our profits and it follows that the distribution of profits, at the end of the year, becomes today an intricate problem if we are to reconcile the commercial attraction of a sufficiently significant dividend with the indispensable consolidation of the co-operative's own resources, without which any future expansion would be impossible.

Certain French Regional Societies have, in recent years, been using a formula for conversion of dividends into share capital which offers obvious advantages.

This system in itself is quite simple, even though it takes various forms: on the annual profits, the General Assembly determines that portion (10 to 25 per cent) of the surplus paid to each member, which will automatically be allocated to the issue of one or more new shares and will, in this way, increase the paid-up capital.

The advantages of this formula are undeniable:

- first of all, it is self-financing without tax, as compared with the allocation to reserves which must bear, according to the French fiscal system, a basic 50 per cent tax.
- second, it is an almost automatic levy which can be compared to "retention at the source" and which is, therefore, much less keenly felt by the members and is more efficient than having to obtain from each co-operator a voluntary subscription of capital.

Moreover, a simple decision of the Ordinary General Assembly is sufficient, each year, if the precaution has been taken not to limit the paid-up capital (that is, the number of individual shares) by rule.

Finally, the sums allocated to capital are contributions to the Society's own capital. They, therefore, afford greater stability than, for instance, deferred dividends, the payment of which unavoidably occurs after a few years and which, for this reason, are classified as long and medium-term debts.

Naturally, such benefits cannot exist without some disadvantages which relate essentially to a certain amount of risk and unfairness.

- Risk of being faced, one day, with Co-operators asking, in increasing numbers, for the repayment of paid-up capital which has become very large and which they do not consider proportionate to the services provided by their co-operative. We do not at the present time have enough experience of this practice in order to appreciate the reality of this risk, but it can be reduced by rules fixing a definite period for the repayment of shares.
- Unfairness towards those Co-operators who are big consumers and who are consistently loyal to their co-operative, but pay each year a much higher tax (in absolute value) on their dividend.

Here again, remedies can be applied by fixing a ceiling for the absolute value of the levy per individual and by allowing for remission of the levy for elderly people, and even the partial repayment of paid-up capital at the age of retirement.

### Dynamic Conception of Circulating Capital

Our second subject deals with financial analysis.

Among the characteristic ratios of the financial situation of a Society, the circulating capital - that is the margin between the resources for self-financing or long-term financing and their employment in fixed assets - constitutes, an important criterion in assessing an enterprise.

The most commonly used method consists in calculating the circulating capital which appears in the balance sheets of the enterprise (generally at the end of the financial year) and in tracing its evolution.

This is, therefore, a relatively static view, since it presents a momentary picture of the credit and resources of the enterprise, and does not take into account their continuous and fluctuating character.

This is why a new approach to the evaluation of the circulating capital has recently appeared in the methods of balance sheet analysis. It consists in taking into consideration the characteristics of a co-operative's business, their repercussions on the cash flow, and in trying to find the necessary and adequate level of the circulating capital for the normal financing of its business. A calculation is made of the duration of the flow of the various masses of capital invested in the circulating assets and of the almost-automatic short-term debt.

In order to facilitate the comparison, these durations are brought to a homogeneous unit which could be, for example, the daily turnover of the enterprise, not including tax. On the employment side, one therefore states the number of days' sales represented by the stocks, the customers' or managers' accounts<sup>1</sup>, the state tax debts<sup>2</sup>, the cash liquidities indispensable to the normal functioning of the business. On the resources side will be calculated the number of days' credit granted by suppliers, the taxes and expenses to be paid, as well as the expiry dates of short-term loans; a comparison of the uses and resources enables one to determine, according to the difference, the desirable level of the revolving fund, expressed in the number of days turnover, excluding taxes.

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- 1 Managers' accounts are the amounts owing to the society by the managers of our shops as "mandataries" of the society. These amounts appear when the accounts relating to the shop are drawn up and they correspond to the provisions of the contract between the society and its "mandatary".
  - 2 These debts form part of the French taxation system (value added tax) and they correspond to the tax included in the purchase price of goods and payable by the co-operative on the retail prices of those same goods.

We emphasise the fact that the calculation of rotations must take account of average annual values in order to integrate the peak or trough periods of seasonal activity characteristic of distributive trade. This is the case, in particular, for stocks, suppliers' credit and taxes.

From then on, the optimum circulating capital determined in this way will be more closely related to the actual financial structure of the enterprise and, depending on the case, will bring out the excess or deficiency of the actual circulating capital.

Excess of circulating capital means that the Society incurs superfluous debt and must either find a more remunerative use for its liquid assets or reduce the long and medium-term debt incurred and so economise on financial expenses.

A revolving fund which is too low means, on the other hand, that a disequilibrium exists in the structure of the balance sheet and that resources of the appropriate duration and cost must be sought.

One can apply the same calculation to the financial planning of the Society so as to evaluate the circulating capital necessary and adjust the means of financing for future needs.

Lastly, it is appropriate to underline that the calculations relating to the revolving fund must take into consideration the peculiarities inherent in co-operative retail societies, such as the absence of credit to customers, the seasonal character of dividends on purchases, the fluctuations, often cyclical, of the Co-operators' savings or the managers' accounts ...

\* \* \* \* \*

Our last subject concerns the external financing of the Society. This is the:

#### Consolidation of Financing Through Guaranteed Credit

As regards loan capital, the Co-operative Society has at its disposal all the range of resources available to large enterprises and, in fact, at most times, makes use of them in various ways.

However, the common forms of loan all have a fixed character which obliges the Society to bear the entire charge in capital and the financial costs of these debts for the full period and, therefore, to utilise this formula only when there is complete certainty of obtaining a corresponding use.

Today, more than ever, it is difficult to make precise forecasts in matters of investments and the dimensions of each single investment can bring about very significant variations in the programme of any year, should their implementation be altered or cancelled.

In other cases, the forecasts of the needs of circulating capital of the enterprise make it possible to note that an easy cash situation makes it unnecessary to maintain permanently a large amount of long or medium-term debt.

The co-operatives have, therefore, found in the formula of guaranteed bank credit a way of meeting these demands with more flexibility and less cost.

Actually this form of credit consists in an undertaking by the bank to put at the disposal of a society, upon the latter's request, for a determined period of time and with a limited and graded ceiling, funds on current account or at a discount.

The decision to use credit, the amount and the duration of its use, therefore, left entirely to the initiative of the Society, which can even not make use of them at all. If the credit is not utilised, it acts simply as an insurance against the hazards of "financial planning" and, in this case, only a handling commission is charged by the Bank (1.25%, for example).

The advantages for the Society are obvious: use strictly adjusted to needs, real minimum cost, immediate and total availability, possibility of showing this credit in the balance sheet by way of a simple adjustment in the accounts, without even really mobilising the funds.

For the banker, the formula is also not uninteresting, which explains its rapid development in recent years, for, to an appreciable remuneration is added good liquidity (when the credit is made available). In addition, the Bank very often knows the client's intentions about its use and can avoid granting this type of credit to enterprises which have substantial and permanent medium-term needs.

This form of credit is therefore a privileged instrument for the conversion of capital through the banks because the financing of these medium-term credits can be, in large part, secured by sight or short-term resources.

The only really notable disadvantage lies in the fact that its cost is higher than ordinary medium-term credit, if permanent use is made of it.

Indeed, one would, therefore, have to meet the costs of the handling commission which, in that case, has no reason to be incurred.

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This then is a rapid sketch of some of the financing methods of the French Co-operative Movement. The examples which have been chosen appeared to us to display a certain originality and, we hope, a certain interest.



It would be a mistake to think, however, that our Regional Societies make a systematic use of this formula or exclude all other modern forms of financing. This would mean overlooking, in the first instance, the considerable role which has been played, for the past few years, by "leasing" in the implementation of our financial programmes.

I shall simply leave to more competent people the task of developing all the advantages presented by this formula with its manifold aspects and its now universal character.

NEW ASPECTS OF FINANCING IN THE CONSUMERS' CO-OPERATIVE SOCIETIES OF  
THE FEDERAL REPUBLIC OF GERMANY

Outline of a lecture by Dr. E. Rewerk, Board Member, Co-op Zentrale AG,  
Hamburg

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1. The investments necessary for the maintenance or extension of the Consumers' Co-operatives' share of the market require considerable amounts of money. For the next five years the sum needed for investments in the shop network is estimated to exceed DM 1,000 million.
  2. Hitherto the financing of investments was effected mainly through the consumers' co-operatives. Since self-financing (share capital, reserves, depreciation) was possible only to a limited extent, the majority of the necessary investments were financed with outside capital. This resulted in an average degree of indebtedness of over 75 per cent of the balance sheet total.
  3. In view of this development the consumers' co-operatives quite early established special institutions for investment financing. The following may be regarded as special institutions of this kind:
    - Co-op Immobilien Fonds (Co-op Real Estate Fund)
    - Gesellschaft für Anlagenvermietung (Leasehold Premises Company)
    - Trägergesellschaft für Gewerbe- und Industriebauten (Holding Company for Trade and Industrial Buildings)
    - Co-op Aufbaugenossenschaft (Co-op Construction Society)
- Although quite considerable investments were made by these companies, they only retarded the tendency for the degree of indebtedness to rise among the consumers' co-operatives, but were unable to arrest it.
4. At the Reform Congress held on the 4th and 5th December, 1972, at Hamburg, decisions relating to the future organisation of the Consumers' Co-operative Group were taken on the following points:
    - (a) Concentration of management within the managing authorities.
    - (b) Regionalisation of consumers' co-operatives.
    - (c) Commercial integration in the handling of goods between the central trading body and the consumers' co-operatives.
    - (d) Financial concentration within the consumers' co-operative group.
  5. The resolution on financial concentration comprised two sections, viz. -
    - (a) The formation of regional management companies in the legal form of limited companies.

(b) The conversion of the Co-operative Wholesale Society GEG into the Co-op Zentrale AG.

Under (a) With the help of the regional management companies additional equity capital will be channelled to the regional co-operative societies.

Under (b) Through the conversion of the GEG into a share-company a new basis shall be adopted for additional capital formation.

6. The process of capital formation is planned in five stages:

Stage 1: The transformation of the GEG into Co-op Zentrale AG with restrictions placed on the transfer of its registered shares.

The measure establishes the legal bases for capital formation.

Stage 2. Increase of the investment capital of Co-op Zentrale from its own resources through conversion of free reserves into foundation capital.

A real increase in capital is not achieved by this purely "nominal" rise in capital, but the economic basis for it is established.

Stage 3. A rise in capital for Co-op Zentrale AG through deposits received for the issue of foundation shares with voting power as non-transferable registered shares.

Here a real increase of capital occurs for the first time. It is made possible by the willingness of the consumers' co-operatives to reduce their participation capital from the former level of 75 per cent to 51 per cent in the most extreme case, and to allow the AG to offer the new shares for purchase by other interested parties.

In this way the capital basis so far established is broadened for the next steps in capital formation.

Stage 4. Increase in capital by Co-op Zentrale AG against deposits derived from the issue of non-voting preference shares to members of consumers' societies.

By utilising to the full the legal framework of this mode of increasing capital, the foundation capital so far obtained for the company could be doubled.

Stage 5. Acceptance of additional outside capital.

The acquisition of own capital through payments made to meet both rises in capital opens new opportunities to the company for obtaining credit.

THE OPTIMUM COMBINATION OF A CO-OPERATIVE'S OWN CAPITAL  
AND LOAN CAPITAL

by Mr. H. Perklén and Group of Swedish Participants

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I The Formula

1. It must be assumed that the aim of a (co-operative) enterprise is to expand.
2. Long-term expansion requires an expansion of "equity" capital, i.e. that part of the co-operative's "own capital" that does not cost the enterprise anything in the form of interest. That is, in other words, share capital plus reserves, but excluding loan capital supplied by members, as through savings banks deposits.
3. If market conditions are good, heavy borrowing will help to achieve a rapid growth of "equity" capital or "own" capital. If market conditions are poor, the enterprise should be more cautious about borrowing.
4. (a)  $P_t$  = Total profitability of enterprise or return on capital employed. After tax and after interest on shares and dividends on purchases  $P_t$  has averaged 4.5% over ten years.  
(b)  $P_e$  = Profitability of Equity Capital. That is return on share capital plus reserves and excluding interest paid on loans and on members' loans and savings.  
(c)  $L$  = Loan Capital plus Share Capital.  
(d)  $I$  = Average Rate of Interest for the enterprise. Between 1962 1972, this was often about 4% and varied between 3.6% and 4.4%.  
(e)  $E$  = Equity Capital = Share Capital + Reserves. Excludes members' loans, mortgage bonds and savings accounts and family savings accounts, etc.  
(f)  $L + E$  = Loan Capital plus Equity Capital.  
also:  $P_e = (P_t - I) \times \frac{L}{E}$
5. It is estimated very likely that
  - (a)  $2.0 < \frac{\text{turnover}}{L + E} < 2.5$

$$(b) \quad 1.0 < \frac{\text{surplus}}{\text{turnover}} < 2.8$$

Note: "Surplus" = Dividend on purchases + interest on shares + undistributed surplus or addition to reserves.

$$(c) \quad P_t = \frac{\text{turnover}}{L + E} \times \frac{\text{surplus}}{\text{turnover}}$$

It is, therefore, unlikely that  $P_t$  will be lower than 2% or higher than 7%.  
 (2 x 1 = 2; 2.5 x 2.8 = 7)

6. What combination of loan and equity capital (L/E) gives the best profitability of equity capital?
7. 189 trials for each L/E with random numbers for I and  $P_t$  within ranges 3.6 to 4.4 and 2% to 7% give the results below.
8. Application of the formula  $P_e = P_t + (P_t - I) \times \frac{L}{E}$

Which is to say:  $\frac{L}{E} = \frac{P_e - P_t}{(P_t - I)}$

With the following values for L/E, various values for  $P_e$  and I and  $P_t$  at random.

L/E	High $P_e$	Low $P_e$	Average $P_e$
.5	7.82	2.09	4.78
1.0	9.00	1.46	5.04
1.5	10.18	.84	5.29
2.0	11.36	.21	5.55
2.5	12.54	-.41	5.81
3.0	13.75	-1.03	6.07

9. The profitability of equity capital clearly grows with debt: but so does risk. With an L/E of 2 or less there should not be losses: but a higher L/E will be needed for expansion.
10. It all depends upon how much risk management is disposed to take.

## II A Model

In the earlier days of cooperation in Sweden, it was considered the Cooperative Movement should be self-sufficient in every respect. It was also maintained that the degree of self-financing should be high. Consequently, cooperative enterprises grew very slowly.

After the second world war, ideas began to change and a rapid growth was considered a "must". To finance the rapid growth, the degree of self-financing had to be lowered and the interest burden grew fast from year to year.

As in the last 3-4 years we have had rather poor market conditions with losses nearly all over the line, we have begun to consider the question: Have we borrowed too much? And: How much ought we to borrow in future? In solving this problem, a rather simple model for financing has been constructed and to some extent has already started to be used.

Three items information about the future had to be inserted in the model:

1. I - The Average Rate of Interest on Loan Capital for the enterprise
2. R - Return on Capital employed
3.  $\frac{L}{E}$  - Loan Capital to Own Capital

With this information the model can tell the profitability of Own Capital (P):

$$P = R + (R - I) \times \frac{L}{E}$$

The following is an example of how the model can be used in practice:

The Annual Reports of a cooperative society for the last seven years were studied very thoroughly and the following figures for the rate of Interest and Return on Capital employed were found:

<u>Year</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
I	3.5	3.8	4.2	4.0	3.4	3.3	4.2
R	1.6	3.2	4.6	4.8	4.0	5.0	4.0

After that we consulted a computer: If the future will be as the last 7 years have been, which Interest Rates and Return Rates are we going to have in the future and with what probability? Give the answer in the form of a normal curve. The answer came very rapidly. It was:

PROBABILITY FOR A LOWER VALUE THAN:

<u>Interest Percentage</u>	<u>Return Percentage</u>	<u>Cumulative Probability Percentage</u>
3.07	1.72	2.27
3.42	2.81	15.87
3.77	3.91	50.00
4.12	5.00	84.13
4.47	6.09	97.73
4.82	7.18	99.00

Our following instruction to the computer was: As there is a probability to get any Rate of Interest and any Rate of Return for each single year in the future, make out a list of the possible rates of return for own Capital in the future regarding to the formula  $P = R + (R-I) \times \frac{L}{E}$ .

And do it for the solvency rates ( $\frac{L}{E}$  values) 2.00, 2.60, 4.00.

The computer produced the following table:

<u>Solvency Rates:</u>			<u>Probability</u>
<u>2.00</u>	<u>2.60</u>	<u>4.00</u>	<u>percentage</u>
-4.48	-6.34	-10.68	.05
-3.78	-5.43	-9.28	.31
-3.08	-4.52	-7.88	.77
-2.38	-3.61	-6.48	.77
-1.68	-2.70	-5.09	.31
-.98	-1.80	-3.69	.05
-1.20	-2.40	-5.21	.31
-.50	-1.50	-3.82	1.85
			<b>4.42%</b>
.20	-.59	-2.42	4.64
			<b>9.06%</b>
.90	.32	-1.02	4.64
			<b>13.70%</b>
1.60	1.23	.38	1.85
2.29	2.14	1.77	.31
2.08	1.53	.25	.77
2.78	2.44	1.65	4.64
3.48	3.35	3.05	11.65
4.17	4.25	4.44	11.65
4.87	5.16	5.84	4.64
			<b>50%</b>
5.57	6.07	7.24	.77
5.36	5.46	5.71	.77
6.05	6.37	7.11	4.64
6.75	7.28	8.51	11.65
7.45	8.19	9.91	11.65
8.15	9.10	11.30	4.64
8.85	10.00	12.70	.77
8.63	9.40	11.18	.31
9.33	10.31	12.57	1.85
10.03	11.21	13.97	4.64
10.73	12.12	15.37	4.64

11.43	13.03	16.77	1.85
12.13	13.94	18.16	.31
11.91	13.33	16.64	.05
12.61	14.24	18.04	.31
13.31	15.15	19.43	.77
14.01	16.06	20.83	.77
14.71	16.96	22.23	.31
15.41	17.87	23.63	.05

The table shows that if the solvency rate is 2.60 (as it was, in fact, in the co-operative society in question), it will happen 5 times in 10,000 years that the Own Capital will be reduced through losses during the year by 6.34%. 9 times in 100 years there will be losses, and 50 times in 100 years there will be gains of up to 6%.

