



International Co-operative Alliance

International Conference on Co-operative Property and Privatisation

PRESENTATIONS

International Conference Centre, Geneva
7-8 September, 1992



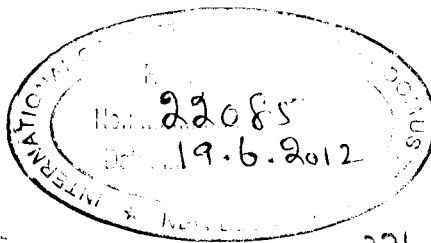
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Moscow City Council's Policy on Co-operatives and Privatisation

by Yuri M. Luzhkov*

There is a the common denominator between the interests of the Moscow Council and the problems of this conference. The Moscow Council is extremely anxious to secure the supply of consumer goods, industrial articles and services to the population of our giant municipal city, specially now when exceptionally hard conditions prevail.

We consider the co-operatives as real partners in resolving this vitally important task. Privatization is badly needed to create new proprietors, who are ready to take an active part in the formation of a competitive environment and healthy market relations.

We are conducting the extremely complicated work of the transition from a central administrative system to a market economy through the development of the co-operative and private sectors, and the creation of new commercial structures, and by giving vigorous support to entrepreneurship. Unfortunately, all this work has to be done under conditions where no recognized and published concepts exist on how to proceed.

The key problem of our reform programme is the development of a non-governmental sector of the economy.

The degradation of property relations and the overall nationalization, of our recent past, has resulted in a loss of economic motivation and altered the production structures.

* Yuri M. Luzhkov is Mayor of Moscow.

It has become clear that without far-reaching reforms in our property relations we cannot advance.

Hence the active position of the Moscow City authorities in support of co-operatives, which by their very essence seem to be a real power able to free economic openings in an administrative and central system, as was the case with the supply of consumer goods and services and in the case of industrial enterprises executing scientific and technical services.

Thanks to the Law on Co-operatives adopted in 1988, we assured tax advantages and other support to production and service co-operatives . This help was reflected in the development of new co-operatives in Moscow, which had an impact on life in the capital.

But in the meantime other things came to light. Co-operatives adapt badly to a planned economy, based on the regulation of all economic processes, particularly where State ownership is given preferential treatment and co-operatives have their economic liberty curtailed.

Additionally, many people were using co-operatives for their personal enrichment, deforming the market tools and abusing the general shortage and lack of competition.

But in spite of all this, we were convinced that the new co-operatives played a useful role in the transition to a multifold form as they broke the State monopoly.

One of the paradoxes of this time was that while helping the development of new co-operatives, we forgot about the consumer co-operatives which have long-standing democratic traditions and are endowed with an efficient and organized infrastructure, making them suitable for entering the market economy.

A certain displacement of concepts took place. The new co-operatives, especially in their initial stages, appeared to be strictly com-

mercial enterprises, distinct from the consumer co-operatives which traditionally play not only an economic, but also a very important social role.

The history of the consumer co-operative movement is closely linked to the history of Moscow. In 1898, the first Union of Consumer Societies in Russia was established in Moscow, as the direct predecessor of Centrosoyuz, and it preceded Centrosoyuz as a member of the International Co-operative Alliance.

Unfortunately, the State decided to push the consumer co-operatives out of the cities and to limit their sphere of activity to the rural areas.

We believe that, without weakening their position in rural regions, the consumer co-operatives must return to Moscow, to use their potential to improve the conditions of the capital's inhabitants.

It is also necessary that the consumer co-operatives reform and renew their democratic basis, and create more flexible structures.

The Moscow Council, therefore, approves the decision to transform the Regional Union to the Moscow Regional Union of Consumer Co-operatives as a bridge between peasants and city dwellers for their mutual benefit.

This year, the Moscow Regional Union, the consumer societies and their district unions also amalgamated with shareholding societies engaged in the purchase of agricultural products, foreign trading, and the supply of technical commodities. This development should improve the supply of foodstuffs and other necessities in Moscow.

Recently, in the Russian Parliament and the mass media there was heated discussion as to whether our consumer co-operatives are "real" co-operatives or a simple tool of the State system. The present opponents of the consumer co-operatives have a poor

knowledge of their history. They do not see that, in to-day's critical situation, co-operatives have proved their viability and the ability to adapt themselves rapidly to the new conditions, more than any other system.

Consumer societies have developed their activities to include the purchase and processing of agricultural products. Their area of operation is one of the few where production levels have increased rather than dropped and their position has been maintained and strengthened.

A shareholding society in Moscow called "Pokotorg" deals with purchasing and processing of agricultural products and staple goods.

In its network one can find shops, restaurants, wholesale warehouses, purchasing complex, cold storage, transport companies and production enterprises.

Based on the decision of the Moscow Council, the commercial network was leased to Pokotorg with the right to buy, which they might already do in 1993.

Rather than privatizing the consumer co-operatives in Moscow, we have given priority to acquiring enterprises formerly owned by the municipality. With the help of Moscow construction companies we are improving the production facilities of the co-operatives with the result that the network will have doubled in volume by next year.

The shareholding society, "Koopvneshtorg", gives remarkable help to the capital. It is a member both of the Moscow Regional Union and of the International Co-operative Alliance.

Koopvneshtorg has a long tradition in the field of co-operative foreign trade and we think that with its assistance we can succeed

in developing and enlarging the trading links with the co-operative organizations and enterprises of the former Republics of the USSR, Eastern and Central European countries, as well as with other business partners .

Another important organization in Moscow is the Co-operative Bank "Edinstvo" (Unity), formerly the Koopbank of Centrosoyuz, which works both with the consumer co-operatives and with different commercial enterprises.

During the discussions on the consumer co-operative movement, its opponents expressed doubt as to the co-operative nature of its property as they wish to bring all of its properties under the privatization programme of State-owned properties.