The table also indicates that the better the solvency, the smaller the risks and the slower the growth of Own Capital.

How much risk is management disposed to take, and how fast does management want the enterprise to grow? .

Let us suppose that we ask the management:

- If your solvency is 2.00, the growth rate is 5.5% for Own Capital; is that enough?

The management answers:

- No. We want a more rapid growth.

Our second question is:

- But the probability for losses is 4.4%. Does it not make you hesitate?

The Management answers:

- No, we are good gamblers.

So we go on to solvency 2.60 and ask the same questions.

- If we get the same answers, we continue to solvency 4.00 and so on (tables can easily be produced).

Sooner or later the answer to the second question is:

- Yes, we begin to hesitate.

When that answer is given, the optimal combination of Own Capital and Loan Capital is found for the enterprise in question with the management it has at the moment.



## FINANCE FOR DEVELOPED CONSUMER CO-OPERATIVES

by D.L. Wilkinson, Assistant General Secretary, Co-operative Union,  
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This paper is based on the experience of consumers' co-operative retail societies in the United Kingdom, and in particular on the studies and report of the Capital Resources Study Group. This Group was established following the National Congress of 1972, and its report was presented to the last Congress held in May 1973.

### 1. Introduction: The U.K. Co-operative Movement today

The British Co-operative Movement is basically one of consumers' societies. There is a small but declining number of other types - producer and federal supply societies; and a number of agricultural co-operatives which have their own central organisation, but no close links with the Consumers' Movement, other than with the Co-operative Wholesale Society as a supplier.

There are now some 240 primary consumers' societies, based mainly in towns and villages throughout the country, each having its own board of directors and management, affiliated at national level to the CWS, as wholesaler and supplier of goods and services, and to the Co-operative Union, as the national advisory and policy-making body. Until earlier this year the consumers' co-operatives in Scotland had their own wholesale society - the SCWS - but this has recently merged with the CWS.

The 240 consumers' societies have a combined membership of just under 11 million and an annual turnover of £1,300 million, which represents just over 7 per cent of total U.K. retail trade. Some 70 per cent of this turnover is in food, and represents about 12 per cent of the total food trade of the U.K. All this activity is carried on through 13,000 shops and stores by 160,000 employees.

Over the last decade the Co-operative Union has been very active in encouraging mergers between societies. Ten years ago there were over 800 separate consumers' co-operatives. Some very large societies have now been created covering considerable areas of the country, but it is hoped to reduce the number much further. Proposals now being discussed envisage ultimately some 20 to 25 societies.

The largest society at present operates in a number of different parts of the country and has an annual turnover in excess of £150 million. At the other end of the scale we still have a number of small village societies with annual sales of less than £100,000 each.

Nevertheless, at the present time 50 societies, each with annual sales in excess of £5 million, together represent 80 per cent of the Movement - whether the measurement be in terms of membership, capital or trade.

## 2. Finances of Retail Societies

With this introduction to Britain's Co-operatives it may be asked why there should be a problem of finance. A glance at the following figures will illustrate the reason why.

	1961	1971 (£ mill)
TOTAL FUNDS AVAILABLE	420.4	353.7
of which		
Members' capital -		
Shares	254.8	142.2
Loans	47.6	27.5
Loans from Superannuation Funds	58.7	98.8
Other Loans and Funds	17.3	15.0
Reserves	42.0	70.2

In 1961 it could be said that our retail co-operatives were virtually self-financing; up to that time there had been a steady inflow of share capital from members, and societies had all the capital they required at reasonable rates of interest. In fact some 45 per cent was re-invested elsewhere. That is to say, it was not employed in the trading operations of the societies.

By 1971 there had been an appreciable change - not only were the total funds available much smaller, but the sources had changed significantly. Members' share and loan capital had been withdrawn on a large scale - the figures indicate a total reduction of over £130 million. This was not a steady decline over the decade, but took place in the latter part of the 10-year period. It should be explained that share capital is withdrawable virtually on demand in our primary consumers' societies, and loan capital is, in the main, subject only to a short period of notice. In fact it was traditional in our Movement for members to use their share accounts rather like a bank current account.

Why did we lose the confidence of our members? There is no simple answer, but a series of reasons collectively account for the change:

the deterioration in trading performance of many societies giving rise to

- (a) a lack of confidence
- (b) a reduction in dividend rates on purchases. As a large proportion was always transferred to share accounts (as a form of saving), a lower level of share account deposits resulted.

greater competition for small savings from  
the National Savings Movement  
building societies  
other investment institutions

publicity arising from the liquidation of one small local  
consumers' society

the changing age structure of the membership.

This decline in capital from members was to some extent counter-balanced by increased loans from employees' Superannuation (Pension) Funds, and from increased reserve funds. The significance of Superannuation Funds had loomed larger year by year, with annual increments of approximately £4 million. The improvement in reserve fund balances came about only in the years 1969-70-71, despite the advice to societies over many years to retain a proportion of their profits by this method. A further qualification needs to be added: in the main, these increases were derived from surpluses arising from the sales of assets, rather than from deliberate allocations from current profits. In fact throughout this 10 year period profitability of trading operations was at a very low level, and societies found it very difficult to break out of the vicious circle of declining dividends, diminishing member confidence, and consequent further depression in the trading performance of the society.

Societies were only able to meet these demands for share capital from members by drawing upon their external investments. In view of the withdrawable nature of share capital it was always necessary for a certain proportion of these external investments to be kept in an easily realisable form. For this reason external investments accounted for about 30 per cent of fund usage by 1971 - compared with 45 per cent in 1961.

To summarise: a situation had developed by the early 1970's where

- the Movement no longer had large funds provided by members at low rates of interest.
- increasing reliance was being placed on loans from employees' pension funds, and impending legislation seemed likely to force a change in this connection.
- large trade investments were required to stem the decline in the Movement's share of the market, and to compete with the new developments in retail distribution.
- the need for a new capital basis was becoming more apparent, particularly in those developing societies which had to embark now on new projects, which would not be profitable for some time to come.

### 3. Capital Resources Study Group

At the Annual Congress in 1972, a number of societies sponsored a proposal which referred to all these matters: the need to maintain and develop the co-operative share of the market: to raise capital for development, and to plan the future use of the Movement's total resources. Congress unanimously accepted the proposal which called for a Study Group to be established with the following responsibilities:

- (a) to make a comprehensive assessment of the Movement's available capital resources;
- (b) to examine how the Movement can provide the capital required to support the necessary development and modernisation;
- (c) to consider the means by which these resources can be used to best advantage of the Movement as a whole;
- (d) to make a report to Congress 1973 with recommendations for action on these urgent questions.

A Study Group was accordingly established consisting of representatives of the national federations and primary consumers' societies and of the Co-operative Union. There were 9 persons in all, each of them a financial expert, and in the case of consumers' societies also practising chief executives, together with 3 officials from the Co-operative Union.

The report was concluded in April 1973 and considered by the 1973 Congress at the end of last May.

### 4. Study Group Report

The Study Group first considered the current position of the Movement vis-à-vis its competitors in the retail trade.

- Co-operatives' market share had fallen from approximately 11 per cent in 1961 to  $7\frac{1}{2}$  per cent in 1971
- the number of supermarkets opened by co-operatives lagged far behind that of its competitors
- the average size of co-operative supermarkets had remained virtually static, whereas the average size for all supermarkets had increased 20 per cent.
- it was also evident that current developments by competitors were on a far larger scale than those being undertaken by co-operatives.

Official figures indicated that whereas in 1961 co-operative capital expenditure accounted for 13 per cent of all capital expenditure by retailers, the proportion in 1971 was less than 7 per cent. Information was sought from societies about their proposed capital expenditure in the years immediately ahead and how they proposed to finance this expenditure. On the basis of information supplied, projections were made of proposed expenditure for 1973, 1974 and 1975 and it seemed clear to the Study Group that all proposed expenditure could be met from existing resources. What was disturbing was the low level of this proposed expenditure which, in the view of the Study Group, fell far below the level required if the Movement was to maintain, let alone increase, its share of the market in the years ahead. In the belief that projects were not being planned owing to lack of resources, various means of raising capital were examined.

The Study Group also consulted the national federations - the CWS, the Scottish Co-operative Society (which was then in existence as a separate society), the Co-operative Insurance Society (jointly owned by the two wholesale societies) and the Co-operative Bank (a subsidiary of the CWS), in order to ascertain the extent to which it would be possible for these organisations to contribute finance for retail development in the years immediately ahead.

Contact was also established with other bodies and with individuals and many possibilities were discussed for raising funds.

The report of the Study Group lists 15 conclusions and recommendations, of which 8 appear relevant to the theme of this Seminar, as follows:

##### 5. Study Group Conclusions and Recommendations

3. Withdrawable share capital is not a satisfactory basis for financing trade developments. Share accounts should, therefore, be regarded as savings accounts paying a rate of interest lower than that for longer term loan capital.
4. Emphasis should be placed on attracting loan capital. A National Unit Loan Scheme is recommended, together with a "Co-op Saver Stamp" accompanied by a determined effort to "sell" Co-operative investment facilities. A Capital Advisory Committee should be established to plan and co-ordinate these activities.
7. Substantial allocations to reserves and adequate depreciation should continue to be the overriding financial consideration - they are insurance for the future development of the Movement.
8. Societies should deposit all their surplus funds with the national federations to enable them to raise and make available the maximum sums possible for the use of the Movement.

9. The national federations must ensure that they offer comprehensive facilities for deposits and that their terms are at the highest possible competitive level.
10. Societies should make the maximum possible use of credit available from their trade suppliers and when advisable take advantage of block discounting and similar facilities for financing credit trade.
13. Retail societies must be prepared to pay the market rate for finance, but as this can vary, they should at all times seek to obtain capital on the cheapest terms irrespective of source.
14. The only satisfactory solution to the Movement's capital and development problems is the unification of retailing and wholesaling into one organisation and urgent attention should be given by all sections of the Movement to bringing this about.

6. Theme of Seminar

Having referred to the broad approach of the Study Group and to its recommendations, I would now like to link this in a specific way to the theme of this Seminar 'Self-help and outside help in the provision of finance'.

It was quite clear that there were many ways in which the Movement could help itself, and these were all referred to in the report:

- a much higher level of earnings retained by societies
- the 'selling' of co-operative investment facilities
- a National Unit Loan and Saver Stamp Scheme
- Capital Advisory Committee
- Co-operative Bank facilities
- Capital on security of properties
- unification of wholesaling and retailing

There were also a number of ways in which 'outside help' could be provided:

- recourse to the money market
- maximum use of credit from trade suppliers
- block discounting facilities
- a co-operative property bond.

## 7. The Current Situation

The Study Group conducted its enquiries in the latter months of 1972 and early 1973, and, therefore, it had to rely on the 1971 Statistics for its basic information. Since that time there has been an improvement in the fortunes of societies, and all the indications are that 1972 will have been much the best year for a long time. For the first time in many years there has been a real increase in turnover - albeit a small one. There has been a dramatic improvement in profitability - collectively societies will have recorded £50 million compared with £33 million in 1971. What is more significant, about £22 million has been retained through allocations to reserve funds, which together with depreciation of about £20 million will provide over £40 million for development purposes.

The outflow of share capital has also diminished to negligible proportions, and in fact some societies are recording increases.

This is proof that the Movement can help itself - but undoubtedly there will still be the need in the short-term to raise funds for investment in trading, if it is to maintain its competitive position. One of the most important sections of the Study Group's report was concerned with the planned use of capital resources. The conclusions drawn were that, in order to use the Movement's resources to maximum advantage, they must be centrally planned and controlled. Collectively the financial resources of the Movement are considerable and its potential for raising funds even greater. It was essential that capital should be available for the 'out of town' and other new retail developments, which would attract trade from a wide area - far wider in many cases than the boundaries of existing societies. This emphasised the need for close co-operation, and for national co-ordination.

## 8. Some Final Thoughts

- (a) Much can be achieved by self-help - it is a question of management and organisation.
- (b) On many occasions during the Study Group's deliberations it became clear that the present structure and operational methods created problems in the sphere of the provision of capital for development purposes.
- (c) Too much emphasis had been placed on dividend over the years - the maintenance of the rate of dividend was the criterion by which a society's efficiency was measured. Management, therefore, pursued financial policies which fulfilled this requirement, rather than policies to provide for future growth and development.

- (d) The introduction of a new method of distributing dividend - i.e. dividend stamps - at a time when dividend had fallen to a low level - enabled societies to retain a higher proportion of their surpluses, and at the same time move away from the emphasis on dividend resulting from a regular declaration of dividend rate.
- (e) The need to retain a higher proportion of increased profits is now accepted. Societies are aware that they cannot expect to obtain capital cheaply, nor can development be undertaken on the basis of withdrawable capital.



## CO-OPERATIVE FINANCE IN CZECHOSLOVAKIA

Background paper prepared by the Central Co-operative Council, Prague  
Presented by M. Filadelfi.

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### 1. Introduction

Czechoslovak co-operatives are an active factor in the development of socialism, as important organisers of the initiatives of their members in the direction of combined economic activity and active participation in social and public life and the administration of the State. Their mission consists in furthering the many-sided interests of their members and linking these interests with the tasks and needs of society as a whole.

Consumer co-operatives account for approximately 26 per cent of the total turnover in the retail trade of the country. Housing co-operatives administer roughly 8 per cent of the whole country's housing property and account for almost one half of the new housing construction. Productive and artisanal co-operatives play an important part in services and deliveries to the public and in small-scale production of consumer goods.

The basis of the strength and the capacity for action of co-operatives is the voluntary initiative of members, their active participation in the administration and control of their societies. This voluntary initiative is the source of all the values which the co-operatives require for their activity. For this reason the promotion and development of the voluntary initiative of members is the main concern of elected co-operative bodies. The economic prosperity, which is the result of the active collaboration of the members with their society, makes it possible for the co-operatives, in carrying out their programmes of educational, social and cultural activities, to return to their members in an improved form the values which the members contributed to their societies through their social activities and work.

Czechoslovak co-operators have a direct material interest in the successful operation of their societies. The consideration and approval of the economic plans of co-operatives, as well as decisions on the use of the surplus attained, are functions of the members' meeting, which is the supreme body of each co-operative society.

An important factor of the Czechoslovak Co-operative Movement is the principle of mutual aid, which exists not only among the members within individual co-operatives, but also between co-operative societies as such. Thanks to this mutual aid, it has been possible to build up the Czechoslovak Co-operative Movement, since the victory of socialism, as an organised system playing an active role in the national economy, as well as in the shaping and implementation of State policy.

## 2. Organisational Structure of the Co-operative Movement

The basic unit is the co-operative society, which operates, according to the nature of its activity, within certain areas, as follows:

- (a) consumer co-operatives: usually one society on the territory of each administrative district\*;
- (b) productive co-operatives: these are units of local or district\* character, in some cases also regional\*. As a rule, no society exceeds the limits of a region\*.
- (c) housing co-operatives: societies are usually located in the place in which they operate. There can be several in one locality, especially in large towns; alternatively, there are cases of societies operating on the territory of a whole political district.

Co-operative societies of identical types (consumer, housing, productive) form co-operative unions at the national level in each (Czech and Slovak) Socialist Republic of the federal State.

In the Czech Socialist Republic, there are the following co-operative unions:

- the Czech Union of Consumer Co-operatives
- the Czech Union of Productive Co-operatives
- the Czech Union of Housing Co-operatives.

In the Slovak Socialist Republic, there are:

- the Union of Slovak Consumer Co-operatives
- the Slovak Union of Productive Co-operatives
- the Slovak Union of Housing Co-operatives.

Agricultural co-operatives, each of which generally covers several villages within an administrative district, co-ordinate their activities through District Agricultural Associations; in respect of their social activities, they associate in separate Unions of Co-operative Farmers (Czech, Slovak and federal, respectively).

The Czech and Slovak Unions of Consumer, Productive and Housing Co-operatives are members of the Central Co-operative Council (CCC). At present, agricultural co-operatives are not affiliated to the CCC, but collaborate with it in respect of various matters. The Central Co-operative Council represents the interests of the Czechoslovak Co-operative Movement at federal level, and especially in international relations.

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\* Administratively, Czechoslovakia is divided into ten regions (not including the cities of Prague and Bratislava, which have a special status); regions are further subdivided into districts (the total number of which is just over 100).

### 3. The Financial Management of Co-operatives

The overall plan of development of each co-operative society is composed of departmental plans, one of which is the financial plan. The financial plans, together with other principles and regulations, serve as the system of financial administration and management of co-operative organisations.

The economic incentive, on the basis of which individual organisations of the Czechoslovak Co-operative Movement operate, is the principle of members' material interest in the net profit or surplus, which is the basic qualitative and quantitative index of each society's achievements.

#### 3.1 Financial Resources

Co-operatives finance their activities partly from the resources derived from their own economic operation and partly by using outside resources.

The basic source of finance in all co-operatives is the surplus resulting from their economic operation; in the official technical terminology used in Czechoslovakia, it is the "balance-sheet profit". There are also other sources, e.g. members' shares and credit.

#### 3.2 The "Balance-Sheet Profit"

The profit known by the above name is created by the society's own economic operation, being derived mainly from the proceeds of activities such as the sale of its own products, payment received for various kinds of work and services, sale of goods etc., after deduction of the total overhead costs, which include all monetary payments, the purchase price of goods, as well as obligatory contributions to the State budgets.

The amount thus obtained as "balance-sheet profit" is used first and foremost for settling fiscal dues, in particular the payment of the income tax. It is also used to meet other obligations which have to be paid from profit.

The remainder of the profit is distributed by the co-operative society, according to the instructions of its superior co-operative union and the decision of the annual members' meeting, partly for establishing or increasing what are known as indivisible funds (i.e. monetary funds which remain available to the society for further use in its own business), and partly for contributions to the other funds, known as divisible, i.e. those whose resources may be divided among individual members.

The financial policy of co-operatives is guided by the appropriate co-operative union, which simultaneously issues the necessary instructions and establishes centralised funds, which it administers for the needs of all the co-operatives affiliated to it. The union's authority is exercised mainly

in the division of the remaining profit and in the guidance of the overall financial policy of affiliated co-operatives, ensuring the observance of the general State regulations in force. The union also determines the amounts which individual co-operatives are to contribute to the centralised funds.

After the fulfilment of its obligations to the State and the payment of subscriptions to the centralised funds, each co-operative society is free to divide the remainder of the profit (the net surplus) between its own funds as follows:

- the basic fund,
- the reserve fund,
- the share fund,
- the risk fund,
- the fund of cultural and social requirements,
- the members' and office-bearers' fund,
- the supplementary remuneration fund,
- the bonus fund,
- for possible further allocations.

The distribution of the surplus is carried out in the course of the year in the form of current monthly advance payments, according to the decision of the annual members' meeting and in conformity with the regulations of the appropriate co-operative union. In approving the balance sheet and statement of accounts for the past year, the annual members' meeting evaluates the society's economic operation and, taking into account the attitudes of the appropriate co-operative union, determines the actual allocations to be made from the net surplus.

### 3.3 The Relationship of Co-operatives to the State

Financial relations with the State are determined, in particular, by the legal regulations on taxes and levies.

The basic relationship of co-operative organisations to the State budget is expressed by the income tax, which is

- (a) income tax on profit (hereafter profit tax),
- (b) income tax on the volume of wages (hereafter wage tax),  
and also the social security contribution.

The profit tax is calculated from the amount specified in the balance sheet as profit for the appropriate year, amended by items which have to be added or allowances which may be subtracted. In cases where the profit is not specified in actual figures, the tax is calculated on the basis of the difference between the items that have to be added and the allowance that may be subtracted, but only if the sum total of the former exceeds the latter.

The items that have to be added are payments and expenditure included among the costs, though not obligatory for the co-operative society from the point of view of generally valid regulations, e.g. voluntary contributions and subsidies, fines and penalties paid, etc.

The allowances that may be subtracted are items which, according to regulations, are not included in overhead costs or in the accounts for the accumulation of profit, e.g. land tax, contributions to the superior union's centralised fund for technical development, amounts collected through fines and penalties levied, payments received from other organisations from resources already taxed elsewhere, etc. The principle generally applied is that economic gains can only be taxed once.

The profit tax is graduated according to the degree of profitability attained (profitability is calculated as the ratio of gross profit to the total costs incurred by the co-operative society); e.g. for up to 5 per cent profitability the tax is 10 per cent, while for over 50 per cent profitability the tax is 55 per cent of the amount on the basis of which the profit tax is calculated.

The wage tax is assessed on the basis of the total amount paid out in the form of wages and salaries. Here, again, the rate of taxation is fixed progressively and graduated according to the percentage of growth of average earnings, either overall (for all the staff) or according to the growth of individual wages.

The social security contribution is paid by all co-operative organisations to the State budget. From it they then draw money which they pay out to their employees who are ill (these sickness benefits paid to employees are included in the cost accounts of the co-operative society). The rate is either 10 per cent of the total volume of wages paid out (in co-operatives with predominantly commercial activities) or 25 per cent (in co-operatives where production predominates among the activities). In the case of productive (= producers') co-operatives, the administration and management of this contribution are entrusted to the appropriate co-operative unions, which also pay from it for members' treatment in hospital, spas and the like (the reason being that each member is simultaneously an employee of the co-operative).

The payment of income tax is made in advance instalments throughout the year, according to the financial plan, adjusted on the basis of quarterly reckonings and eventually finalised by the annual statement of accounts.

Apart from the income tax, co-operatives also pay other taxes, such as the tax on motor vehicles, the agricultural tax on lands and buildings, or for land occupied in the construction of new premises, for an infringement of price regulations, etc.

On all the above-mentioned taxes there are abatements and allowances, some of which are provided for in the relevant fiscal laws, while other exceptions may be considered and permitted by the Ministry of Finance. For example, housing co-operatives do not pay income tax on the construction and administration of their own housing property, but they do pay this tax on their economic operations for other co-operative and non-co-operative organisations, because in such instances they engage in what is regarded as gainful activity. There are also tax abatements for the modernisation of co-operative shops or factories, for the education and training of apprentices, for employing persons with reduced capacity for work (disabled workers), etc.

According to the regulations on grants and subsidies, these can also be made available to co-operatives from the State budget. They are usually given to co-operatives of the disabled (unless they have already been made in another form, e.g. through tax abatements); to housing co-operatives for house construction, to the extent on average of 30 per cent of the value of the dwelling; for the construction of training facilities for apprentices, etc. Other grants and subsidies are made available individually.

#### 3.4 The Relationship of Co-operative Societies to Higher-Level Co-operative Organisations

The financial relationship of co-operative societies to higher-level co-operative organisations is shown, on the one hand, by the budget of the appropriate co-operative union (in the form of the financial contribution mentioned earlier), and on the other hand by their relationship to the centralised co-operative funds.

The co-operative unions endeavour to secure the finance necessary for their operation mainly by means of levies (subscriptions) collected from the enterprises created and managed by them for the needs of affiliated co-operatives. The remaining and lesser part of the financial means for the activity of the union is collected from affiliated co-operative societies, and the amounts concerned are specified in the plans of these societies and of the union itself. In fixing the amount of such contributions (which is done for each year separately), the unions take into account the contemporary financial situation of individual co-operatives.

The co-operative union also fixes the membership share, which each affiliated co-operative society is obliged, by the union's rules, to deposit, after the approval of its application for membership of the union.

The relationship of co-operative societies to the centralised financial funds, administered by co-operative unions, is more complicated and has some specific arrangements in individual unions. Generally speaking, the common factor is that they are accumulated for the purpose of:

- (a) providing adequate finance for economic security of the affiliated co-operatives;
- (b) easing the financial situation of co-operatives working under temporarily unfavourable conditions;
- (c) furthering the interests of the co-operative movement as a whole.

In the legal respect, these centralised funds are either regarded as property of the co-operative union, which administers them, or take a form of a joint fund in which several co-operative societies have their own deposits, and credit loans are made available from such pooled resources. The former arrangement is more usual than the latter.

The accumulation of the resources for funds managed centrally in co-operative unions is determined by the union concerned, which issues a general regulation, on the basis of which the actual amount of the contribution, levy or obligatory deposit is fixed at the stage of the final annual evaluation of the financial situation of the affiliated co-operatives for the respective year. From the centralised funds, co-operatives can obtain long-term loans (e.g. for expansion of plant and capital construction), short-term loans (for temporary losses), guarantees, subsidies and other kinds of aid. Interest is charged on deposits, loans and aid.

### 3.5 The Special-Purpose Funds of Co-operatives

Individual co-operatives may establish monetary funds for certain purposes. The various types of such funds have been mentioned in an earlier section of this paper (Item 3.2), in the context of the distribution of profit, from which most of these funds get allocations.

The share fund represents each co-operative society's own resources, accumulated from the shares paid up by individual members. The value of these shares is 100 Kčs\* per member in consumer co-operatives, 500 Kčs per member in productive co-operatives, and in housing co-operatives it is one-third of the value of the dwelling. This fund serves to cover long-term financial needs.

The basic fund represents the co-operative society's actual property (capital). It is built up by allocations from profits. It serves to cover the society's fixed assets (i.e. buildings, machinery, equipment and transport vehicles valued over 2,000 Kčs and usable for longer than one year); to defray the society's capital construction and expansion projects (i.e. the cost of the construction of new buildings and the purchase of machinery and equipment); to meet possible serious losses suffered by the society (unless other arrangements have been made to cover them); to cover current costs (i.e. the purchase of material, supplies of goods, valuables, stamps etc., unless the society has any other fund established for such purposes).

The reserve fund is established by productive co-operatives to cover the constant need of supplies of material and goods, as well as for instalments towards the repayment of long-term operational credits obtained in the form of bank loans.

The risk fund is set up by co-operatives engaged in commercial activities or providing services. This fund serves to cover risks arising in the manipulation of goods (natural losses in the course of storage, such as pulverisation, dehydration, breakages), or to compensate for price reductions following the main selling season, in clearance sales, etc. The resources of this fund are partly

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\* Kčs = Czechoslovak Crown; its tourist rate of exchange to the U.S. dollar is roughly \$1 = 11 Kčs.

accumulated gradually from the society's commercial activities through obtaining favourable price-differences, advantageous reductions, etc., and partly by lump sums, i.e. in the form of allocations (permissible up to a certain limit) made from the society's profit at the end of the year.

The fund for cultural and social needs is built up by all co-operative organisations to the amount of 2 per cent of the total volume of wages and salaries paid. The resources of this fund are used for expenses incurred in meeting the cultural and social needs of employees. The use of the fund is subject to agreement of the trade union organisation of the society's staff. The usual payments from this fund include, for example, the costs of establishing and maintaining holiday and recreational facilities for employees, organising excursions and outings, operating a trade union library, loans to members of the staff, etc.

The members' and office-bearers' fund serves to finance collective activities of members and supervisory committees in villages (the members of consumer co-operatives in individual villages elect a "supervisory committee", which then organises their local activities). Its resources serve for financing, for example, expenses connected with parties for the children of employees, organising courses in cookery and sewing, film shows, members' group excursions, etc. Allocations to this fund are limited according to the number of members and supervisory committees.

The supplementary remuneration fund is one which productive co-operatives establish; its resources are accumulated through allocations from the profit. The amount of these allocations and the manner in which the fund's resources may be used are prescribed by the superior co-operative union.

The bonus fund is created by all co-operatives from profit to a limited amount. Its resources are used for paying monetary rewards for results attained in the members' "socialist emulation"; bonuses to managerial staff; shares in the economic surplus to all workers (on the basis of the collective agreement concluded beforehand between the society's leadership and the trade union organisation of its staff); donations made on important anniversaries in life and work, etc.

### 3.6 The Financing of Investments

Included in the overall plan of the Co-operative Movement's development is also the sectional plan covering further developments in the investment policy of the co-operatives, their capital construction and expansion. Accordingly, this plan includes all the projects for which the co-operative society has managed to secure the necessary finance as well as the appropriate suppliers or contractors for the planned period.

In the financing of their capital-construction projects, co-operatives make use of:



- (a) Their own means - these are, in particular: depreciation of basic equipment, written off as costs; resources in the basic fund earmarked for expansion and capital-construction projects; paid-up members' shares.

As further means of their own, intended for financing investments in fixed assets, co-operatives may use the resources of their special-purpose funds, money gained through the sale of unneeded or written-off fixed assets (basic equipment), the pooled financial holdings of members or co-investors, etc.

- (b) Repayable outside capital, which includes loans from the State Bank (known as investment credits) and loans from the centralised co-operative funds.

Investment credits from the State Bank and loans from the centralised co-operative funds are made available on the basis of selection proceedings, in which the co-operative society applying for the loan must prove the usefulness of the project in question, the repayability of the credit or loan, the efficiency of the construction system, etc.

Interest of up to 6 per cent is usually charged on such credits and loans, but they can also be free of interest, if they fulfil certain purposes; for instance, if they serve to promote tourism.

- (c) Non-repayable outside capital, i.e. mainly grants from the State budget. These may be made available for projects of general importance to society as a whole; for example, for housing construction; for building or reconstructing hotels and other accommodation facilities serving the general public (in which case the grant may cover up to 50 per cent of the total cost); for the construction of department stores; for projects whose aim is to do away with certain disproportions in the facilities available to individual areas, etc.

Grants may similarly be obtained from centralised co-operative funds, or even from other sources.

Co-operatives may carry out capital-construction projects either independently, or in conjunction with other socialist organisations\*.

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\* "socialist organisations" are enterprises or corporate bodies in socialist (= other than personal or private) ownership - i.e. national, co-operative, municipal etc.

If a co-operative society gradually accumulates sufficient financial resources, as well as unallocated capital for the financing of investments or expansion (in excess of the capital-construction projects envisaged in its economic plan), it uses these resources for paying off, in the first place, the credits obtained from the State Bank, then the loans received from the centralised co-operative funds, other loans, obligatory levies and voluntary contributions to the centralised co-operative funds.

Co-operatives are not allowed to use their unallocated financial means for granting direct loans to other co-operatives or organisations.

### 3.7 The Financing of Current Assets

The financing of current assets is also provided for in the financial plan. For the financing of these, the co-operative society uses:

- (a) its own means, which include, in particular: part of the basic fund earmarked for renewals of current assets; or part of a fund specially established for this purpose (in productive co-operatives the reserve fund); or unallocated resources of certain funds; or other freely disposable resources.
- (b) repayable and non-repayable external capital, including, in particular: loans from the State Bank in the form of current credits, within the term specifically allowed for unpaid purchases from suppliers; any grants and subventions. In exceptional cases, or for certain special purposes, operational credit may be granted from the centralised co-operative funds for covering current costs.

**SELF-HELP AND OUTSIDE HELP IN FINANCING THE ACTIVITIES  
OF CO-OPERATIVE SOCIETIES IN HUNGARY**

Presented by Dr. B. Toth  
on behalf of the National Council of Agricultural Co-operatives, Budapest

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**A. Self-financing system of the Co-operative Movement**

1(a) Co-operative societies in the Hungarian People's Republic, as socialist communities voluntarily established by the country's citizens for economic and social purposes, promote their members' prosperity and the development of their socialist way of life in various fields of production, consumption and services. They contribute considerably to meeting the general requirements of the population. In essence, Hungarian co-operatives organise their activities, distribute their income and continue to increase their assets on the basis of general socialist principles.

Co-operative societies work on the basis of democratic self-government, running independent economic enterprises. Their economic decisions are made by themselves, within the framework of the relevant legal provisions; the proceeds of their economic activities accrue to them and they also undertake the risks entailed. From the surplus earned by co-operative activities, the members receive shares in accordance with the principles of socialist distribution.

In order to achieve better results in realising both economic and social objectives, co-operatives and their members are given extensive support, and there is also a high degree of mutual support among individual co-operative societies.

The highest authority of a co-operative society is the general assembly, open to all members. Between general assemblies, the activities of a co-operative society are directed by a board of directors, elected by the general assembly. Each co-operative society is represented by its chairman, elected by the general assembly by secret ballot for a period of four years. A deputy chairman acts on his behalf in his absence.

According to their specific objects, co-operative societies have formed territorial federations and national councils.

The territorial federations represent the economic and social interests of the co-operatives in their areas; they promote the independent business management and democratic activity of the co-operatives, as well as economic co-operation between co-operative societies belonging to various branches of trade; they provide services promoting the activity of the co-operatives and administer the collective funds of the co-operative societies deposited with the federations.

The national councils are federal, social and business organisations of co-operatives belonging to different branches (such as agriculture, industry and trade) on a national basis.

The national business federations of the co-operatives have established the National Council of Co-operatives, as the common social consultative body of the country's Co-operative Movement as a whole.

No relation of either subordination or superiority exists among the bodies composing the business federation system. The territorial federations are governed by a meeting of delegates elected by general assemblies of the co-operative societies.

Both the territorial federations and the national councils are supported by the contributions of the co-operative societies.

- 1(b) Individual co-operative societies, as business organisations forming part of the Hungarian co-operative movement, act as independent enterprises and receive extensive state support for their activities.

The co-operative societies work in conformity with the unified financial system of the people's economy:

- they use their own funds for financing the major part of their requirements in fixed and circulating capital; they steadily increase their own funds out of the income derived from their activities;
- their financial resources are kept, according to government rules, in their accounts with the National Bank of Hungary; credits to cover their provisional financial requirements are also received by them from the National Bank;
- to cover eventual losses in connection with their activities, most co-operative societies avail themselves, on a voluntary basis, of state insurance, which is becoming more and more comprehensive in scope;
- the compulsory state social security and the associated medical care and pension system cover all co-operative members.

Considering all these circumstances, self-financing (particularly that of joint funds for self-insurance) is of minor importance in Hungary, though definitely not superfluous, as is proved by the successful work of the joint funds already created.

In the initial period of development of the co-operative societies, the creation of their own funds for an uninterrupted and continuously increasing activity was the main objective.

The idea of creating and realising the financial possibilities of collective funds was adopted earlier among the consumer and industrial co-operatives, which had already been in existence for about two and a half decades, while the agricultural co-operatives, most of which have existed for no more than 12-15 years, have decided to act this way only very recently.

At present, accordingly, collective funds linked with the unified financial system of the national economy are actually at the disposal of consumer and industrial co-operative societies. Within the system of agricultural co-operatives, the establishment of collective funds is only just beginning.

The consumer and the industrial co-operative societies each establish and use two collective funds, viz.

- the Joint Development Fund, and
- the Mutual Assistance Fund.

No financial connections have, up to now, been developed between these two funds. In general, it is not permitted to regroup these collective funds, not even among federations of the same branch of trade. The basic units of the various co-operative branches, i.e. the co-operative societies, establish economic contacts with one another through associations for realising common aims. The co-operatives of both the branches involved may obtain aid from their own collective funds, in order to establish such common enterprises (associations).

2. The possibilities of self-financing and of plant renewal have been developed by the agricultural co-operatives, with a few exceptions, on a national scale. The aim is that agricultural co-operatives should be able to cover their expenses from the income derived from their activities and, furthermore, to make a profit for increasing their members' material interest in the enterprise, to raise the productive capacity of the co-operative, to meet social and cultural expenses and to increase security measures.

The common assets built up by the material contributions of the members at the time of establishment of the agricultural co-operative societies have quadrupled during the 12-15 years of their activity. No less than 78 per cent of the circulating assets of the agricultural co-operative societies constitute unencumbered net assets, the remaining 22 per cent being encumbered by bank credits and other liabilities.

More than four-fifths of the agricultural co-operatives' requirements in circulating capital for a year's activity are financed from their own funds; bank credits are used for financing somewhat less than 20 per cent, generally repayable in the course of the year. The extent of bank credits in the yearly development is also about 20 per cent. Some 10 to 15 per cent of the agricul-

tural co-operative societies, primarily those having substantial reserve-funds at their disposal, work without bank credits. As against this, every year 5 to 6 per cent of the agricultural co-operative societies get into the position of being forced, having lost their credit-worthiness, to reduce their productive activity and expenses. Those co-operatives in which a mutual-support fund has already been established, have to avail themselves of it or else of pecuniary resources from local government authorities which accept responsibility for the co-operative's existence.