The consumer co-operatives became nationalized in the sense that they were deprived of authentic autonomy for many years due to the central planning and strict State regulations.

But its property has been built up by the members and its profits are a direct result of its economic activities, part of the latter having been reinvested in the co-operatives.

In June 1992, the Supreme Council of Russia adopted a Law on "Consumer Co-operation in the Russian Federation", in which it proclaims that the assets of consumer societies belong to their members, based on private property rights, and can only be disposed of by democratic decision or in special cases by State legislation.

However, it is necessary to change the property relations within the consumer co-operative system and this work has already begun in the Moscow region.

Firstly, we had to decide how to distribute the property between first, second and third level co-operative organizations and define

the rights of members co-op employees, especially as some employees are also shareholding members.

The Council of the Moscow Regional Union elaborated a plan to redistribute co-operative property "from the top downwards" and define the relationship between the co-op and its members/shareholders and workers.

Shareholders and employees receive share certificates and special accounts are opened for them. They give authority to the leadership to use and dispose of their shares on which they receive annual dividends.

In the final analysis, we came to the conclusion that the co-operative and shareholding systems were compatible. The shareholders/members are directly united in the consumer societies, where the basic questions are decided upon on the basis of the co-operative principle "one member - one vote", regardless of the capital held.

However, for ensuring an efficient development, shareholding societies might be created, where the shareholders have votes according to the number of shares held.

The fact that shareholding societies are part of the co-operative unions means the members' interests are taken into account when decisions are made.

When privatizing State-owned property, the Moscow Council has endeavoured to stabilize the economy and create a competitive environment.

In Moscow, we have already privatized 70 - 80% of the retail trade, public catering and repairs and other services.

As a result of the measures to support co-operatives and privatize State-owned assets, there is already a considerable non-State sector

in Moscow, in which some 1,3 million people are employed out of the total employed of 4,3 million. About half of Moscow's working population is concerned in this non-State sector.

We are anxious to create the necessary infrastructure for this sector in the city, including material-technical supply, transport services, construction, etc.

We envisage a network of non-State wholesale warehouses, markets, transporting dispatching and storage facilities.

The Moscow City Council guarantees equal status to all types of enterprise. In Moscow, there are already 500 commercial banks, 40 stock exchanges and umpteen other businesses. We are now establishing a mortgage bank and our own stock exchange and are organizing the taxation system.

Moscow is interested in the overall development of international relations and in attracting foreign investments.

The Moscow City Council guarantees to all foreign companies and citizens the right to establish enterprises or enter into joint ventures with Moscow businesses. We actively participate in the preparation of legislative and normative acts on the protection of foreign investments, and insurance of the invested goods. We also intend to resolve the question of land ownership which will further attract foreign capital.

The Moscow City Council highly appreciates the efforts of the International Co-operative Alliance to strengthen economic links and develop collaboration among co-operatives worldwide and will support these efforts to the best of our ability.

Co-op Legislation, Property Rights and Privatisation in ECEC

by Dr. Dionysos Mavrogiannis *

Preliminary Observations

In recent years, several seminars organized by Central and Eastern European countries at the initiative of and with support from the ICA and national co-operative movements from the West have highlighted the need for and the role of a new co-operative legal framework in the region. During the last five years intensive work has been done in this field. The number of laws and decrees adopted, amended and abrogated during this period could well be equal to that of co-operative legislative texts adopted and applied in certain Western countries during the whole of this century. The difference observed in the two regions is easily explained and understood.

When co-operatives were introduced last century, a large network of laws regulating private economic relations and exchanges conducted under various forms of civil, industrial and commercial legislation, was in existence in the Western countries, as was the case in Central Europe before Communist rule.

In Central and Eastern Europe such a legal environment is greatly missed. Administrative methods and centralized economic mechanisms, and lack of private ownership and of commercial networks distance the citizens from democratic institutions and from their constitutional rights. Similarly, co-operative legislation was either

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missing, or was subject to interference from the State and the Party. There is now, therefore, the question of restoring legality, and citizens' private rights, by abolishing the previous authoritarian regime and filling up the resultant legal vacuum.

Given these preliminary observations, I propose to say a few words about the general characteristics of the region's new co-operative legislation and then to examine the legal issues related, on the one hand, to restructuring the organization and property of co-operatives and, on the other hand, to legal orientations for the future.

Characteristics of Legislation

Among several characteristics witnessed in the new legislative texts related to co-operatives, two are most evident: first, the variety of decision-making methods and of initiators of co-operative policy, and second, the diversity of legislative texts.

Legislative policy

At least four groups are behind co-operative legislative policy in the region:

- * Governments,
- * political forces coming into, or out of, power,
- * third parties interested in important co-operative property, and
- * co-operative leaders fighting for the survival of co-operatives.

The result of this is: first, that national consensus regarding the ultimate objectives of the legislative policy is missing in some cases and, in others, seriously endangered; second, that the role of the co-operative sector within the Governments' major economic options is not clearly defined, or has vanished despite the fact that all countries of the region are in search of economic pluralism.

Legal documents concerning co-operatives

Regulations related to co-operative structure, transformation and functioning can be found in various laws: not necessarily co-

operative ones. Such normative texts regulate the privatization process, land distribution, commercial codes of practice, banking and taxation laws. Legal provisions, therefore, concerning co-operatives are neither unified nor easy to find out. Originating from, and being under the supervision of, different Ministries and authorities, it is difficult for civil servants, the Court and other interested parties to apply these texts properly. Future amendments and cross-references are expected to worsen the situation, with the legal environment becoming more heavy and confused. (I would venture to say that the field of co-operative legislation is already overloaded.)

Impact of policies on co-operative property

National policies, aiming at the restructuring and transformation of the co-operative system, tried to accomplish three major tasks simultaneously: first, in the former Soviet Union, to revitalize Socialist enterprises by promoting co-operatives; second, in Poland, to dislocate the co-operative system and to confiscate co-operative property; third, in Bulgaria, the Czech and Slovak Federative Republics and Hungary, to accelerate the process of privatization at the expense of co-operatives.