Considering the fact that, up to now, mutual-support funds have been established by the agricultural co-operatives for only a few associations, the financial equilibrium of the co-operatives in this condition can at present be restored only by drawing on repayable state funds. These co-operatives have to reckon with the postponement of their development plan until their debt to the state has been fully repaid. This circumstance, however, leads to increased economic disadvantages.

The position of the industrial and consumer co-operative societies, which have been longer in existence, is more advantageous. The possibilities of self-financing, the system of financial conditions for production and sale, as well as the required volume of the societies' own funds for achieving their economic aims have developed to an almost equal extent in these co-operatives.

Among the industrial and consumer co-operatives, 58 to 60 per cent of the yearly production and sale are financed by the societies' own resources. For the purpose of implementing their development plans and maintaining their economic equilibrium, in addition to bank credits, they may use the joint funds separately established with the territorial federations of the industrial and consumer co-operatives, as well as resources of the common development fund and of the mutual-support fund.

These joint funds have been established voluntarily by the co-operatives belonging to the branches mentioned, with their territorial federations. They have also established mutual-support funds with the national councils in order to bring about some degree of equality between different areas.

The co-operative societies belonging to the branch undertake to pay, as a rule, 5 per cent of the value covered by their own net assets of the obligatory basic and circulating funds to the Joint Development Fund established under the territorial federations.

The co-operative societies contributing payments to the Joint Development Fund obtain allocations or loans from this fund for the purpose of achieving their economic objectives, primarily for implementing their overall development plans.

The main aim of the Joint Development Fund is to promote increasing competitiveness of the co-operatives in some particular way, such as:

- developing the activity of the co-operatives; promoting investments which cannot be covered by the co-operatives' development funds; introducing new activities following general development; assisting the justified changes in the sphere of activity of the co-operatives; helping to raise the level of technical and commercial efficiency, etc.;
- helping to create and develop associations for achieving development aims which cannot be realised within the framework of individual co-operative societies alone.

The Mutual Assistance Fund is created by the co-operative societies voluntarily and payments are made in the same way. The payments to this fund are made by the co-operatives from their obligatory reserve funds, which are built up of their taxed surpluses.

The general assembly of a co-operative society decides the amount of payment and how it should be shared by the territorial federation and the Mutual Assistance Fund administered by the national council.

From the Mutual Assistance Fund, financial aid can be granted to co-operative societies needing them because of economic or other environmental factors, in the form of

- (a) allocations not liable to repayment,
- (b) loans.

The fund has to ensure, in the first place, that the grant is sufficient to restore financial equilibrium, since it would not be a suitable solution if the consequences of a temporarily difficult financial position of co-operative societies were to be borne by the state. Nor would it be appropriate if the Co-operative Movement were not to accept the solution either, and if, in consequence, liquidation of co-operative societies, or else their stagnation under difficult pecuniary conditions, were to become a frequently occurring phenomenon.

Financial support needed for the establishment of new co-operative societies may be granted from the Mutual Assistance Fund, from time to time, when it would not be appropriate to expect the members to raise all the required funds by themselves.

- 3(a) Within certain fixed limits, there is also an opportunity in the Hungarian People's Republic to promote the financing of production and its development through the co-operative members' allowing temporary use to be made of part or the whole of their individual savings for common purposes of the co-operative societies. Apart from that, co-operative societies may also contribute to solving their members' housing problems, by house improvements or building new homes, in accordance with the objectives of the co-operatives and of the national economy. They provide necessary aid, both in financial means (grants or loans) and in kind. All these forms of economic involvement help to strengthen the members' sense of

ownership of their co-operatives; hence the direct participation of the members in determining the aims and policy of co-operative management becomes more active as well.

- 3(b) In spite of a considerable reduction having been brought about in the differences between living conditions in town and village, certain differences still exist in quite a number of fields. The major part of the co-operative membership lives in rural villages. Except for a difference in the pension system - the abolition of which is planned for the near future - the social security facilities enjoyed by the co-operative members in rural areas are equal to those available to members of co-operatives in towns. Their cultural amenities and chances of education have been considerably improved and have almost reached the same level as those of the urban membership. The remaining differences are partly due to the fact that, for the time being, some of the rural members' cultural requirements are not of the same nature as those of the members living in towns and cities. In the long run, however, such differences between the cultural and educational requirements in rural and urban areas will gradually vanish almost completely. As regards the provision of the necessary public utilities and services, these are still on a lower level in the rural communities than in towns at present, but the pace of their development is more dynamic than the general average.

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B. Outside: (state of foreign) financial contribution

1. The Hungarian co-operatives obtain many-sided assistance from the state. The aim of this assistance is to promote the realisation of both the social and economic objectives, as well as to ensure proper harmony between the interests of society as a whole and those of groups and individuals.

The motives of state assistance vary between agricultural or other types of co-operative societies.

The major part of the state support received by the agricultural co-operatives is intended to correct the disparity between prices of agricultural products and those of industrial products. This aid is based on governmental decrees and on the fact that, in spite of the price disparity, an income parity appears, due to the fact that the financial obligations of agriculture are mostly below the national average, as to their amounts.

In view of this circumstance, such aid cannot be regarded as a form of state subsidy to the Co-operative Movement.

Furthermore, the agricultural, industrial and consumer co-operatives may also obtain state subventions, on a tender basis, in those cases where their activities, based upon their independent decisions and approved by the competent state authorities, pursue the realisation



of aims benefiting society as a whole. These subsidies are granted to the co-operatives, following the award of the tenders, on the basis of contracts concluded with the relevant state body or institution.

Similar state assistance is granted to the co-operatives:

- in cases of investments for developing repair and servicing activities for the population, as well as for increasing the capacity of industry for the manufacture of building materials;
  - in cases of expansions of the network of retail distribution, as well as for the development of refrigeration capacity (including facilities for winter storage of fruits and vegetables and the additional expenses involved) undertaken for the purpose of improving supplies for the population;
  - in cases of investments for the development of pig-slaughtering, meat-processing, and milk-processing capacities.
2. Under the conditions prevailing in Hungary, indirect state subsidies depend on the particular types of activities involved and are less dependent on whether these activities are carried on by a state enterprise or by a co-operative society or, possibly, by an association of co-operatives.

Compared with private individuals, the co-operatives enjoy a more favourable position. Their being treated as equals with state enterprises is guaranteed by the law, which prescribes that "the state authorities cannot prescribe any system of conditions which could imply any discrimination disadvantageous to the co-operatives".

Those agricultural co-operative societies which work under unfavourable conditions are granted tax exemptions; the same applies to new plantations, as a general rule, right up to harvest.

An additional indirect form of state aid is the tax allowance system which is operated extensively by the state. Tax allowances are granted to the co-operative societies on the grounds of their employing partly-disabled workers, or because of slower merchandise turnover in small communities, etc.

Assistance by way of price allowances, as an indirect aid, is inserted by the state between the industrial production price and the agricultural cost price, and applies to industrially manufactured farming equipment. Thus such allowances ensure for the agricultural implements a price level conforming to that of agricultural products, the aim of this measure being that the relatively higher price level of industrial products should not have an adverse effect on the prices which farmers have to pay.

The assistance granted by way of reduced rate of interest had been widely applied in the initial period of development of the co-operatives, at a time when credit was needed to pay the compensation for means of production supplied by the co-operative members to the collective farms, and later, when the conversion of the

means of production and transportation to up-to-date equipment, suitable for large-scale farming, was carried out on a mass scale. Interest allowances are at present granted to a minimal extent, only in connection with a few activities to which preference is given by the state.

3. The central banking institution is the National Bank of Hungary. In addition to its functions as a bank of issue, it also undertakes to keep the accounts of all firms and organisations in the country, through the local branches, and carries out all the functions connected with granting credits to them.

Banking institutes other than the National Bank have been established for particular tasks, such as foreign trade transactions, or to finance development investments covered by budget funds.

The National Savings Bank, which is concerned with administering the funds of the population and the local councils and granting loans for them, forms an integral part of the country's banking system, which also comprises the network of co-operative savings societies.

The co-operative savings societies handle the savings of the inhabitants of villages and smaller towns and grants loans to them, in addition to the operations of the National Savings Bank branches in these communities. The co-operative savings societies have no financial connections with the other co-operative societies.

There are two points of contact between the Co-operative Movement and the country's banking system. This contact is represented by the savings co-operatives, established within the framework of the Co-operative Movement, which are linked with the National Bank through the share of the deposits collected by them, without re-lending these amounts.

The administration of the co-operative funds and the granting of credits to the co-operatives by the National Bank of Hungary represent an additional link with the National Bank.

It is obligatory for co-operative societies to keep their financial resources at the National Bank; they have to deposit their revenues in their National Bank account, from which their payments are also made.

Banking credits can be accepted by the co-operative societies only from the National Bank. They can be granted credits to cover:

- (1) their temporary requirements in funds, for short periods;
- (2) their needs for developing production;
- (3) their needs in basic and durable circulating capital, in the form of medium and long-term investment credits, or in the form of medium-term credits to compliment their circulating capital.

The collective funds of co-operative societies are kept at the National Bank as well.

4. State and bank resources facilitate the work of the entire Co-operative Movement, as well as the activities of the individual co-operative societies, by accelerating the pace of their development. At the same time, these resources serve the interests of society as a whole and direct the activity of the co-operatives towards the realisation of their objectives. This is advantageous from the point of view of each co-operative society, provided that the broader (or even national) interests and the "group" interests of the co-operative society itself are in mutual harmony, and their goal can be attained through the external resources accepted. However, the acceptance of external resources involves obligations and may demand economic sacrifices on the part of the co-operative society (for example, interest or amortisation bonds, or some compulsory utilisation involved in state assistance etc., even if the economic advantages are less than expected.

When granting assistances, the state itself endeavours to ensure that the resources made available are used efficiently and economically. This is why it is expected by the state that the co-operatives, making use of such aid will utilise the capacities obtained through the assistance with a degree of efficiency decided beforehand, as well as within a time-limit fixed in advance. This is, of course, in the long run, in the interest of the co-operative society as well, in view of its own ultimate socio-economic goal.

## CO-OPERATIVES, CREDIT AND CHANGES IN JAPAN

by Heihachiro Ohmi, Assistant Manager, Planning Headquarters, The Central Co-operative Bank for Agriculture and Forestry, Tokyo

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### 1. Introduction

Three changes in the conditions under which agricultural co-operatives operate are due to major changes in agriculture in Japan.

First, Japan's agriculture was once primarily a rice growing agriculture, but since the large rice surplus in 1970, the government has stabilised rice-production and the acreage of the rice fields has decreased, owing to the government's policy of preventing over-production by subsidising the farmer to the value of 10 per cent of his land area. The producer's price of rice was frozen for three years, beginning in 1969. The ratio of income from rice to the total income from farming has decreased from 50 per cent in 1960 to 38.6 per cent in 1971, and in the same period, the ratio of agricultural production to national production has decreased from 10.2 per cent to 5.5 per cent. (See Table 1).

Second is the change in agricultural districts. In the past 10 years, the ratio of the population engaged in agriculture to the total national work-force decreased from 26.8 per cent in 1960 to 15.9 per cent in 1970, and the ratio of income from farming to the total income of farm households decreased from 55 per cent to 36.5 per cent. Nowadays most of the income of farm households comes from non-agricultural sources. This is also connected with the economic growth of the country, the concentration of population and industries in cities, and the conversion of farmlands to non-agricultural uses: houses, factories, roads and so on. The changes in agriculture in areas of urban development are now largely affecting the organisation and business activities of the agricultural co-operatives.

The third change: urban agricultural co-operatives are increasing and the number of non-farmer members (associate members) is also on the increase. The number of urban co-operatives has increased from 14 per cent to 26 per cent of the total number of co-operatives during the 10 years from 1960 to 1970. (See Table 2).

Because of these three changes, the primary source of income of the farmer has changed from rice to other agricultural products and the sale of farmlands. (See Table 3). The farmer's expenditure has changed from agricultural to non-agricultural uses such as building or renting a house, increased buying of consumer goods, investing in new business ventures and so on. While farmers' incomes and expenditures have increased greatly, borrowing from co-operatives has become more varied in purpose and for longer terms.

## 2. The Agricultural Co-operatives

### (i) Basic organisation of Agricultural Co-operatives

The Agricultural Co-operative Movement of Japan consists of three echelons: local societies in cities, towns and villages; secondary organisations at the prefectural level; and national federations at the summit.

The most characteristic feature of the Movement is that the local societies at the primary level undertake multi-purpose functions to serve the wide-ranging needs of the members both for farming and living. There are certain single-purpose co-operatives along special agricultural lines like sericulture (silk-worms), vegetable and fruit growing and livestock. Yet the multi-purpose societies are by far the dominant and most influential, and they constitute the main stream of the Agricultural Co-operative Movement in Japan.

These local co-operatives are departmentalised and their business operations are organised in prefectural federations for each different branch, such as credit, marketing, supply and insurance, etc., which are in their turn organised in national federations. (See Table 4).

### (ii) Sources of Funds for Agricultural Purposes

Reckoning by households, 99 per cent of all farmers (5,261,000 in 1970) have membership with local co-operative societies. In other words, practically all the farmers in Japan are adherents of the Movement. There are 6,000 local co-operatives, which accept deposits from members. The funds thus accumulated are utilised for loans to the members and surpluses are deposited in the credit federation. The credit federation advances loans to co-operative trading federations and their affiliated co-operatives out of the funds deposited with them, and the unused balances are deposited in The Central Co-operative Bank for Agriculture and Forestry. The Central Co-operative Bank fulfils the role of a co-ordinating body at the national level, enabling prefectural federations to adjust both excesses and shortages of funds for credit. It also meets credit needs which are too large for organisations at lower levels to satisfy from their own resources. The same applies where credit is needed for special purposes.

The Central Co-operative Bank's major source of deposits is the prefectural credit federations, while it provides credit to prefectural credit federations, national organisations, prefectural trading federations and occasionally to local societies. Thus co-operative credit business is conducted effectively throughout the entire three-decker structure.

The total loans of the co-operative credit institutions (all three levels) is 4,397 billion Yen, as of the end of March 1972, and its ratio to the total agricultural loans of all banks is 78.9 per cent, which shows a slight decrease compared with the preceding year. (See Tables 5, 6 and 7).

### 3. Savings Deposits

#### (i) Savings Campaigns. Why and How - Some major Policies

##### A. As a device for a better Life.

Large amounts of money are needed not only to improve farm management but also to improve the living environment, such as housing construction, health maintenance, education of the children and retirement.

To meet these needs, co-operatives have

- (a) Encouraged the saving of surplus annual income through deposits in the co-operative. The goal is for each member to have a savings account equal to his annual income.
- (b) Promoted co-operative consultant-services to aid members in planning for growth of income and life expenditures. Pamphlets and other materials for the planning of savings and living are provided by The Central Co-operative Bank.
- (c) Strengthened the loan system co-ordinated with planning and consulting services. Co-operatives are making greater efforts to increase their loan facilities as much as possible, i.e. loans for agricultural production, loans for house building, loans for the purpose of community development and so on.

##### B. Savings campaigns promote savings funds from many sources and strengthen the propaganda of the co-operatives.

Because of the amalgamation of the co-operatives and the urbanisation of the rural areas, the sources of the deposits of the co-operatives have greatly changed. Agricultural income of farmers in the areas of urban development is decreasing rapidly and the farm household economy has come to depend upon non-agricultural income. On the other hand, owing to the growing demand for housing plots and the rapid rise in the price of land, the income from the sale of farm lands is showing an abnormally marked increase. Some of the regular members of the co-operatives are engaged part-time in small scale commerce or industry, or work as salary-earners in offices on weekdays, working on their farms only at weekends. Most of them however have little desire to continue working on farms. In consequence, the sources of deposits become salary-earners' pay, income from commerce, house-rent, income from the sale of farm lands etc. Generally speaking, in the areas of urban growth there is strong business competition between city banks and co-operatives. The co-operatives, accordingly, must recognise and adjust to the changes of the regional environment and the present economic situation of their members through

- (a) saving campaigns carrying out plans for finding and keeping new sources for deposits,

- (b) providing public services similar to those provided by the commercial banks; provide services for their depositors, such as paying telephone fees and other public utility charges directly from their deposits. The co-operatives must make further efforts to provide more such services,
- (c) promotion of co-operative collecting-activities. With the amalgamation of the co-operatives and progress in urbanisation, the relations between the members and the co-operatives are becoming distant and community organisation is being destroyed. Co-operatives are trying to promote collection-activities and to improve relations with their members,
- (d) strengthen propaganda activities. For the animation of members' will to save, propaganda activities are particularly important. To meet increasing competition co-operatives are working to spread information about co-operative organisations and their use throughout the country.

### C. Organising trustworthy co-operatives.

In order to win members' confidence, co-operatives must increase their financial strength and reinforce the security of members deposits. It is necessary to improve the quality of their financial structure for the sake of safeguarding development against economic fluctuations through long-term management plans and the adoption of target control system.

#### (ii) The Savings Campaign

After 1961 deposits increased substantially. During this period the economy made great progress, and a decrease in the rural population, plus a large increase in the urban population and the expansion of cities have had great effects on agriculture, particularly on agriculture in the areas surrounding major cities.

The sale of farm lands and income from sources other than farming have constituted the biggest share of the deposits of the co-operatives. But it goes without saying that the largest increase of deposits comes from the savings campaigns of the co-operatives all over the country.

The Goals of campaigns were as follows: (See Table 8)

1961	1,000 Billion Yen Savings Goal
1962	The 15th Anniversary of the Savings Campaigns
1963-64	2,000 Billion Yen Savings Goal
1965-67	Double-the-Total Savings Goal
1968-69	5,000 Billion Yen Savings Goal
1970	Better Living through Savings Campaign
1971-72	Strengthen Credit Structure through Savings
1973	10,000 Billion Yen Savings Goal

The period from 1961-1967; can be called the period of increasing the Quantity of Savings through

- (1) increasing the financial strength of the co-operatives,
- (2) advocating planned savings for life-cycle needs, i.e. improving the farm, children's education, buying or building a home and retirement,
- (3) absorbing savings from urbanisation, i.e. the sale of farm lands and income from sources other than farming,
- (4) starting the depositors' protection system (deposits in the co-operatives are guaranteed by the credit federations and the Central Co-operative Bank) in 1964.