In the former Soviet Union the efficiency and productivity of Socialist enterprises, despite their reorganization following the law of 1987, still lagged behind schedule. As early as 1987, several decrees and the general law of 1988 attempted to support and strengthen productivity in the Socialist sector of the economy. The co-operative law of 1988 regulated and created favourable conditions for co-operative activity throughout the country. For the first time in the history of the co-operative movement in Central and Eastern Europe the co-operative sector of the economy was recognized as separate, equal and competitive with the other two sectors of the economy: the previously exclusive State sector and the emerging individual and, later on, private one.

The general law of 1988 was amended by a dozen decrees and other legislative texts between 1988 and 1991 with a view to correct and

facilitate its application. The law was condemned to become obsolete since private ownership was not included, taxation matters were inadequately dealt with and collective farms were still maintained and regulated by the same text. The law, however, made a valuable contribution to the restructuring of the established co-operatives without any harm to their property, and also promoted a multitude of new co-operatives, both genuine and pseudo-co-operatives, which gave a great impetus to the process of privatization.. Soviet co-operative policy and co-operative legislation was also beneficial to other Socialist countries and had a great impact on co-operative movements beyond its borders.

The restructuring of co-operative societies was carried out at a dramatic pace in Poland in early 1990. The law of January 1990 ordered the liquidation of all except one national, and all regional, co-operative unions. For two years hundreds of civil servants and bureaucrats tried to carry out this operation. The liquidation process was the occasion of social conflicts between groups of members and employees. It also opened the door to third parties to come into the co-operative family's business and to acquire co-operative property. The property rights of the primary co-operatives were neglected.

This radical approach was decisive for the whole co-operative movement. It is not surprising that, from the very beginning, it was condemned by many national experts and international organizations. In 1991, given the general protest, the Government was obliged to stop the procedure and to save part of the property for the future new unions. The liquidation's cost was very high, some 200 billion zlotys in 1990 and 1991; the cost for 1992 is not yet known.

It could be admitted that the case of Poland had two positive results. The violent attack on the Polish co-operative movement undertaken, not by a Communist regime, but forces which intended to restore democratic conditions of work and life, sent a clear message to the co-operative leaders and politicians of other

countries in the region. These were careful to avoid the Polish experiment. The second positive result was the emergence of the social groups of employees and workers who took part of the liquidated property to form industrial or workers' production co-operatives. But even so, an irregular transfer of co-operative property from members to employees has taken place.

In the Czech and Slovak Federative Republics, restructuring of co-operatives was attempted in two ways. The first was by the laws adopted in early 1990, one regulating housing, consumer, producer and other forms of co-operatives and the other pertaining to agricultural ones. Section 3 of the farming Act of 1990 introduced more precise provisions about concentration, use, transfer and restoration of estates. The intention of the legislator was to strengthen, rather than weaken, the property rights of co-operatives.

The situation completely changed in late 1990 and early 1991. Bylaw No. 229 of 1991, regulating the ownership of farmland and other agricultural property, restored the rights of the original land owners, including land handed over to agricultural co-operatives by the Government. The extension of this law to all co-operatives was unavoidable. This objective was pursued by the law adopted in December 1991 'regulating the adjustment of property relations and the settlement of property rights in co-operative societies'. The ultimate philosophy of this law, adopted following a wise compromise between new political forces and co-operative leaders, is not to preserve established co-operatives but to proceed with their transformation as far as structure and property are concerned. The provisions of the law demonstrate that the law favours third parties rather than co-operatives' structure and property.

Liquidation can occur even if the transformation project is not implemented. For this reason, co-operative leaders sought the advice of the ICA and ILO with a view to limiting the powerful rights which the proposed law would give to third parties, and participating in the general assembly settling transformation mat-

ters. The final text tries to give satisfaction to all parties involved in the operation. It remains to be seen how the provisions of the law, regarding transformation and property rights will be implemented.

In Hungary, the transformation of existing co-operatives was both spontaneous and legal. The transition law, which came into effect as from 1st January 1992, requires that transformation take place within the year. During this transition, four objectives should be reached:

- * distribution of property,
- * organizational transformation,
- * stipulation of new bylaws,
- * election of new officers.

According to national experts, the 'personification' of property means the conversion of jointly-owned co-operative property into the private property of the members, which means return of co-operative property to those who have contributed to its accumulation. Distribution of property will be carried out through the issue and distribution of shares. All property belonging to production co-operatives (agricultural and industrial), but only 30% of that held by consumer co-operatives is to be redistributed. The property of housing, credit and school co-operatives shall remain indivisible.

The intention of the transition law of Hungary is to impose organizational transformation of the current co-operative structure and property from inside, rather than from outside the co-operative system. This has the advantage of maintaining co-operative organizations, instead of destroying them.

In Bulgaria, the provisions of the organizational transformation of existing co-operatives form part of the general co-operative law of 1991. This law is also a wise compromise between political forces

in power and the co-operative leaders of the country, and has been worked out by national experts with the ICA's and ILO's assistance. Regarding property, the scope of the law is to preserve the property rights of co-operatives regarding land previously confiscated from them.

Ownership and use of farm land is further settled by the separate law of March 1991. Section 3 of this law (articles 24 to 30) indicates in detail how the farm land of co-operative farms is to be reinstated and how members of these co-operatives shall be entitled to a share of the co-operatives' farm property.

During 1991, and after adoption of the general co-operative law outlined above, the Government and extreme liberal political forces made a sudden attempt to distribute the property of consumer co-operatives. The project law proposed distribution first of the Central Union's property to its member societies, then distribution of societies' property to their individual members. This Governmental attempt was a real shock following the adoption of the co-operative law earlier in the same year, which should proceed anyway to the normalization of the situation. But, after fierce resistance from the Central Co-operative Unions' leaders, assisted by advice extended by the ICA and the ILO, the Government moderated its radical views so that a catastrophe similar to the Polish experiment was avoided at the last moment.