The period from 1968 to 1973, we may call the period of improving the Quality of Savings. After 1965, co-operatives added improvement of the quality of the financial structure to their goals. This marked an epoch in the savings campaigns. Because Japan's overall financial situation had been characterised by a high rate of economic growth, a high interest rate and high business operating costs, the marketing, purchasing and other low-profit sections of co-operative business depended heavily on the highly profitable credit section.

When faced with a rapid and deep depression in 1965, it was imperative that the co-operatives improved their fragile financial structure and the position of their low profit sections.

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#### 4. Some Problems of Agricultural Co-operatives in Japan

- (i) Because of the urbanisation of rural areas and increasing numbers of farmers engaged in non-agricultural business, the sale of farm land and income from sources other than farming constitute the biggest element of the deposits of the co-operatives.

Reflecting these facts, the long-term savings deposits of the co-operatives are increasing, and the credit activity of the co-operatives is changing from one of mutual-aid for members to one of aid for the economic development of their area, similar to the activities of commercial banks. Thus the co-operatives have found it necessary to make further efforts to mechanise and rationalise their office work: i.e. build a network of Electronic Data Processing System throughout the three levels in their credit business.

- (ii) Loans to farmers from co-operatives amount to 78.9 per cent of agricultural credit. Although government subsidies are constantly being increased, this increase has not kept pace with the needs of agriculture; besides, these subsidies are subject to some basic limitations and restrictions. The difference between government aid and agricultural needs is being increasingly met by loans from the agricultural co-operatives. It is probable that this co-operative credit-activity will continue to gain in volume and importance and that farmers will expect more assistance from this source in the future.



(iii) As was shown by the savings campaigns after 1968, a big problem is posed by the financial position of multi-purpose co-operatives. Because of the progress of urbanisation and the increase of non-agricultural members, the credit business has become the co-operatives' biggest activity and the marketing, purchasing and other low profit and non-profit sections have become dependent upon it. Profit from the credit section covers the loss of other sections. (See Table 9).

If these low and non-profit sections can improve their positions, the credit section can reduce its interest rate on loans and provide improved services to their members. This will strengthen their competitive position compared with the city banks.

(iv) With respect to the loan business under the authority of the Agricultural Society Law, the co-operatives are prohibited from discounting notes and are limited in regard to making loans to non-members. Accordingly, the urban agricultural co-operatives are now encountering difficulty in utilising their lending funds to the fullest extent, notwithstanding the fact that they are holding an enormous amount of their members' savings. In order to resolve such an absurd financial situation, the present Agricultural Society Law needs to be revised.

The co-operative organisations and the Ministry of Agriculture and others are working together to get these revisions passed in the current session of the Diet.

## 5. Conclusion

The Agricultural Co-operative Movement is currently working under very difficult conditions, such as adjustment of rice production, surplus money and intensified competition in the financial market, besides penetration of commercial and industrial capital into agricultural production and distribution and pressure for greater liberalisation of agricultural imports. Remarkable changes are seen in the structure of agriculture, such as large-scale production and specialised crops in specific areas. So far as the farmer's way of life is concerned, it has been greatly influenced by urban modes of living.

Remembering the original spirit of the Co-operative Movement and its many achievements, we should strive for its further advancement by improving the constitution of its organisations and strengthening its business management system permanently through the recognition of the current critical situation by all officials and their staff.

Table 1The Changing Agricultural Situation in Japan

Shown by Percentage Ratios

	Income from rice to total farm income	Agricultural production to total national production	Agricultural to total work force	Income from farming to farm household's total income
1960	49.1	10.2	26.8	55.0
1961	-	9.2	25.9	-
1962	45.2	9.2	24.7	51.4
1963	44.2	8.3	23.1	49.4
1964	44.2	8.0	21.8	47.8
1965	42.9	8.2	20.6	48.0
1966	43.4	7.9	19.4	48.0
1967	44.5	8.3	18.8	49.5
1968	44.6	7.3	18.0	46.8
1969	42.2	6.5	17.0	42.3
1970	38.6	5.5	15.9	36.5
1971	35.0	-	14.3	30.5

Table 2Changing Composition of the Agricultural Co-operative Movement

Percentages of the Rural, Urban and Mountain Co-operative Associations

	Rural	Urban	Mountain	Total
1960	69.9	14.3	15.8	100.0
1961	69.9	15.1	15.0	100.0
1962	-	-	-	100.0
1963	68.7	16.1	15.2	100.0
1964	66.3	18.1	15.2	100.0
1965	65.2	19.9	15.6	100.0
1966	63.0	21.6	15.4	100.0
1967	62.5	22.2	15.3	100.0
1968	61.0	23.5	15.5	100.0
1969	59.2	25.2	15.6	100.0
1970	58.3	26.0	15.7	100.0

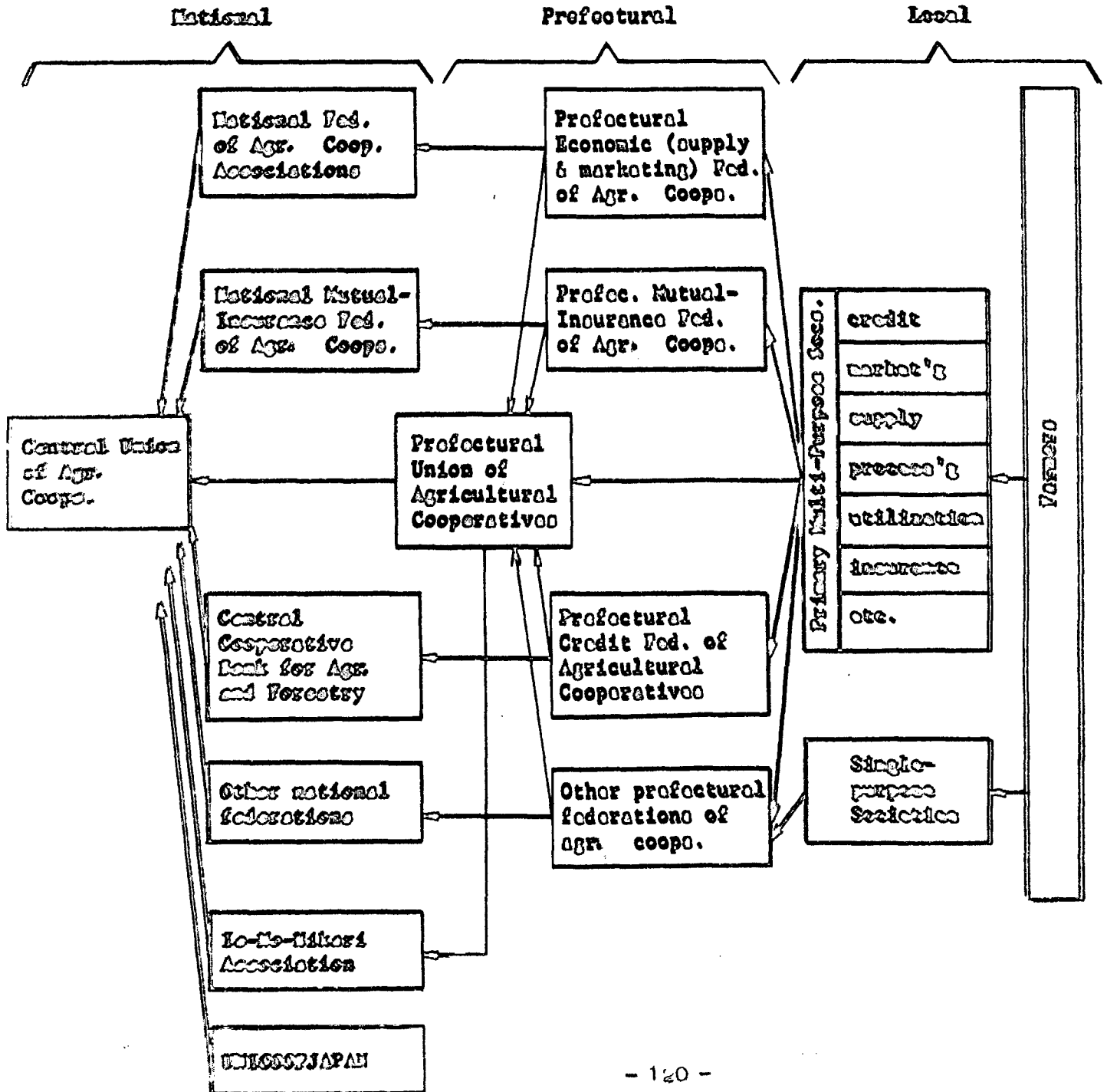
Table 3

Sources of Deposits in Co-operatives

	Agricultural Income			Non-Agricultural Income		
	Rice	Others	Sub-total	Sale of farmlands	Others	Grand Total
1962	39.1	23.9	63.0	10.6	26.4	100.0
1967	27.3	25.8	53.1	15.5	31.4	100.0
1968	30.1	16.0	46.1	24.2	29.7	100.0
1969	21.6	17.7	39.3	33.3	27.4	100.0
1970	20.1	20.7	40.8	26.5	32.7	100.0
1971	21.1	20.7	41.8	25.9	32.3	100.0

Table 4

Structure of the Movement



**Table 5****Farming Population and Acreage**

	1960	1965	1970
Number of Farming Households	6,057,000	5,665,000	5,261,000
Farming Population	11,960,000	9,810,000	8,110,000
Cultivated land (1,000 ha.)	6,071	6,004	5,796

1 ha = 2½ acres

**Table 6****Evolution of Agricultural Co-operative Movement****Number and Memberships of Multi-purpose Co-operative Societies**

Fiscal Year	Number of Societies	Membership		Per Society		Total
		Regular	Associate	Regular	Associate	
1960	12,050	5,780	756	539	70	607
1961	11,586	6,045	803	555	69	624
1962	10,813	6,014	823	577	79	656
1963	10,083	6,038	866	620	89	709
1964	9,135	5,834	902	664	102	766
1965	7,320	5,837	953	799	130	929
1966	7,209	5,905	1,052	847	151	998
1967	7,074	5,934	1,126	852	162	1,014
1968	6,470	5,904	1,211	892	183	1,075
1969	6,185	5,878	1,295	967	213	1,180
1970	6,049	5,890	1,387	982	231	1,213

Table 7

The National Agricultural Credit System

Loans to Agriculture Classified by Banks

1,000 Million Yen

Banking Institution	Items	Balance		%	
		1970	1971	1970	1971
Private Banks	All Banks	112	128	2.4	2.3
	Local Banks	(91)	(99)	(1.9)	(1.8)
	Mutual Banks	49	53	1.0	0.9
	Credit Associations	73	81	1.5	1.5
	Others	2	0	0	0
	Total	236	262	4.9	4.7
Co-operative Banks	Primary Co-operatives	2,367	2,797	48.8	50.2
	Prefectural Credit Federations	1,079	1,182	22.3	21.2
	Central Co-operative Bank	394	418	8.1	7.5
	Total	3,841	4,397	79.2	78.9
Governmental Financial Institutions	Agriculture, Forestry and Fisheries Finance Corporations	763	905	15.8	16.3
	People's Finance Corporations	7	8	0.1	0.1
	Others	0	0	0	0
	Total	770	913	15.9	16.4
Grand Total		4,847	55,727	100.0	100.0

**Table 8****Evolution of Deposits of Agricultural Co-operatives**

1,000 Million Yen

	Total	Annual Increase	Ratio of Increase (%)
1958/12	563	66	13.3
1959/12	676	113	20.0
1960/12	823	147	21.8
1961/12	1,023	200	24.3
1962/12	1,255	231	22.6
1963/12	1,569	314	25.0
1964/12	2,066	498	31.7
1965/12	2,433	366	17.7
1966/12	2,986	553	22.7
1967/12	3,654	668	22.4
1968/12	4,315	661	
1969/12	5,301	987	
1970/12	6,187	886	
1971/12	7,275	1,088	
1972/12	9,181	1,906	

**Table 9****Sectional Profits and Losses in Multi-purpose Co-operatives**

1,000 Yen

	Total	Credit Dept.	Insurance Dept.	Supply Dept.	Marketing Dept.	Ware-housing Dept.	Processing Plant Dept.	Others
1966	6,589	10,121	555	65	△ 1,527	△ 407	△ 886	△ 1,332
1967	5,711	9,715	1,204	△ 459	△ 825	△ 98	△ 960	△ 2,856
1968	6,347	11,758	1,585	△ 1,937	△ 1,482	63	△ 391	△ 3,249
1969	7,932	15,363	1,885	△ 2,970	△ 1,779	341	△ 1,492	△ 3,416
1970	10,744	20,496	2,611	△ 3,321	△ 2,940	△ 594	△ 1,429	△ 4,079
1971	9,922	22,358	3,289	△ 4,488	△ 4,021	△ 1,109	△ 1,787	△ 4,390

△ Loss

FINANCING CO-OPERATIVE HOUSING:  
QUESTIONS FOR CONSIDERATION

prepared by the International Cooperative Housing Development Association  
(ICHDA), New York

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Housing is normally the largest and most important purchase financed by an individual in his lifetime. A house represents, on the average, more than two or three years' salary for a wage earner, and paying for it is often a life-long process. Housing is a central determinant of the quality and style of life for the individuals within society. The Co-operative Movement, if it is to be effective in expressing its social concern and building a just, humane and democratic society, must be concerned with and involved in the production and utilisation of housing.

Housing co-operatives produce and own a major portion of all housing in most countries of Europe, and they are playing a more and more important role in supplying shelter in the rest of the world. The co-operative housing movement has been strongest in Northern European countries, where about one-third of all new housing is produced by co-operative and non-profit enterprises, and already more than 10 per cent of the housing stock is owned by co-operatives. The United States, France, Canada, Latin American countries, Eastern European countries, and a number of developing countries are also developing strong co-operative housing movements. One of the major impediments to the rapid expansion of these movements, in many of these countries, has been the lack of adequate and suitable financing.

What are the reasons for the special problems encountered in financing co-operative housing?

- (a) What is the cost and hence financing requirements for a housing project with 300 or more units?

Are there financial institutions that are willing and able to finance a project of this size?

- (b) How can purchase of individual membership shares and tenancy rights be financed in the event of resales?

Are co-operative membership shares and tenancy rights accepted as collateral for loans?

- (c) What financial terms are needed if co-operatives are to provide housing for low-income groups?

Are suitable financial terms available from either private or public finance institutions?

How can adequate and suitable financing be developed for housing co-operatives?

- (a) What role should be played by members themselves in financing co-operative housing projects?



What should be the size of down payments?

Should a savings programme for down payments and long-term finance be set up within the co-operative in a central association?

Should a "contract" form of savings agreement be used?

Should membership payments and savings be used as a development fund for new co-operatives?

Can a housing co-operative movement be fully self-financing?

(b) What should the government's role be?

Should it guarantee loans to finance housing co-operatives?

Should it provide loans with below-market interest rates?

Should it provide direct subsidies to co-operatives or their members?

Should it develop new financial institutions such as semi-government corporations?

What portion should be government-financed?

(c) What role should the private financial institutions play?

Would these institutions provide financing for construction?

What portion of long-term financing should they provide?

Are private institutions willing to develop suitable financing programmes for co-operatives as noted above?

Should co-operative housing organisations seek to establish special arrangements with private finance institutions to satisfy their financial needs?

## THE STATE AND THE FINANCING OF CO-OPERATIVES IN FRANCE

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In 1973 the French economy cannot be considered as entirely liberal or really planned. It is a mixed economy which comprises:

- a large public sector, mainly because the biggest banks, including the Banque de France, and the biggest insurance institutions are nationalised, and so are the gas and electricity industries, the Renault motor works, the majority except one, of the great aeroplane factories, the railways, the telephone system, the airline Air France, etc.;
- a dynamic and vigorous capitalistic sector which represents the bulk of the French economy and the gross national product;
- a by no means negligible and well-established co-operative sector, notably in banking, insurance, agriculture, distribution, building, fisheries, leisure organisation and in the health and social welfare field.

(This last sector is not specially assisted by the public authorities, which simply make good by various small reliefs the financial inferiorities due to the legal form of the co-operatives.)

Everything is thus done as if the State was seeking for ways to put co-operative economy in competition on approximately equal terms with the other forms of organisation, public or capitalist. This policy of equilibrium is, of course, independent of the political tendencies prevailing since the last war, which have swung between the right centre and the left centre, so much so that the role of the State must be considered independently of these political criteria and its role in financing co-operatives placed against the more general background of the State's role in France in relation to the financing of business enterprise.

The general role of the State in France can be appreciated both by its role of guardian of the French banking system and the management rules which it imposes on all kinds of enterprises.

### 1. The State's Role in the French Banking System in General

The control exercised by the State may be considered to be comparatively strict, whether over the nationalised, the capitalist or the co-operative banks.

The public authorities fix the maximum interest rates, which may not be exceeded without incurring the charge of usury; they fix the aggregate amount of credit which may be granted by the French banking system through a system of compulsory reserves, that is, by sterilising in the bank of issue a part of the short-term reserves of the banks; they fix the amount of the loans which may be granted for each category of investment; and they check in fact, through one or more corporate bodies, the proper functioning of the banks and their respect for the regulations imposed upon them. Even capitalist enterprises may benefit from the direct help

of the State in regard to financing, either through the bias of the discounts granted to semi-public banking institutions, or by the bias of the indirect provision of capital by the Institute for Industrial Development, or the bias of budgetary allocations in favour of certain specially assisted activities such as the hotel or aeroplane industries.

Generally speaking, co-operative enterprises may benefit like other capitalist enterprises, from these various types of assistance, and co-operative banks, so far as general regulation is concerned, are also subject to the same rules. Certain differences in their favour existed a few years ago in regard to taxation and supervision; but the tendency is more and more to place all on the same footing.

## 2. The State's Role in the Internal Financing of Enterprise in General

The public authorities lay down a certain number of rules of the game, notably regarding taxation, for business enterprises in respect of depreciation in duration and amount; regarding the increase of capital, taxation of capital-gains, special and ordinary reserves and all kinds of allocations. These rules are equally applicable to co-operative enterprises. It is in this semi-compulsory framework, which is after all fairly simple, that the role of the State in the financing of co-operatives in particular can be studied.

The financing is different according to the category of co-operative, whether it is agricultural, distributive (consumers' and retailers' co-operatives), fishery, building, leisure, health, etc.

In general the State employs three means:

- loans on bond resources
- concession rates
- capital endowment
- taxation exemptions (becoming more and more rare)

### (a) Agricultural Co-operatives

In regard to agricultural co-operatives, State action is considerable, both because all the means adopted fall within the framework of what is authorised by the rules of the Common Market, whether budget allocations through the agricultural credit system or direct rebates or capital grants by the intermediary of the same organisation, etc.... but it is difficult, co-operation being so important in the agricultural sphere, to distinguish what is done in favour of agriculture from what is done in favour of co-operation.

The border lines are uncertain. Nevertheless, there is a feeling that co-operation was more particularly helped from 1945 to 1960, but that since 1960 governments, although they may not admit it, are less favourable to voluntarism in this field. Co-operation, however, remains the sociological basis of the policy pursued by different governments which try to keep the family-farm profitable, that is, to discourage those which are too small but, on the contrary, to prevent enterprises on a capitalist basis from squeezing out the average farm.

(b) Distributive Co-operatives

In the sphere of distribution, the role of government in the financing of co-operatives is much more flexible.

Before the war, that is, in the years 1930-40, the State assisted the establishment of co-operatives by granting various forms of aid and even small subsidies, but for the last 25 years there is only one kind of help, in the form of loans at low rates of interest or in the form of budgetary allocations or in the form of loans on easy terms. The advantage may be estimated at from 2 to 3 per cent or about one-third lower than the normal rate of interest, but the same kinds of facilities could be obtained by the co-operatives' competitors in one way or another, by loans from regional development companies or from semi-public institutions which are themselves receiving help. There again the policy of the government seems to be to keep a certain balance. The consumers' co-operatives are regarded as useful regulators even if their technique does not always enable them to fix prices as low as the big firms based solely on stores of more than 10,000 sq. metres. On the other hand they provide a neighbourhood service still indispensable in a country of widely-dispersed population and they prevent abuses where monopoly situations may arise, as in villages suffering from the rural exodus or in residential areas where competition is weak.

In addition, the role of the consumers' co-operatives is appreciated in the sphere of consumers' hygiene and health, thanks to the work of the co-operative laboratory, which is immune from all capitalist pressure. Retailers' co-operatives, that is, purchasing groups formed by independent traders, are also helped for sociological and political reasons, because the authorities try to safeguard the middle-class structure, which is the peculiar feature of our country, and governments of the Centre consider that it constitutes their fundamental support.

Recent examples have shown that the government, in helping to re-float large retailers' co-operatives, was not uninterested in this type of financing.

- (c) Fisheries. The financing of fishing is especially assisted by loans made from the budget, grants and even subsidies. The co-operative form of enterprise benefits very considerably from this action of the authorities, but the equipment firms also profit from it. It may be supposed that this is evidence of a policy of maintenance and defence of French fisheries, as much as a frankly pro-co-operative policy. The two are closely bound up with each other.

(d) Building Co-operatives

Building co-operatives, after having been very powerfully helped by the authorities in their financing and benefiting by very long-period loans, repayable in 40 to 50 years, at low rates of 1 and 2 per cent instead of 20 years at 6 to 7 per cent, are finding themselves, after several years, progressively reduced to the same situation as other entrepreneurs. Certain measures have even been adopted specially to their disadvantage, probably under pressure from the capitalist sector, which forms a powerful lobby. Thus long-period loans for co-operatives of tenants have lately been abolished, to the advantage solely of co-operatives of co-owners.

No doubt this step backward is due, for one reason, to errors of management in certain co-operatives and, above all, to the abuse of the co-operative formula by unscrupulous people who obey the letter but not the spirit. Nevertheless the fact remains that nowadays the State cannot be considered to favour building co-operatives. Admittedly, the housing situation has greatly improved since the war, but much remains to be done, notably for special categories of people, such as migrants, the aged, etc. A special system of producing has been set up for these categories and is of benefit to quasi-co-operative forms such as associations.

(e) Leisure Co-operatives

This term covers all non-profit-seeking leisure organisations managed as services by the members themselves.

Financial aid at very low interest rates exists, administered by public institutions such as the Bank of Deposits, or by specialised semi-public bodies with financial privileges such as the Credit Hôtelier or the Crédit Coopératif. This policy in fact aims both at developing tourism in France, notably by attracting foreigners, and in this way benefits capitalist and co-operative organisations without discrimination, and at helping the most disadvantaged of working-class families to take holidays. In this sole case, help is given to non-profit organisations. The proper solution would be to establish a system of personal assistance according to individual needs and not a system of help to institutions which all social classes are then compelled to use.

Thus the whole body of French trade-unions, with the leisure co-operatives, have at present a scheme for holiday cheques, which would considerably improve the existing system. For the moment the government refuses to accept it for fiscal and budgetary reasons, but also probably under the pressure of capitalist groups, which are all the more powerful because tourism is now among the most profitable sectors. In short, the policy of the government cannot be considered to be favourable in the matter of financing, to the leisure co-operative sector, for, in the present situation, attempts made in spite of everything are wrecked on one of two shoals. Either the co-operatives and similar bodies charge less than cost prices and imperil their existence, or they charge rents which cover costs and then cannot be considered as having "social welfare" tariffs. Much, therefore, remains to be done to improve the present situation.

(f) Health

In the sphere of health the State finances non-profit organisations rather generously through the method of refunding the daily rate by the Social Security, which thus takes the responsibility of repaying loans contracted for investments. This is a relatively liberal situation which benefits capitalist organisations such as the clinics almost as much as non-profit institutions, such as those which work for the handicapped and the aged.

In another sphere the financing of certain activities such as those of the mutual pharmacies, that is, credits to co-operative pharmacies or mutual dental surgeries, are voluntarily held back and sometimes blocked by the State, notably because of the very powerful lobby of the pharmacists and more generally of the liberal professions.

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To sum up, the authorities take into account, in the external financing of co-operation, the sector of activity at least as much as the legal form of co-operatives, and their help is, in spite of everything, related to the political weight attached to this or that category under the present system.

On the whole, co-operation is not really hindered. Nor is it really helped, since it benefits from the aid of specialised semi-public credit institutions whose activity is described below. These particularly serve as research centres which many co-operative branches would not have the means to provide for themselves, and in this way render indirect but calculable help which is certainly very effective.

### 3. The Special Role of the State in the Self-financing of Co-operatives

The laws are not quite the same for co-operatives as for capitalist companies, for the authorities recognise the difficulties of the non-profit sector in accumulating capital.

#### (a) Specific disadvantages of the Co-operatives

First, co-operators are not rich people, hence the capital cannot be increased by capitalisation of reserves, nor can it be re-valued. Again, the remuneration of capital in co-operatives is limited to 6 per cent, that is, the average rate of monetary depreciation. This regulation obviously hinders the self-financing of co-operatives so much that the authorities accept or, more precisely, tolerate, certain departures from the general rules applicable to other enterprises.

#### (b) Special advantages

Taxation of surpluses: surpluses may be considered as profits, but the Treasury agrees not to tax them as such to the extent that they are redistributed to the members in proportion to the transactions of each with the co-operative, but if these are immediately converted into capital after being distributed, that is a method of avoiding payment of the 50 per cent tax on profits. Obviously this does not permit distribution of the profit according to capital, but only according to members' transactions. It is sufficient that the capital should be in proportion to transactions in order to avoid difficulties involved in the remuneration of capital. It seems, all this demands accounting gymnastics which are not always possible.

#### (c) Members' deposits

The authorities also tolerate the deposit by members of their savings with their co-operative, notably in consumers' co-operatives. This is obviously a way of obtaining resources cheaply which is not open to capitalist enterprises, because this kind of business comes under the banking law governing savings received from the public. Nevertheless, the authorities are asking at the present time that this practice shall be suspended and that the consumers' co-operatives should conform to the general regulations for members' accounts.

Sometimes it is willingly admitted that a member cannot be considered truly as belonging to the public in relation to his co-operative and that consequently the banking law does not apply. This tolerance appears, nevertheless, to be more and more contested by the officials. All the same, the savings banks continue to function, but no new ones are opened.

One variety of these savings banks has just been admitted for the retailers' co-operatives which can take deposits in this way from their members.

(d) Investment of pension funds

The State also accepts that in certain cases the pension funds established between the workers of productive societies may deposit half of their funds in the co-operative, whereas the investments of all the other retirement pension funds are much more restricted and practically limited to securities guaranteed by the State.

(e) Profit-sharing with wage-earners

All French businesses with more than 100 wage-earners are obliged to admit their employees to a share of the profits. These general regulations have been specially adapted and improved in favour of the Workers' Productive Co-operatives in such a manner that this advantage contributes considerably to building up their own capital, and therefore their financing, by allowing them to keep in the enterprise sums which would otherwise have to be paid to the State as taxes.

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The foregoing represents a series of small measures which cannot be said to form a coherent and valid policy favouring the self-financing of co-operatives. It is time, however, that the State has made an effort in favour of Co-operative banks and the thrift and credit co-operatives.

4. Relations of the State with the Co-operative Banks and the Thrift and Credit Co-operatives

There exist in France four co-operative apex organisations which come under the Co-operative Law, although in the case of each one its application is subject to very important modifications.

(a) Diversity of Co-operative Credit Institutions

Broadly speaking, there is a Crédit Agricole for agriculture, a Crédit Mutuel specialising in family financing, a Crédit Populaire, specialising in the financing of small and medium-sized business, and a Crédit Co-opératif for the financing of co-operatives and similar organisations, including fishery societies.

(b) Rules

Their constitutions are very diverse. The Crédit Agricole is public at the top and co-operative at the base. The Crédit Populaire and the Crédit Coopératif are semi-public and strictly regulated. The Crédit Mutuel is private but also regulated.

Broadly, it may be conceded that, apart from the Crédit Mutuel, the State has made a special effort to establish these institutions. The Crédit Mutuel developed more spontaneously, but it benefits, notably in respect of taxation, by a certain number of exemptions which are favourable to its growth.

(c) Financing

The Crédit Agricole, the Crédit Coopératif and the Crédit Populaire receive budgetary allocations and loans on securities for their affiliates. On the other hand, the rules applicable to capitalist banks are equally obligatory for them.

(d) Management

The authorities exercise a varying, but always important, influence on their management. The management of the Crédit Agricole is appointed by the State and carried on by civil servants; it is thus a public institution, but co-operatives may express their views in a consultative capacity and even make their opinion prevail in the Administrative Council without seriously challenging the authority of the State.

The Crédit Coopératif is in a much more complex situation. Its chairman and manager are nominated by the State, but the chairman is nominated by the members of the Administrative Council, who are all elected representatives of the co-operative sectors. In addition, a series of branch offices established with a purely private status gives considerable freedom to co-operators to persuade the Crédit Coopératif to pursue the policy they wish. It seems to be the same with the People's Banks (banques populaires), which act more and more like ordinary banks, although their leaders appear greatly attached to their origins and their co-operative form. Their chairman, however, is appointed by the government.

(e) Control

All these institutions including the Crédit Mutuel, the most independent, are very much under the control of government commissioners, who exist no longer in capitalist banks.

In fact, the role of the State in controlling capitalist banks is almost as strict as for the Co-operative banks, notwithstanding the features mentioned above, by reason of a complex but effective policy which compels the whole French banking system in fact to pursue the credit policy which the government wishes. The policy is therefore directed totally from above, even if very great freedom of action is allowed, according to what may be opportune, in granting individual credits and estimating risks.

Complexity of the State's position in regard to co-operative financing

The role of the State in financing co-operatives in France is not simple. It has to be appreciated in relation to

- the general situation of the French economy, which is mixed
- the role and respective "weight" of the different political parties in power, which are inclined to the centre
- the specific needs of this or that sector of activity, in which co-operation is more or less strongly represented



- the strength of certain lobbies, for example, in the sphere of building or of health
- the complexity of the financing mechanisms in operation
- the direction of European policy formulated by committees of experts at Brussels.

#### Harmonisation in the European Level of Government Assistance to Co-operatives

The role of the Common Market will, of course, become preponderant in the course of the next few years and soon it will be no longer possible to speak only of the role of the State in respect of the financing of French co-operatives, for this policy will be progressively harmonised in all European states step by step as their legal, fiscal, financial and administrative systems themselves become harmonised.

#### The Necessary Concentration of Means of Financing Co-operatives

As to the Maintenance of their independence in relation to the public authorities, in the present state of affairs the financing of co-operatives could be improved if those interested agreed amongst themselves to correlate their means and concentrate their resources, which are still too dispersed.

It is along this road that solutions must be sought, for too much State assistance would also have its disadvantages. Not only would it accustom Co-operative Movements to a system of protection which would weaken them in the long run, but above all it would endanger their independence, to which they have always attached very great importance.

PERSONNEL PLANNING AND TRAINING - an important  
Instrument of Self-help for the Economic Advance-  
ment of an independent Co-operative Movement

by Dr. A.E. Rauter, Director, Konsumverband, Vienna

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1. Introduction

Much that the consumers' co-operatives throughout the period of their existence have regarded as advantageous seems obsolete today. But much that they were the first to accept and loudly proclaim has remained to an astonishing degree as lively and topical as on the day of its introduction.

I believe that this applies to the idea of self-help and that this idea has not lost its appositeness with the passage of time, but - on the contrary - has gained in importance. For in an epoch of such many-sided financial interweaving, self-help confers on any organisation a certain measure of independence and security.

Thus over longer than a century, the idea of self-help has retained its fundamental importance, even if, on the other hand, the methods of its realisation have greatly changed since Rochdale.

Whereas in a co-operative of an earlier age, when economic development of the magnitude with which we are confronted to day was far from being dreamed of, leading positions were occupied by honorary officers; it is indispensable nowadays to employ highly-qualified full-time personnel in every important branch of activity and also to bring the results of research and technology to bear upon co-operative business policy.

These changes led step by step to the result that larger and larger business units were created in the co-operative sphere and more refined methods of management became necessary.

The strictly limited supply of members' daily needs expanded to embrace the advancement of general consumer interests, especially in the social-economic and cultural fields. The consequence was that the radius of activity of consumers' societies extended over the whole market. In view of this we must of course closely examine the way and manner in which we, given the existing difficult competitive situation, can in future completely fulfil our basic mission without thereby endangering the independence of affiliated co-operative organisations or neglecting co-operative democracy.

One aspect - in my opinion very important - is the recruitment and training, already mentioned, of first-class professional personnel. Where is this personnel to come from?

Now I hold that it would be nothing to our credit if we gave up the problem of general shortage of personnel as hopeless. And I consider that the everlasting complaining that is heard about it has to be unprofitable. We must simply bestir ourselves to train up suitable colleagues from our own ranks.

Besides these measures, however, the possibility must be kept open of recruiting the right kinds of ability from outside the Co-operative Movement.

The economic and social independence of a Co-operative Movement can only be safeguarded and extended by a process in which co-operative traditions and the spirit of progress are integrated.

Notwithstanding the differences between social systems, the question of recruitment of personnel, and measures for its selection promotion and training, presents so many common points of contact, that I would like to discuss the most significant of these points in the light of my own experience.

## 2. Learning, teaching and leading in the Co-operative Movement

One of the reasons for the success of the "Equitable Pioneers" was their consistent educational and training activity over a long period of time.

The consumers' societies have followed this tradition and even today regard this work as their particular responsibility.

Indeed, there exists in practice even a right to further education and training.

The fact that we are living in a society which is pluralistic, dynamic and oriented to efficiency, and which will hardly alter its mode of living without compelling reasons, demands from all of us a radically new attitude to learning.

In face of the explosion of scientific knowledge, the revolutionary innovations in trade - I would recall self-service and the creation of shopping centres, etc. - the unceasing increase of new perceptions and discoveries, in short, a constantly changing world, none of us can afford to stop learning, even for a day.

Hence all co-operatives, wherever they may be, must see to it that their personnel is involved in this process of learning and that - ultimately - a sound selection results.

Information and publicity among employees are of particular importance in this connection.

The combination of practical experience with a specialised branch of study promotes the successful performance of a leading function. For in the end the harmonious blending of theoretical and practical capacities provides a healthy challenge to efficiency for the whole personnel, without discriminating between particular groups.

The common purpose progressively favours group dynamism which, following appropriate preparation, can operate especially to strengthen efficiency.

An up-to-date style of leadership in personnel relations - and that in all branches of the Co-operative Movement, from the executive level to the summit of the undertaking - favours motivation and striving for efficiency, enhances the personal satisfaction of the staff and strengthens the loyalty of the individual to the business. In particular, personal motivation seems to me to be a decisive factor.

As persons responsible for personnel training, let us ask about everyone of our colleagues.

What is he aiming at? What drives him on?

Is he more influenced by persons or by performance? For on these or similar motives will the attitude and the activity of the colleague depend.

Those who are strongly motivated try to change their circumstances, their field of leadership, to their own pattern. On the other hand the man who feels himself 'under pressure' in management or not strong enough for it, will arrange his field of leadership so weakly that it will correspond to his scanty resources.

A co-operative style of management in all co-operative undertakings offers the individual the opportunity through joint thinking, joint decision and joint responsibility, successfully to improve his own work and that of the co-operative enterprise and, in addition, to broaden his technical knowledge, to develop his personality and confirm his professional reputation through his acknowledged achievements.

#### The Importance of a given Activity in the Co-operative Movement

Besides the professional qualifications of a candidate, whether for a trainee or a staff function, there is his attitude to the Co-operative Idea.

Every future colleague must have a positive attitude to it and be willing to defend it.

In most cases a new colleague will have hardly any concrete knowledge about Co-operation. It is necessary therefore to instruct the colleague, before he begins his professional career, about the specific characteristics of a co-operative enterprise.

The co-operative undertaking, as a social-economic entity, must be able to rest upon a personnel which is distinguished not only by superiority in business over private enterprise, but also by its enlightened approach in ideological matters.

Traditionally, most colleagues in earlier times came into the co-operative from the less well-to-do classes of society.

Nowadays qualified university students enter our business undertakings and are rapidly promoted to responsible staff or other functions. These chances of promotion are associated with rapid expansion.

Here the integration of managing personnel seems especially important, so that not only opportunities of a career, but, in an equal measure, attachment to the Co-operative Movement and collaboration in the solution of social-economic problems are assured.