These were the conditions which introduced and imposed co-operative restructuring and transformation. Most of the impact of restructuring was felt by the agricultural co-operatives, followed by the industrial co-operatives. Of all the countries' transformation projects, those of Hungary and Czechoslovakia are the most well-balanced systems for settling property matters, although the second system seems to be long and costly. In these two countries the return to agrarian values risks not only compromising the future of co-operatives, but also seeing the distributed land become a source of rental income to civil servants and town dwellers. In Bulgaria,

consumer co-operatives' rights to own land were restored, a unique example of such a favourable settlement regarding co-operative property.

Property Rights Regulations

It is obvious that the co-operatives' identity crisis and problems of privatization of the economy have not allowed all countries to revise co-operative legislative texts or to elaborate new ones. In the Russian Federation, consumer co-operatives are covered by the newly-adopted law. But the long co-operative tradition and the great number of co-operatives, old and new, calls for extensive work. New norms and regulations embracing the whole movement are necessary to clarify several problems related to the co-operative structure, the definition of the co-operative society and the status of employees and workers. The same observations could be made about most of the Republics of the former Soviet Union, which seem to be ready to create the necessary legal framework for privatized co-operatives, namely the Ukraine and the Baltic countries, which started adopting legislative texts on consumer co-operatives.

In Poland the elaboration and adoption of the general co-operative law have not yet occurred. The question is whether the new law will be an amendment of the existing law of 1982, or an entirely new one, as claimed by some national experts and international organizations. The damage caused by the liquidation of the unions and the redistribution of their assets during the last three years has to be redressed as soon as possible by new legislation.

At this stage, co-operative legislation, modernized and suited to the needs not only of the market economy, but to the satisfaction of the people involved, is being adopted in Bulgaria, the Czech and Slovak Federative Republics, Hungary and Romania, although the latest legislation of early 1990 is already becoming obsolete.

The following is a brief review of the main points regulated by these laws: such as definition of the co-operative society, membership, property and employees.

Definition

The new co-operative laws give a satisfactory definition of the co-operative society, a definition which helps to separate co-operatives from both the State enterprise and the commercial companies. The definition underlines the solution to the most important problem previously encountered in the functioning of co-operatives: that co-operative activities aim to fulfil their members' interests (only). In some cases, the definition reflects the terms stipulated in the ICA Statutes and in Recommendation 127 (article 12) of the ILO. As a result of this definition, the State is not entitled to interfere in the management and activities of co-operatives, except when elaborating normative texts and ensuring administrative control, as is the case regarding other private legal entities.

Membership

With the exception of the Czech and Slovak Federative Republics' commercial law, membership is voluntary and open to any individual. This includes co-operatives, and permits the membership of legal entities in addition to individuals. Furthermore, two or more such corporate bodies can establish a co-operative society. Such provisions, I am afraid, can lead to future risks for co-operative management and democracy, unless the two legal entities are co-operative societies rather than commercial companies or State concerns. The right of citizens to join a co-operative not based on a common interest as in the Rochdale and Raiffeisen tradition, could lead to the creation of large-scale co-operative organizations with a heterogenic membership.

Co-operative property and members' rights

One of the primary objectives of all new legislation is the separation of co-operative property from that of the State and the growth and mobility of social capital. The latter imposes formation of reserve

funds, distribution of profits and distribution of co-operative property among the members: including reserve funds under certain conditions. In this way, co-operative property becomes the private property of the members. The laws of Hungary and the Czech and Slovak Federative Republics fix the amount of the obligatory shareholding, whilst introducing the system of obligatory shares and business shareholdings.

Regarding the repartition of reserve funds, the Czech and Slovak Federative Republics' legislation on the transformation of co-operatives stipulates that the Indivisible Fund, to which 75% of the net assets earmarked from and for the transformation is allocated, will be used for the promotion of the co-operative movement, should the transformed co-operative cease to exist within 10 years. Otherwise, this fund is to be distributed among the members upon termination of the co-operative's activities.

The theoretical problem which is raised in all the above legislation is that of the division and distribution among members of the co-operatives' net assets and the rules of devolution, which differ from the Rochdale tradition in this matter.

Employees and workers

All legislations specify that conditions of employment will be regulated by the Labour Law of the country, unless co-operatives offer better conditions to their employees and workers. This arrangement is in accordance with the ILO's international labour standards. On the other hand, employees and workers allowed to become members according to the bylaws of the co-operative are expected to play an important role in the productivity of the co-operative enterprise and in the management of the co-operative association. The participation of employees and workers in shareholding will hopefully enable them to share with the group of members an interest in the productivity of the co-operative enterprise.

Conclusion

Allow me now to make two observations and one proposal:

First, co-operative legislation, although greatly needed by the co-operative movements of Central and Eastern Europe, should not be looked upon as a new ideology nor be applied in a mechanistic manner.

Secondly, return to the traditional co-operative values, principles and practices is creating obligations as well as unifying the whole movement as far as co-operative activities are concerned. Consumer co-operatives should aim at satisfying people's needs and improving services to their members. Similarly, industrial co-operatives should create employment rather than concerning themselves with profitability alone.

As for the proposal, I am of the opinion that the time is ripe for the ICA to patronize the elaboration, and diffusion within Central and Eastern Europe, of a functional handbook collecting and interpreting various legislative texts concerning co-operatives, and comparing the main legal issues of Eastern Europe with those of the West.

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The Effect of Privatisation Policies on Co-operatives in ECEC

by Roland Svensson*

We are in a period of great change in Eastern and Central Europe. But the changes are not limited to this region. Even if the conditions are different between countries, the whole world is in a period of transition. The Western countries are leaving the industrial stage and are moving towards something more immaterial, sometimes called "a communication economy".