In the sphere of consumers' co-operation, which means, as was mentioned earlier, that, in a time of relative prosperity, we give the performance of our economic mission the top priority in our endeavours.

Every modern marketing strategy must aim at asserting the household economy of our members and, in addition, that of consumers who should be our members, and also at providing a certain protection for the economically weaker groups.

### 3. Staff Development Planning and Promotion Methods

Through planning a long time ahead for personnel development and a precise agreement about methods of promotion, the whole personnel policy can be made intelligible for all interested parties. Every individual should be able to ascertain what position corresponding to his abilities should be attainable in what time or, alternatively, what requirements in respect of training need to be fulfilled.

Through prompt re-training and information, fluctuations in staffing can be diminished and the mobility of officials within co-operative undertakings increased.

Individuals with specially high qualifications must be able to develop more rapidly than those with average talents.

The employees' own competition ensures that no talents, in the long run, remain undiscovered. By means of long-term planning of staff requirements, which must take into account qualitative features as well as quantitative criteria, the chronic shortage of management ability will be made good.

The concept of modern co-operative personnel management includes the acquisition of theoretical and practical knowledge through a course of training arranged in stages.

Besides success in training courses, great importance is naturally to be attached to performance in the position itself. There the ability to translate knowledge and skill into technical and personal achievement manifests itself most clearly. An appropriate allocation of tasks and the consequent checking of results are the mark of good control of efficiency on which objective standards can be based.

The right, I might almost say, the compulsion of an employee to undertake training and further education, is complemented by the duty of his co-operative superior to allow his colleagues to benefit by every possible kind of education. Through allotting higher tasks and greater responsibility, the self-confidence and efficiency of the employee are enhanced.

In training programmes and the appropriate practical exercises, employees worthy of promotion - they can be identified by psychological tests - have an opportunity of proving themselves in spheres of work hitherto strange to them, where they would otherwise never be able to display their capacities. Risks and opportunities must be equally distributed.

#### 4. Conclusions

I have been attempting to show that the development and promotion of managers within the Co-operative Movement and the recruitment of qualified specialists from outside the Movement are among the most vital pre-conditions for the successful realisation, in the long run, of the fundamental co-operative idea and the strengthening of the Movement's independence or autonomy.

Permit me to add a few words on the method of financing training applied in the Austrian Consumers' Co-operative Movement. In the Austrian Movement there exists a basic system of financing in which every single co-operative participates by contributing a definite sum of money based on its turnover. In this scheme of financing a certain amount is allocated to employee training. For central training activity in 1972, the Movement allotted a total amount of Sch. 6,000 million. Over 2,000 employees were enrolled in courses and seminars. A further intensification of training activity may be expected.

With the help of a progressive business organisation and a group of enlightened officials, co-operative self-help can be successfully practised in a period of relative prosperity. We will first use up the reserves within our own ranks and then have to consider all the possibilities of the labour market.

Thus what has long been the practice in the sphere of capitalisation, both for fixed investments and for trade credits, is becoming visible in outline in the personnel sector. Surely it is not mistaken to demand the same care in personnel management as has long been the custom in major capital investments.

A real co-operative democracy demands a sturdy sub-structure which not only permits adaptation to the requirements and conditions of the market, but also makes possible active participation in different social and political systems and the self-fulfilment of the individual.

In the markets of tomorrow there will surely be even greater needs for capital and we shall have to exert all our strength to meet them. All our efforts will nevertheless fail, if we do not succeed in placing human beings in the centre of our endeavours.

INTERNATIONAL COOPERATIVE TRAINING: by Mr. B. Tronêt,  
President of the International Cooperative Bank (INGEBA)

Let us begin with the International Cooperative Bank, INGEBA, which is the abbreviation of "International Genossenschaftsbank." The foundation and the history of the bank were rather unusual. After the second World War, in the early 'fifties, leading cooperators in the United States suggested they might transfer some money to Europe, as in the case of the Marshall Plan, in order to help the consumers' cooperatives to become more consolidated, especially in retailing.

In order to receive and distribute that money, some of the European cooperative movements thought it was necessary to found a special organisation, and the President of the Swedish Cooperative Union, K.F., Albin Johannson, took the initiative, together with some friends from the "Nation-wide" Insurance Society and other European cooperatives, to establish a suitable credit organisation.

About 1956 it was decided to establish in Switzerland, a very small bank which was called the "International Cooperative Bank", although no money had yet been received from the United States. Albin Johannson became the Chairman of the Board and the Manager was Dr. H. Küng, Manager of the Swiss Central Cooperative Bank, but the bank did not do any regular business. The paid-up share capital totalled around Sw. Fr. 2 million of which Kooperativa Förbundet contributed Sw. Fr. 500,000. The share capital was not left idle, but lent almost at once to European consumers' cooperative organisations.

The members waited for several years, until around 1963 they understood that no further money would be coming in, and so started to discuss what they should do either decide to close the whole business, or to go further, in which case there were two alternatives.

One alternative, proposed by Albin Johannson, was to ask all the cooperative movements to provide suitable guarantees, with which the bank should go to the World Bank and other banks to borrow the necessary funds.

The other alternative was to invite national cooperative banks to participate. Until then, only cooperative trading organisations had been shareholders, but no banks, so the intention was to ask cooperative banks to provide the necessary know-how as well as the money.

Nobody except Albin Johannson was interested in providing guarantees, so the second alternative was the logical choice. In 1965 the change was put

into effect and the national cooperative banks were invited to join; they were offered "B" shares at a value of Sw. Fr. 1,000, while the cooperative movements had "A" shares at Sw. Fr. 200., which meant that, while one share had one vote, the banks had to pay 5 times more for their votes.

As a result of this change, the Bank soon had a share capital of Sw. Fr. 10 million, consisting of 8 million "B" shares paid in by the banks, and 2 million obtained from the movements; nevertheless, in voting the latter were in the majority. From then on the Bank operated in the manner of a Commercial Bank in the form of a joint stock company according to Swiss Law.

The development of the Bank can be illustrated by the fact that its turnover which was Sw. Fr. 66 million in 1965 was increased by the end of 1972 to nearly Sw. Fr. 900 million. During this period the share capital was increased three times - 1967 by Sw. Fr. 10 million then in 1969 with another 10 million and in 1971 with a further 25 million.

In reply to the question whether the bank is working for the Cooperative Movement, it may be said that, as a Swiss Commercial Bank, it is mainly engaged in banking with different private businesses and to a considerable extent in the Euro-Dollar market.

The biggest shareholder is the West German Bank für Gemeinwirtschaft, for which - as well as for some other banks which are among the major shareholders - INGEBA acts as their Swiss branch, which can do a lot of business in the international field on their account and thus is proving very useful. INGEBA has granted numerous credits to various Cooperative Movements and I think this has been very helpful. However, of the present-day turnover, which is Sw. Fr. 900., only about 20 per cent is being made available to the Cooperative Movements - the rest serves different companies in practically all parts of the world.

Today, the number of INGEBA's shareholders is 60, of which 49 are cooperative organisations and 21 are banks in 23 different countries.

According to its statutes, which have just been slightly amended, the objective of the INGEBA Company is the operation of a commercial bank. In particular, the Bank has as its object to support cooperative societies as well as cooperative unions and institutions in their organisation and development and in the rationalisation of their distribution and production arrangements, and the Company's main activities are those typical of any Commercial bank.



At the last annual meeting it was decided to increase the share capital to Sw.Fr. 100 million of which 80 million are "B" shares and 20 million "A" shares. This means that the shareholders and all cooperative organisations are invited to subscribe another Sw.Fr. 45 million. There are two reasons for this expansion. One is that the development of the bank has become quite rapid, but the most important reason is that there are new regulations concerning banks' own funds, which must be increased from about 10 per cent to about 12 per cent of the working capital. It is in order to comply with these new rules that it is necessary to increase the share capital. Now, as there is a share capital of Sw.Fr. 100 million, and cooperative organisations have only been granted by the Bank very little more than 100 million in credits, so it may well be asked: What is the proportion?

The proportion rests on the fact that most money is provided by the cooperative banks, which have to subscribe the "B" shares, while the cooperative movements only the "A" shares, so that most of the capital will come from those who do most business.

The statutory authorities of the Bank are:

1. The General Meeting, held every year, in which each share has a vote.
2. The Supervisory Board, at present consisting of 19 members from 11 different countries.
3. The Board of Directors, at present with 11 members from 7 different countries. Six of the members (majority) must be Swiss; Dr. Hesselbach from the Bank für Gemeinwirtschaft is the Chairman.
4. The management is entrusted to two Directors, of whom Mr. Grethe is the principal.
5. The auditors

The Supervisory Board and the Board of Directors meet jointly to discuss the most important items.

In order to understand INGEBA's function I think it is necessary to realise that, when it was founded, there was no intention of creating an international cooperative bank, nor was the need for one felt, only the need for a body capable of taking care of money. It was only in later

years that discussions began about ways in which INGEBA could give better and better service.

At present, a discussion is proceeding about the possibility of INGEBA engaging in more international business, especially in favour of the developing countries. For the last three or four years there have been discussions within ILO, FAO and ICA on the problem of financing cooperative movements in developing countries. This problem has become the subject of a special study entitled "The International Financing of Cooperative Enterprise in Developing Countries". In this study, INGEBA is assigned a very important role - that of becoming the body through which all this banking and financing should be channelled.

In the conclusions and recommendations of the Study it is said that there is an intermittent flow of international funds into cooperative efforts in the different countries, but this flow is far too limited, sporadic and unco-ordinated, and in order to co-ordinate it, it is necessary to find suitable methods. The first recommendation is that an effort should be made to ensure that in every developing country the cooperative movements have access to centralised banking services. This means that in all these countries there must be bodies that can take care of all these needs.

Then it is recommended that national cooperative movements should give the International Cooperative Bank, INGEBA, every possible support in order to strengthen its capacity for promoting cooperative development. When this is said, it also implies a recommendation to all cooperative organisations to make use of the services of INGEBA, not only invest money in it.

Another recommendation points out that if INGEBA were to function as an International Cooperative Development Bank, its present facilities, including share capital, would need to be expanded. This would be necessary in the first place to enable it to undertake additional international banking functions through the creation of a specialised development department. Secondly, it would be necessary to set up within INGEBA a specialised Consultancy Department. This Consultancy Department, in addition to providing general advisory services, could examine proposals for loans and credits to Cooperative projects in developing countries prior to their consideration by the Executive of the Board of Directors of INGEBA. Thirdly, it is recommended that INGEBA, in order to expand its capacity for lending to cooperative projects in developing countries, should encourage member organisations and other financing institutions to extend credit guarantees to cooperatives which cannot themselves offer acceptable security for such loans. Here, I refer again to Albin Johansson's proposals concerning guarantees for INGEBA. If INGEBA should undertake all these

responsibilities, there would no doubt be many loans to the developing countries where there are risks and where there are securities which could not be accepted by a Swiss business bank. Therefore it is necessary to go to cooperative movements both in the developed, and in the developing countries and ask them to give guarantees which would then constitute a kind of guarantee fund.

An example can be given from Kenya. Representatives of INGEBA have recently discussed with the Kenya Cooperative Federation and the Kenya Cooperative Bank the hypothetical case of a Kenyan cooperative organisation which needs a loan, but the Bank is unwilling to give the money because it says the security is not adequate. In such a case, they could apply to INGEBA and ask whether the guarantee fund could be used to underwrite the loan. Then INGEBA would have the credit examined by its experts to decide whether it was desirable or not.

The cooperative movements internationally, and also ILO and FAO, have all the knowledge and the know-how required for determining whether a project is sound or not

If such a guarantee fund could be established it would be of very great value and would make possible loans and credit for much more money than the total of guarantees. The guarantee would be revolving, so that when a loan is paid back it could be used again and again.

The example of the Kenyan Cooperative Bank, could be paralleled by examples from almost any country. This proposed fund could be of very great value, but it would be necessary to create such a guarantee organisation and this is what INGEBA has been working on.

A further recommendation is that INGEBA should strengthen its relations with U.N. agencies including the World Bank.

By far the major sources of capital and the technical know-how for the developing world are outside the cooperative movements. The bulk of capital-aid and technical assistance comes from U.N. organisations, including the World Bank Group, from regional developing banks and from governments. This means that an important function of the Development Department of INGEBA would be to forge links with these institutions in order to ensure that a significant share of the international flow of financial and technical support is directed to cooperative enterprises.

The last recommendation is that INGEBA should also seek the collaboration of non-cooperative private enterprise in providing cooperative

projects with capital, expertise, technical know-how and training for local staff. I think INGEBA could be a useful tool in this connection.

It is intended that the present study should be circulated to all ICA member organisations and to UNDP and UN specialised agencies to ensure a thorough-going consideration of the fundamental issues involved.

Well, I have taken a lot of my time to give you this information. It is of very great importance that something should be done. If the necessary tool could be found within the International Cooperative Bank, such as, for instance consultancy services, this would provide a place for testing different financial operations along the lines discussed in this Seminar. There is hope that this can be done and that the proposals will be approved at least by the ICA and by a number of cooperative movements.

SPECIAL TRAINING SCHEMES WITHIN THE ICA'S PROGRAMME OF EDUCATIONAL ACTIVITIES : BY DR. L. SIEBER, SECRETARY FOR EDUCATION, ICA, LONDON

The need for staff training at all levels, especially in the field of management and other specialised fields of activity, is generally recognised by leaders of cooperative organisations, even by those whose main interests or specialisations lie outside the field of education.

This is not a surprising fact, nor is it actually a **specific** situation for cooperatives because the need of economic efficiency is felt as more or less equally urgent by all business enterprises, private or public, capitalist or socialist, cooperative or non-cooperative.

Therefore problems of specialised training have for some time been among the high-priority preoccupations of numerous national Cooperative Movements and their leaders.

In the endeavour to make its educational activities serve the interests of member organisations in practical respects, the ICA has recently conducted two enquiries, in order to find out what kind of international action could be most helpful.

Towards the end of 1971, selected member organisations were asked for information about their arrangements, problems, plans and needs in the field of management training.

Early in 1973, member organisations were asked to express opinions on international exchanges of management experience and personnel, in the sense discussed at the ICA's 25th Congress (in connection with various "imperatives" occasioned by competition of multi-nationals).

Most of the member organisations approached by these two enquiries worked out detailed replies, containing valuable information and recommendations, some of which varied considerably in certain respects, but otherwise enabled the ICA to discern an almost general agreement on several important aspects, including matters of principle, especially as regards the role to be played by the ICA itself.

Taking all these recommendations into account as guidelines expressing the predominant feelings of member organisations, the ICA has been able to conclude that its activities in the field concerned would be required to cover the following main areas:

1. The ICA should act as a kind of international clearing-house and co-ordinator for exchanging information, experience and documentation on methods and techniques of management training.

For this purpose, the ICA could:

- (a) collect information on the practice of individual national movements and publish the relevant data periodically;
- (b) collect relevant documentation and make copies available to other national movements;
- (c) encourage (e.g. in its own periodicals) such bilateral and multilateral exchanges of information;
- (d) advise member organisations about suitable counterparts abroad and help to put them in mutual contact.

2. The ICA should help member organisations in exchanges of personnel, and for this purpose it could:

- (a) collect information about actual needs of individual national organisations, in regard to sending personnel abroad for studies;
- (b) keep a record of organisations willing to receive trainees from abroad;
- (c) help to put the organisations mentioned under (a) and (b) into mutual contact;
- (d) occasionally play a fully active role by actually initiating such exchanges, where particularly appropriate.

3. The ICA should organise selective short-term specialised seminars (or "round tables") for high-level representatives of groups of member organisations with similar problems. For this purpose, the ICA will need to maintain close contacts with education directors of member organisations and cooperate with them in identifying the most relevant areas or problems where international consultations would be most useful.

4. All these schemes should become part of the ICA's long-term policy and programme without leading to any reduction in the scope of its other educational activities.

Some additional ways in which the ICA will be endeavouring, in its future activities, to enable member organisations to benefit from some of the services indicated may be mentioned here.

While in some respects the ICA will be launching various schemes on its own initiative, in others it will depend on practical and specific suggestions of its member organisations.

Therefore, the degree of practical benefit to be derived from the opportunities offered will largely depend on national organisations' own cooperation and involvement in the implementation of this part of the ICA's long-term programme of educational activities.

The general scope of the ICA's educational policy and programme of activities will naturally remain much wider, with main emphasis on cooperative education as such - within the framework of which, of course, specialised management training forms an indispensable though not specifically "cooperative" component, as it is conducted along similar lines in all business organisations.

The ICA must continue to pay paramount attention to real cooperative education which is required by the movement's social and ideological objectives and responsibilities. These are no less important than the movement's economic tasks, even though they may sometimes appear less tangible, less immediate and hence - erroneously - less challenging.

Therefore, the ICA's educational policy must be, not only to take care of areas where the need for international action is obvious to almost everybody, but also to try to assist or advise in cases where such a need may seem less obvious or sometimes even be overlooked - as has rightly been pointed out in several of the replies to the ICA enquiries.

The educational department of the ICA will accordingly continue to organise its annual high-level international cooperative seminars, like this one, and education conferences on subjects relevant to cooperatives in advanced as well as developing countries.

The ICA's cooperation with various specialised agencies of the United Nations - particularly UNESCO, ILO and FAO - and with other international organisations and institutions, will aim at securing greater appreciation, especially on the part of national governments and their education authorities, of the practical potentialities of cooperatives as mass organisations which can serve as schools of democratic self-government and hence can become important instruments of socio-economic changes and progress.

These examples have been mentioned just in order to illustrate the scope and diversity of the ICA's educational activities, all of which are intended to serve the interests of national member organisations and the Cooperative Movement in general, in many respects - including, as one of them, the field of specialised training.

It should be borne in mind that this paper refers only to training schemes organised by the ICA's headquarters in London, leaving

entirely aside the training programmes organised by the ICA's Regional Offices in Asia and Africa, intended for developing countries.

This information on specialised training, is to be understood in the broader context of the ICA's overall educational responsibilities. It should also enable participants' cooperative organisations to make fuller use of services offered by the ICA within the framework of its long-term programme of international educational activities.