What is happening is that we are going to be more and more dependant upon one another. There are no longer any independent national economies. All economies are increasingly intertwined because of the on-going division of production throughout the world economy. So, at the end of the day, we really have a common future, and that also applies to co-operatives.

Swedish co-operatives and Eastern and Central Europe

The recent development in Eastern and Central Europe is of great interest to the Swedish Co-operative Movement. We have followed this course of events closely and maintained an open dialogue with the co-operative movements of Eastern and Central Europe during this whole period. We did not do this because of the individuals who led the co-ops, but in consideration of the co-operative movements and their ideals.

During the era of the communist regimes, contacts were kept to issues of ideology through international organisations such as ICA, which has members in both Western countries and the former

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COMECON countries. It is only in recent years that contacts have been more commercial. In addition to the business contacts developed for the purchasing of food stuffs, different Co-operatives in Sweden are involved in various projects in Poland, Czechoslovakia, Hungary and the Baltic states. These are primarily educational projects for co-operative managers. By using Swedish Government funds the KF Project Centre is carrying out training in shop management, market economics and democracy for shop and society managers in three countries.

KF has also actively supported the establishment of the new Polish Co-operative Society - Społem. Folksam Insurance Group is providing insurance advice in Czechoslovakia and Poland. Through the massive European Bank for Reconstruction and Development of Eastern and Central Europe, based in London, KF has recently produced a study for rebuilding co-operative financial structures in Poland and Czechoslovakia. The Federation of Swedish Farmers, LRF, is also participating in training and business projects in Poland and the Baltic States.

In order to transact business in the future, however, we must be aware of which rules are applicable. For that reason we have extracted and collated the existing laws and regulations which apply to ownership, business enterprise and businesses within your countries. They have been placed in five thick binders and are a summary of the current and expected positions with regard to privatisation and consequences for the co-operative societies and thereby the consequences of continued commercial and other collaboration with the West. My collaborator, Mats Ahnlund, will expand on this theme later on.

Privatisation a threat to co-operatives ?

Is the on-going privatisation in the Eastern and Central states of Europe threatening co-operatives? In many cases the answer is yes, although this is not always the case. There is, however, no conflict between the idea of an economy with private ownership and co-

operative values. I would strongly argue that the co-operative enterprise is privately owned. The genuine co-operatives are owned only by individuals, and managed democratically. This is how we see co-operatives in the market economies, where they have had the freedom to fully develop their own strategies and identity.

We easily tend to lose sight of the historic perspective. To consider, for example, the Eastern countries before the communist regimes were in power. The downfall of communist vision and practice is, of course, of the greatest importance. But, at the same time, it is a rather short period in history. Many of the co-operatives in Eastern and Central Europe have a far longer history. In 1935, Spolem in Poland had over 300,000 members. The same year the co-operatives in Czechoslovakia had about 400,000 members and were operating efficiently.

When the communists took power, the co-operatives lost their independence and were incorporated into the economic planning system and the new power structure. Their property, built up by several generations of members, was often confiscated, especially in the cities where the retailing or the wholesaling and distribution functions were nationalised. But it is also true that sometimes the State nationalised private property and handed it over to the co-operatives. Consequently, the co-operatives should now give back this property and get back what the state confiscated from them. In the on-going privatisation process, the co-operatives often have to do the latter, but they do not get back what was taken away from them. I can see no reason why that kind of discrimination should be accepted. Furthermore, it will not support the efforts to establish a more market-oriented and efficient economy. On the contrary, our experiences are that co-operatives can be a strong ally in building a market economy.

Tripolarity

Eastern and Central Europe is not the only region which is changing. The whole world is in a period of change, not least the market

economies of Europe, North America and the Pacific. The basic transition in the world is from bipolarity, based on military resources, to tripolarity, based on economic capacity. The balance between the two military superpowers, US and USSR, has influenced conditions for all of us during the last fifty years. Now the United States is the unique superpower and Russia no longer has the ambition to become another one.

At the same time a new world order emerges as we encounter the 21st century. The US may still be the superpower in military terms, but it is losing its leadership in the world economy. Instead of the military balance between the bipolarity of the US and USSR, there seems to be a tripolarity between the US, Europe (EC/EES) and Japan. This is the new picture, which will have the most important repercussions on our future development.

The economic potential of the new European Economic Space is already greater than that of the United States and some would say its economy is even more vital. The Japanese economy is forecast to become as big as the US economy by the end of this century. For the US especially, this is a great change. It is a completely new game they will have to play.

Different market economies

These three economic powers are all based on the market economy and democratic institutions. But there are still great differences between them. Briefly you can say that the US is the most "liberal" market economy, with very little interference from the Government.

Europe is known as a "mixed" economy, a market economy with more interference from governments than is the case in the United States, social welfare programmes and, in different areas, rather strong non-governmental organisations, such as trade unions.

Japan is sometimes referred to as a "non-capitalistic market system economy". The phrase is not perfect but the meaning is that the

enterprises in Japan are supposed to have broader goals than just producing goods and services and making a profit. They are responsible for the employees, their jobs, social welfare, etc.

In the US most of the social part of the economy is left to the individual, in Europe governments are more responsible, and in Japan the enterprises take on a lot of social responsibility. These three economic entities will of course compete, but they also need to co-operate to avoid severe conflicts. They are all depending on free trade and international capital markets.

What is a market economy ?

For the discussion of the re-establishment of market economies in Eastern and Central Europe, this global perspective gives an interesting background. We have to be aware of what we are actually trying to achieve. What is a well functioning market economy? The market economy requires:

- Markets for goods and services with competition and a pricing mechanism.
- Markets for labour
- Markets for capital resources. Today, financial markets are very important and they are highly integrated internationally.

The market economy then requires institutions for private ownership and democratic processes. It is important to understand that institutions for private ownership can be set up in different ways. The basic thought is, of course, that private ownership is the same as individual ownership. But in all market economies there are institutions for collective ownership, for example financial institutions owning companies, companies owning other companies, etc. And there are the co-operatives, which are a part of private ownership in a market economy.