## Appendix 1. ORGANISATION AND PROGRAMME

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### Main Theme:

**"SELF-HELP AND OUTSIDE HELP IN FINANCING CO-OPERATIVE ACTIVITIES"**

### Director and Co-Director of the Seminar:

Dr. Ladislav SIEBER, Secretary for Education, ICA, London

Mr. Glafkos PETRIDES, Deputy Secretary/Manager, Co-operative  
Central Bank Ltd., Nicosia

### Host Organisation:

Co-operative Central Bank Ltd., P.O. Box 4537, Nicosia, Cyprus;  
telephone numbers 42921, 42678, 43088.

### Arrival:

Participants are expected to arrive during Sunday, 14th October, preferably before 18.30 hours, or - subject to previous notice - on Saturday, 13th October. Unless participants are met at the airport by a representative of the host organisation, they should travel (by taxi) to Ledra Palace Hotel, where accommodation will be reserved and where the Seminar will also be held.

### Documentation:

The attached documentation, prepared by the ICA, has been sent to participants beforehand, to enable them to do some advance preparation, by studying the background papers for the individual lectures to be presented. Each participant is expected to bring this set of documentation with him to Nicosia.

### Programme:

- (a) Theoretical Part: The provisional Agenda of this part (14th to 20th October) will be found on the next page. The actual time-table of the programme will be left fairly flexible, within the limits of this Agenda, in order to allow for minor adjustments, as may prove desirable on the spot.

- (a) Practical Part: The programme will be distributed to participants on arrival in Nicosia. The practical part, consisting of study tours, will last until Thursday, 25th October.

Further Information:

Leaflets on "Organisational information" have been sent to member organisations together with nomination forms. Additional copies will be available to participants on arrival in Nicosia, where they will also receive further information on local facilities, places of interest, postage etc.

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A G E N D A

of the theoretical part of the Seminar

There will be three sessions every day; their chairmen will be appointed by the Directors of the Seminar. The first morning session will be from 8.30 to 10.30, the second (after a coffee break) from 10.45 to 12.45 p.m. The afternoon session will last from 3.30 to 6.00 p.m.

Sunday, 14th October:

Buffet at 20.00 hours to enable participants to become mutually acquainted.

Monday, 15th October:

Opening of the Seminar, welcoming of participants, introduction of guests, address by a representative of the Cyprus Government, reply by the Director of the ICA.

Introductory paper by Mr. G. Petrides (Co-operative Central Bank, Nicosia, Cyprus): "Co-operative Activities - Is There a Limit?"; discussion on the co-operative movement of Cyprus.

"Thrift as a Major Factor Enhancing Self-Finance" - paper by Mr. A. Mavrommatis (Assistant Commissioner for Co-operative Development Cyprus); panel discussion on the financing experience and practice of co-operatives in Cyprus.

Tuesday, 16th October:

Whole day: International exchange of experience on the organisation, problems and various technical aspects of financing the activities of consumer co-operative organisations in some economically advanced national co-operative movements. Plenary discussion, based on the presentation of papers prepared and introduced by:

- Mrs. E.P. Vassyukhina (Department of Finance and Economics, Centrosoyus, Moscow, U.S.S.R.)
- Dr. L. Schmidt (VdK, Berlin, German Democratic Republic)
- Mr. J.P. Miège (Coopérateurs de Champagne; also: Banque Centrale des Co-opératives, Paris, France)
- Dr. E. Rewerk (Co-op Zentrale AG, Hamburg, Federal Republic of Germany)
- Mr. H. Perkién (Vår Gärd Co-operative College, Sweden)
- Mr. D.H. Wilkinson (Co-operative Union, Manchester, United Kingdom)

#### Wednesday, 17th October:

Morning sessions (both): Continuation of International exchange of experience from the previous day, but extended to include both consumer and other types of co-operatives (especially producer, agricultural and housing), with plenary discussion based on papers introduced by:

- Mr. M. Filadelfi (Central Co-operative Council, Prague Czechoslovakia)
- Dr. B. Tóth (National Council of Agricultural Co-operatives, Budapest, Hungary)

Afternoon sessions: Paper by Mr. H. Ohmi "Co-operatives, Credit and Changes in Japan", introduced by Mr. S. Takeda, (Central Co-operative Bank for Agriculture and Forestry, Tokyo, Japan), and discussion. Also, discussion on problems of financing the activities of co-operative housing societies, based on "Questions for Consideration", prepared by ICHDA, Washington, U.S.A.

#### Thursday, 18th October:

Morning sessions (both): "State and Co-operative Finance in France" - paper introduced by Mr. J.B. Gins (Caisse Centrale de Crédit Coopératif, Paris, France), and discussion, during which Mr. W. Seibt (VdK, Berlin, German Democratic Republic) will outline the relations between state and co-operative finance in the GDR.

Later: Paper by Dr. A.E. Rauter (Konsumverband, Vienna, Austria) on "Personnel Planning and Training - an Important Instrument of Self-Help for the Economic Advancement of an Independent Co-operative Movement", and discussion.

Afternoon session: Discussion in groups, drawing conclusions from the preceding programme, mainly concentrating on answering the question: "To what extent, at what stages, or for how long should co-operative activities be confined within the limits of their self-financing possibilities?" (Each group has its own chairman and rapporteur).

Friday, 19th October:

First morning session: Continuation of group work.

Second morning session: Plenary; reports on the conclusions arrived at by individual groups; discussion; summing up by main rapporteur of the Seminar.

Afternoon session: Exchange of experience on international aspects.

- (a) Financial implications: introduced by Mr. B. Tronêt (International Co-operative Bank, Basle), and discussion;
- (b) Special training programmes: introduced by Dr. L. Sieber (ICA), and discussion.

Saturday, 20th October:

Morning sessions (may be extended to last until 1.30 p.m):

Part I (8.30 - 10.30) discussion in groups, to work out recommendations arising from the Seminar for future international activities of national organisations and of the ICA;

Part II (11.00 - 1.30) plenary discussion on the same subject: summarisation by the rapporteur; conclusions for the ICA (by Dr. S.K. Saxena, Director of the ICA); close of the theoretical part.

Afternoon - free.

## Appendix 2. STUDY VISITS

The practical part of the Seminar was based on a series of study visits to primary co-operatives and secondary organisations in three provincial districts of Cyprus besides the capital city, Nicosia. The information given in the introductory lecture by Mr. Petrides was supplemented by notes on each of the institutions visited, supplied to participants in advance. The programme, which included visits to places and institutions of economic, sociological and historical interest to serve as a background, occupied three and a half days, as follows:

### Monday, 22nd October

### Eastern Cyprus

Morning Tobacco Growers' Co-operative Organisation 'SOK',  
Yialousa.

Afternoon SELEX packing and processing establishments, Famagusta.  
COMARINE Travel Service Organisation, Famagusta.

### Tuesday, 23rd October

### North-Western Cyprus

Morning Disabled persons' Handicraft Co-operative, Morphou.  
SEVEGEP Industrial Unit (Canning), Morphou.  
Citrus-growers Marketing Society (SODEM), Morphou.  
Co-operative Credit Societies, Morphou and Karavas.

Afternoon Tour of Kyrenia district.

### Wednesday, 24th October

### South-Western Cyprus

Morning Vine Products Marketing Union, SODAP, Limassol.  
Co-operative Store, Limassol.  
Co-operative Savings Bank, Limassol.

Afternoon SODAP installations, Paphos.

### Thursday, 25th October

### Nicosia

Morning Co-operative Central Bank Ltd.  
Compound Fodders Co-operative Productive Union, SOPAZ.  
Co-operative Printing Works  
Presidential Palace, Archbishopric, etc.

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Appendix 3. LIST OF PARTICIPANTS

<u>COUNTRY and Participant's name</u>	<u>Participant's Function</u>	<u>Address for Correspondence</u>
<u>AUSTRIA</u>		
Mr. F. PENIAS	Director of Finance and Accounting	Konsumgenossenschaft "N. O. Sud" Burgplatz 5 2700 Wiener Neustadt
Dr. A. E. RAUTER	Director	Konsumverband Theobaldgasse 19 1061 Wien
Mr. H. SIKORA	Director of Finance and Accounting	Konsumgenossenschaft "Union" Fanny von Lehnertstr. 4 5020 Salzburg
<u>CYPRUS</u>		
Mr. A. AHMET	Cyprus Turkish Co-op. Central Bank	POB 1861, Nicosia
Mr. G. CONSTANTINIDES	Co-operative Officer	Co-op. Development Department, Nicosia.
Mr. G. DEMETRIOU	Co-operative Central Bank Ltd.,	Nicosia.
Mr. I. EFTHYVOULOU	Co-operative Officer	Co-op. Development Dept.
Mr. Chr. EROKOKRITOU	Senior Co-op. Officer	" "
Mr. Chr. GEORGIADIS	Co-operative Officer	" "
Mr. D. GEORGIU	Senior Co-op. Officer	" "
Mr. A. HJI-YIANNIS	Senior Co-op. Officer	" "
Mr. Th. IOANNIDES	Co-operative Officer	" "
Mr. N. LOUKAIDES	Co-operative Officer	" "
Mr. P. ORPHANOS	Education Officer	" "
Mr. Ch. PAPADOPOULOS	Co-operative Officer	" "
Mr. A. PAPANASTASIOU	Co-operative Officer	" "
Mr. G. PETRIDES	D/Secretary Manager	Co-op. Central Bank

CYPRUS (cont.)

Mr. G. POUROS	Senior Co-op. Officer	Co-op. Development Dept.
Mr. E. PROIOS	Co-operative Officer	" "
Mr. F. SAMI		Turkish Co-operative Dept.
Mr. A. STYLIANOU	Co-operative Officer	Co-op. Development Dept.
Mr. Thr. THRASYVOULIDES	" "	" "

CZECHOSLOVAKIA

Mr. M. FILADELFI	Vice-President	Slovak Union of Producer Co-operatives Central Co-op. Council Tesnov 5, Prague 1.
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FEDERAL REPUBLIC OF GERMANY

MR. H. W. DOBMYER	Specialist	Co-op Zentrale AG Besenbinderhof 43 2000 Hamburg 1.
Mr. H. LANGENBUCHER	Board Member (Finance, Admin. & Accounting)	Co-op Schleswig-Holstein Sorensenstr. 4-10 23 Kiel 14.
Dr. E. REWERK	Board Member	Co-op Zentrale AG
Dr. H. WUMMEL	Board Member (Finance, Admin. & Accounting)	Co-op Niedersachsen Konsumgenossenschaft Postfach 1160 3011 Leatzen

FRANCE

Mr. J. LUCHISSOT	Board Member	Union du Credit Cooperatif 24 avenue Hoche 75008 Paris
Mr. J. P. MIEGE	Financial Manager	Coop Champagne BP 15 Chateau-Thierry
Mr. J. NOWAK	Financial Director	Societe Generale des Cooperatives de Consommation (SGCC), 61 rue Boissiere 75016 Paris

GERMAN DEMOCRATIC REPUBLIC

Dr. R. OTTO	Director, International Co-op. College	Verband der Konsumgenossenschaften Leipziger Platz 8-9 108-Berlin
Mr. L. SCHMIDT	Deputy President	Verband der Konsumgenossenschaften
Mr. W. SEIBT	Head of the International Dept.	Verband der Konsumgenossenschaften

HUNGARY

Mr. J. RACZ	Export Finance	National Council of Agricultural Co-ops (TOT) Akademia 1-3, Budapest.
Miss G. SOZANSKI		
Dr. B. TOTH	Head of the Finance Dept.	TOT

JAPAN

Mr. K. ISMIHARA	Advisory Staff	Central Union of Agricultural Co-ops., 8-3 1-chome Otemachi Chiyoda-ku, Tokyo.
Mr. S. TAKEDA	Deputy Manager of Personnel Dept., Chief of Study & Training Section.	Central Co-op. Bank for Agriculture & Forestry, 8-3 1-chome Otemachi Chiyoda-ku, Tokyo.

MALAYSIA

Mr. D. KHOO THIAM SENG	Committee member	Co-op. Thrift & Loan Society Ltd. Jalan Gurney, Kuala Lumpur.
MR. A. SINGH	Treasurer	Railway Co-op. Thrift & Loan Society Ltd. POB 70 Kuala Lumpur



SWEDEN

Mrs. E. BJORKMAN	Consultant, KF Tax Department	Swedish Co-op. Union & Wholesale Society (KF) , Fack, S-104 65 Stockholm.
Mr. S.A. BOOK	Economic Editor "Kooperatören"	KF
Mr. J. GRAHN	District accountant, KF	KF, Kopmangatan 3, S-702 10 Orebro.
Mr. P.O. HOLMBERG	Chief accountant	KF, Fack, S-104 65 Stockholm.
Mr. H. PERKLEN	Economics Dept. Co-operative College Vår Gård.	KF Utbildningssektionen, Vår Gård, S-133 03 Saltsjobaden.
Mrs. M. STURK	Journalist	Coop. Consumer Society of Kristianstad Nasbychausseen 63 291 35 Kristianstad.

U. K.

Mrs. N. SCOTT	Member of Education Committee	
Mr. D. L. WILKINSON	Assistant General Secretary	Co-operative Union Ltd. Holyoake House Hanover Street Manchester M60 OAS

U. S. A.

Mr. M. McINTYRE	Auditor and Consultant	
Mrs. M. McINTYRE	Accounting Dept.	

U. S. S. R.

Mr. V. KONDRATOV	Interpreter	Centrossoyuz B. Cherkassky per. 15 Moscow.
Mrs. E. VASYUKHINA	Deputy Head of Finance & Economics	

ZAMBIA

Mr. G. B. HALWINDI	Secretary-General	Zambia Co-operative Federation Ltd. POB 3579 Lusaka.
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INTERNATIONAL

Dr. S. K. SAXENA	Director	International Co-operative Alliance
Dr. L. SIEBER	Secretary for Education	11 Upper Grosvenor Street London W1X 9PA U.K.
Mr. B. TRONET	Board Member of INGEBA (International Co-operative Bank)	KF, Fack, S-104 65 Stockholm, Sweden
Mr. H. WATZLAWICK	Co-operative Specialist	International Labour Office (ILO) 154 rue de Lausanne, Geneva, Switzerland.

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## Appendix 4      READING LIST

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Theme: "Self-help and outside help in financing co-operative activities"

The following books, articles and papers are a selection of the literature available on the subject. Some, if not all, of the books will be available in the libraries of the national co-operative organisations. Photocopies of the articles are available from the ICA on request. There is, as yet, not a very rich literature on the subject of financing; the topic is currently being discussed in many movements, and more material will doubtless come out of these discussions.

### Books and reports

- DAVIDOVIC, G.: State Financing of Co-operatives leading to Self-Financing. 54 pp; bibliogr. Oxford, Plunkett Foundation for Co-operative Studies, 1973.
- DESROCHE, Henri and VIENNEY, Claude: Epargne et crédit en développement coopératif. 226 pp; bibliogr; diags; tabs; graphs. Supplement to Economie coopérative no. 22, Paris, September 1970.
- ERDMAN, Henry E. and LARSEN, Grace H.: Revolving Finance in Agricultural Co-operatives. 117 pp; index; bibliogr. Madison, Wisc., Mimir Publishers, 1965.
- FAUST, Helmut: Die Zentralbank der deutschen Genossenschaften (Veröffentlichungen der Deutschen Genossenschaftskasse Band 1). 164 pp; tabs; photos; bibliogr. Frankfurt am Main, Deutsche Genossenschaftskasse, 1967.
- GORST, Sheila: Co-operative Credit for Producers and Consumers. 275 pp; index; bibliogr. Oxford, Blackwell, 1962.
- HELM, Franz C.: The Economics of Cooperative Enterprise. 246 pp; index; graphs; tabs. London, University of London Press, 1958.
- MOUK, J.T. Dock: Financing and Problems of Development Banking. xi+177 pp; appendix: tabs. (Praeger Special Studies in International Economics and Development). New York, Frederick A. Praeger, 1967.
- 2nd INTERNATIONAL CONFERENCE ON COOPERATIVE THRIFT AND CREDIT: Proceedings of Conference. Theme: Thrift and Credit Cooperation as a Basis of Development. 226 pp; photos. Paris, Caisse Centrale de Crédit Coopératif, 1972.

INTERNATIONAL CO-OPERATIVE ALLIANCE: Agenda and Reports for XXV Congress, Warsaw 1972. ICA Secretariat Paper no. 1: Multi-national Corporations and the International Co-operative Movement: Financial and Managerial Imperatives. pp 92-125; tab. London, ICA, 1972.

INTERNATIONAL CO-OPERATIVE ALLIANCE: Studies and Reports no. 4: Article on: Financing of Agricultural Co-operatives at the International Level. pp 28-36. London, ICA, 1970.

LUNDBERG, John: Capital Accumulation of the Consumers' Cooperative Movement: 22 pp; tabs. Stockholm, Kooperativa Förbundet, 1968.

MAXWELL STAMP ASSOCIATES LTD. Financing Agricultural Co-operatives. xi+217 pp; tabs; appendices. London, Maxwell Stamp Associates, 1967.

SUPREME CO-OPERATIVE COUNCIL: The Funds of Polish Cooperative Organisations. 48 pp; photos; tabs. Warsaw, Supreme Cooperative Council, 1970.

#### Articles

Budgeting for Capital Development. From: Cooperative Management and Marketing (U.K.), vol. II, no. 6, June 1969, pp 7-11 (Sweden).

La Caisse Centrale de Crédit Coopératif. From: Economie Coopérative (France), December 1972, pp 22-26.

Les Caisses populaires et le financement des coopératives. From: Ensemble (Canada) no. 1, 1971.

Crédit coopératif et développement des coopératives industrielles. From: Economie Coopérative (France), September 1970.

Die finanzierungsrelevanten Bestimmungen der geplanten Novelle zum (deutschen) Genossenschaftsgesetz. From: Zeitschrift für das gesamte Genossenschaftswesen (GFR), no. 2, 1972.

Immobilien-Fonds wuchs um 70%. From: Der Verbraucher (GFR), no. 7, 1970.

Problems pertaining to the Economic Effectiveness of Soviet Co-operative Trade. From: Centrosoyuz Review (U.S.S.R.), no. 9, 1970.

Rôle du capital social dans la coopération agricole. From: Terre Romande (Switzerland) no. 45, 1971.

The World Bank, Project Lending and Cooperatives. From: Finance and Development no. 1, 1972 pp 30-35.

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