There is no doubt that the market economy system has proved to be very effective in providing goods and services to the customer. But

the system is not without problems. Highly volatile financial instability is one and tendencies towards monopoly is another.

Let me take examples connected to the Swedish Co-operative movement. During the depression in the '30s, the Swedish farmers were hit very hard. This was overcome by combined efforts from the Government and the agricultural co-operatives, a solution used in many countries to deal with that sort of problem and a way of balancing the purely capitalistic economy.

In the '20s in Sweden there were very strong tendencies towards a monopoly of important consumer products. This was effectively attacked by the consumer co-operatives in Sweden and resulted in a breakthrough for the Co-operative Movement which established the KF consumer union and its member societies as leaders in the market for several decades.

The lesson to be learnt is that the co-operatives are a part of and can play a very active role in promoting an effective market economy. There is no conflict between a market economy and strong co-operatives.

Legislation and EC recommendations

In Western Europe legislators look upon the co-operatives as an integrated part of the market economy. The legislation differs from country to country, but with a few exceptions it is neutral in regulating co-operatives and other forms of businesses. During the last decade the Swedish legislation has changed in order to give the co-operatives equal rights compared with public companies, especially in the area of taxation. The European Community is coordinating its views and recommendations regarding co-operatives.

In 1989 the EC Commission drew attention to the co-operative, mutual and idealistic sector by establishing a new General Directorate with the title DG XXIII. The Directorate's task is to keep in touch with the European co-operative organisations and to review

and supervise the EC's existing and future regulations so that co-operatives have equal standing with other companies. In December 1989, the EC Commission also handed over a "memorandum" about "co-operation and the realisation of the inner market". One can say that this document states a number of measures the commission wants the EC to take so that co-operatives can have access to the EC inner market on equal terms with other companies. The memorandum basically contains the following principles for companies within the co-operative economy:

- * They shall have access to the inner market on equal terms as other companies.
- * They shall have access to all programmes concerned with company development within the EC (regional policy, small company policy, technical policy, education etc.)
- * They shall not be discriminated against with regard to rules of competition, establishment rights and rights to sell their goods and services.

The potential that one is especially drawn to are the following:

- * The mutual insurance companies' importance in complementing the social security system.
- * Workers' co-operatives efforts to increase their capital shares and to retain their independence (meaning a prototype for other smaller and medium large companies).
- * Co-operatives as an expression for people's economic and social initiative.
- * Co-operatives' combination of business and social responsibility.
- * Co-operatives' closeness to the consumers.
- * Co-operatives' ability to stimulate savings.
- * Co-operatives' construction of networks (with other co-operatives, with local authorities and households).

This is a very strong advocate for co-operatives in the free market economy which is now being built up in Europe.

In southern Europe the idea of what is called "l'économie sociale" is very important. This can form new coalitions within the European development, which can be valuable for co-operatives.

It is hard to get started

Lester Thurow, Dean of Massachusetts Institute of Technology (MIT) Sloan School of Management and author of the book "Zero Sum Society", said: "Capitalism has its virtues and vices. It is a wonderful machine for producing abundant goods and services, but it is hard to get started".

That is a very important point. It is hard to get started. Therefore, during the transition to a market economy, it is urgent not to destroy the networks you already have. Because it can take some time before the new companies are flying.

Co-operatives offer a different business form and can play a large role.

Privatisation and the free market

I have devoted a great deal of time to considering how legislation and decisions have affected and will affect co-operatives in Eastern and Central Europe. However, as I said previously, perhaps the most drastic consequence of privatisation is fierce competition. There is a natural risk that one is completely taken up with daily problems. In the ECEC this is related to how co-operatives are treated by the state. Time and energy are being used to fight the battle to preserve property and land rights, for example. However, I believe that the big battle remains.

In several countries, co-operatives have been given a respite, since foreign companies have not been able to establish themselves during this period and the domestic competition has not had the resources for large scale establishment or other investments. But this respite is coming to an end. Western Europe is currently going through a recession, which has led to caution with regard to

expansion, but the invasion will soon arrive in all those markets where co-operatives operate or are trying to get established. Large and financially-strong companies in food distribution and production, specialist retail trade, banks, insurance companies, etc., will pour into ECEC markets and try to poach the co-operatives' customers. To cap it all, as part of governmental support to the countries in transition to a market economy they might have State support behind them.

To a great extent it is a question of being prepared. To make good use of the respite now, the co-operatives have to rationalise their organisations, train their employees, reduce costs and make strategic investments. It will be tough, as it is with co-operatives in the West, and you will be subjected to hard criticism from members, employees and the mass-media when you make the necessary rationalisations and cut-backs. In this work, however, we must remember our basic values; it is they that make us strong in the long run. The basic idea of co-operatives is that the economy shall be organised to the advantage of users. We shall create values and benefits for the consumers - that is our objective - not to create profits. We must, then, work in the most highly efficient manner possible. This does not mean that we do not need profits and surpluses. On the contrary, we really need them because we shall be an organisation that is independent of other economic forces. We must generate surpluses for our own development. Today one can also say with certainty that the best way of measuring efficiency is by profitability.

Finally, to summarise the situation, one can say that the privatisation process in Eastern and Central Europe is a fact. When it comes to legislation and regulations which threaten equal treatment of co-operatives compared with other forms of enterprise, or still worse, attempt to abolish co-operatives altogether, we are prepared to react, in whatever way we consider suitable. The Western co-ops could, in writing or lobbying, for example, support co-operatives in the ECEC, together with the ICA. With regard to the emerging

private competitors, we shall continue, with the limited resources we have and can raise, to transfer know-how. In this case we hope that the co-operative network we are planning can be realised and that it can help you to receive a proper share of the resources, which are now made available from governments and international institutions. We shall do what we possibly can, but the final responsibility will always be your own.

The Effect of Privatisation Policies on Co-operatives in ECEC

by Mats Ahnlund *

General Trends

The general trends with regard to privatization are roughly the same in all the countries discussed, the main trend being that State-owned property is being shared out or sold off. An estimated 50% of productive capacity will be privatized over the next 10 years.

The type of privatization that concerns co-operatives most is probably re-privatization. Re-privatization or restitution means that land and businesses are being handed back to their original owners or to their children. The usual process is that a final date is set for the previous owners to make a claim on their property. This is where complications begin. In addition to the natural personal tragedies which can occur when the present occupiers, who may have been born and grown up on the property, are forced to move, there are also other problems. Extensions may have taken place.

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New buildings may have been erected beside the old ones, as for example outside Prague, where the Czechoslovakian Co-operative Union owns a training centre and hotel. There, the former owner has now made claim to her property and the house has been handed back. But the previous owner was a little surprised when she came home after 40 years and found that the apple trees in the back garden had been replaced by a gigantic modern training centre and hotel back to back. That part of the property has been retained by the co-operative.

This type of privatization has consequences for co-operatives. Naturally, the main effects are on the collective farms which were called co-operative, which were in existence in Eastern and Central Europe. The whole of this structure is now being broken up and new owners are taking over the land. In many cases these are people who have never had anything to do with farming: except in Poland, where farmers were allowed to retain their land under Communism.

A difficult period of events is in store for co-operatives. The Swedish Federation of Farmers (LRF), which is providing advice to these new farmers, says that in most cases these new farmers do not want to have anything to do with co-operatives. Happily this only applies to the word 'co-operative'. They are prepared to start new companies in the form of 'farmer-owned companies', which are co-operative structures, even if they are called something else.

So, it may take a while before we see this sector enter the ICA Agricultural Co-operative Committee. This is something for ICA, together with the farmers' co-operatives of the West, to get their teeth into: to show that farmers' co-operatives are common, even in the USA.

The Consequences of Re-privatization

For other existing co-operatives, this type of re-privatization has certain consequences. Since the Communist system in the East

copied the Soviet model with regard to the consumer co-operative's role and methods of working, the retail shops are mainly to be found in the countryside. Again with the exception of Poland, the same rules have naturally applied there and the old owners have been allowed to reclaim their properties. This has meant that many thousands of co-operative shops in the countryside have already been privatized. But these have often been small and old-fashioned shops. This process has come a long way in the Czech and Slovak Federative Republics and Poland.

This is perhaps only a small problem or, as one Slovak consumer co-operative manager pointed out, 'They were problem shops which we would have had to close down anyway'. By other European standards the number and size of shops in Eastern and Central Europe is out of step with the times. Leaders of the consumer co-operative movements in Eastern and Central Europe are well aware of this but have a difficult task in convincing the population of small villages and local co-operative managers. The same trend can also be seen in the rest of Europe. In Sweden, the modernization of shops to meet today's competition took 50 years and now it must be implemented within the next four to five years in the ECEC if the movements are to survive.

Even if there are a few advantages, re-privatization has one very unjust consequence for co-operatives. In only a few cases, e.g. Bulgaria, have co-operatives been given the right to take back the urban shops which the State confiscated during the 40s and 50s. These are often large properties in excellent positions, which co-operative pioneers worked hard to acquire and which they managed to develop. They now seem to be lost forever and that can be serious in the long term. Our own experience shows that the business success of the future for consumer co-operatives does not lie in the countryside, but either in or close to the big conurbations. Today we are already witnessing, in the most developed economies of Western Europe, that locations in city centres are having problems, because people want to drive cars and park outside the shops

they frequent. So the fastest development is taking place in 'traffic-oriented locations', which I assume the leaders of co-operatives in the ECEC have already started to study.

When the original owners cannot, or do not, make claim to their previously-owned property, the methods of privatization differ. In some cases legal proceedings are now taking place regarding ownership and some of these are expected to take several years. This is paralysing parts of the economy.

Auctions and vouchers

When the former owners have not been found, or when it is a question of things other than property and service establishments, such as shops or restaurants, other ways of privatization have been chosen.

The most common method is to organize an auction. In other cases, vouchers have been given away or sold cheaply, and these grant the right to receive shares in large nationalized companies. Such sales have not yet directly affected the co-operative industries. In several countries, including Estonia, the Czech and Slovak Federative Republics, Bulgaria and several CIS countries, strong Parliamentary forces have spoken in favour of selling off even the co-operative industries. In most cases, after intensive lobbying from national co-operative unions and with help from the ICA and its members, these suggestions have been rejected. In a few cases, however, co-operative members have been close to losing their properties. A privatization proposal of this kind was rejected by only 2 votes in the Czech and Slovak Federative Republics' Parliament.

The problem with this type of sale of nationalized property has been that the co-operatives have not been allowed to attend and make offers. Only individuals, and in some cases foreign companies, have been given the chance to do so.

In the case of large industries this is not a great problem, but the discrimination of co-operatives as buyers is much more serious when it comes to shops, cafés, etc. The blanks that exist in cities could easily be filled if it were possible to pick the raisins from the cake. Even if the shops which are on offer are not special, they are strategically of great importance for future expansion in heavily populated areas.

Co-operatives are privately owned

The reason why co-operatives in many Eastern and Central European countries have not been given the chance to bid is not solely due to their history. There is a widely held misconception that co-operatives are not privately owned, even in Western Europe.

The fact is that primary co-operatives are owned by individuals. The difference between this and, for example, a limited liability is simply that ownership and influence is tied to the individual and not to the capital that is invested. I would go so far as to suggest that among large Western European companies there is more private ownership in co-operative companies than there is in limited liability or joint-stock companies. It is a fact that the intention behind shareholding companies is to reduce the degree of private influence in the company. In France, for example, a limited liability or joint-stock company is called an anonymous company (*Société Anonyme*). In my own country, the majority of shares in most of the larger 'private' companies and banks are no longer owned by private individuals. They are owned instead by holding companies, banks and insurance companies. This sometimes takes the form of cross-ownership where it is finally almost impossible to determine who holds the power.

So, selling off a nationalized enterprise to a foreign company or creating a limited liability company which sells or gives away its shares is definitely not a better or more refined way of privatizing than is co-operative ownership.

The Countries

I shall now briefly describe what is happening in the various countries when it comes to laws about privatization, besides the specific co-operative laws. Unfortunately not all are included. It has been particularly difficult to determine the situation in the various CIS countries, but the other papers presented at this seminar will complement my contribution.

Russia

On 11 June 1992 the Russian Parliament and Government adopted a privatization plan which the State Committee for Nationalized Property had put forward. The purpose of the programme is to create a sector of private ownership to ease the transition to a market economy, increase production, secure social welfare for the population, develop a social infrastructure through creating funds during the privatization process, stabilize State finances, create competition, abolish monopoly in the economy and promote foreign investment.

The programme means that the greater part of nationalized industries will be transformed into limited liability companies, in which all the Russian people will be able to hold shares.

Within 25 different areas, however, privatization is not included. These are strategically important companies within defence, energy and transport industries. Even, for example, pension funds, central bank assets, military property, TV and radio stations and cemeteries are exempt from privatization.

According to the programme, every citizen will be given special privatization vouchers which are expected to be worth between 5,000 and 10,000 roubles. The first issue of vouchers will be made before 1 December this year. The second issue is expected to be distributed during 1993-94. The vouchers will be issued to all Russian citizens, irrespective of age and profession, and all vouchers will have the same value. The privatization vouchers will be

used in three ways: to buy shares in nationalized companies which are to be privatized, to purchase shares in investment funds or to be sold.

Latvia

The Latvian Government decided in July of this year to introduce a privatization process. The Government thought that the time was now ripe, since the opportunity for restitution had expired on the 20th July. This means that the Government knows which property is available for privatization, since the former owners have now had the opportunity of regaining the property which they lost after the Second World War.

The property remaining after restitution is divided into three categories. The Government has plans to privatize the first two. The first category contains large companies which are only to be sold for Western currency. This probably means that the companies will go to foreign investors. The second category of companies will be sold for Latvian rubles, which is a transition currency. The third category are companies of which the Latvian Government intend to retain control. These are, e.g. schools, universities, certain pharmacies, forestry companies, etc.

The second category consists of many small companies such as restaurants and shops, which will be sold by sealed tender. The Government had wished to have support from abroad, so that a better valuation of the companies that are to be sold could be established. The companies that are to be sold range from small spring-producing companies to large steel works.

Estonia

Estonia intends to introduce a privatization process similar to that of the former GDR. Contracts have been established with Treuhandanstalt in Germany and help given to create similar authorities in Estonia. With the aid of foreign expertise, nationalized companies in Estonia will be restructured to put them into a

state suitable for privatization. Both domestic and foreign companies will be able to make bids for the nationalized companies. Estonia chooses to sell to anyone who wishes to buy since Estonians themselves have only 10% of the capital required for privatization.

There are approximately 2,000 companies that will be sold off, beginning in September 1992. These companies are small and medium sized, with a turnover of not more than 600,000 Estonian Crowns (1 Ecr = 0.3 US\$, 1992). The State will retain control of about 300 companies in Estonia's important energy sector, and is not willing to sell off monopoly enterprises.

In principle, Estonia is allowing complete freedom of establishment to domestic and foreign investors.

Poland

A new proposal for privatization was laid before the Polish Parliament, the DIET, in March by the Olszewski Government. In anticipation that the DIET will adopt an overall law for 'general privatization', i.e. a law that defines how State-owned companies shall be distributed among the population, the Government has attempted to start the privatization ball rolling, primarily by concentrating on two methods.

The indirect, 'capital privatization' method, which means that companies are transformed into limited companies with the State as sole owner. The company goes through an evaluation period, after which the shares are divided between the employees, investment funds, the State and the open market.

Privatization of small and medium-sized companies has so far occurred using the second method: the 'liquidation privatization' process. This method involves the company ceasing trading and its assets being sold by tender, hired out or exchanged for shares in a new company. The majority of companies privatized so far, more than 725, have been small or medium-sized companies.

During 1991 yet another form of privatization was begun: 'sector privatization'. This covers certain branches which are considered to be important and are included in capital privatization. A total of 209 companies have so far been selected for this form of privatization.

Approximately 3,400 State-owned companies are currently waiting for privatization. The aim is to have privatized half of Poland's State-owned companies by 1994. During 1991 a total of 1,193 companies were privatized or began to be privatized: approximately 14.5% of the total number of State-owned enterprises.

Czechoslovakia

In Czechoslovakia there exist three kinds of privatization. The first kind is restitution, that is to say people whose property was confiscated after 25 February 1948 had an opportunity to get it returned. The time allowed for claiming back such property has now expired. About half of the property claimed by previous owners has been returned to them. The rest is tied up in protracted litigation, which is tending to slow down the privatization process and economic development. Nobody is willing to invest in a company or repair rented property which may later be returned to its previous owners.

The other method of privatization is called the 'little' privatization. This consists of small companies such as restaurants, shops and even small industries, which have been offered to the Czech and Slovak Federative Republics' citizens through auctions arranged every week. Over 50% of companies in the 'little' privatization are shops and stores. If a company is not sold at the first auction it is auctioned again a few months later, when foreigners are also allowed to bid. Approximately 25,000 companies have so far found new owners this way.

The third method of privatization is called 'large' privatization. This is the most important part of the privatization process and is

aimed at transferring nationalized industries etc. to private ownership.

In general terms, privatization can occur in various ways: by tender, public auction, direct sale to domestic or foreign investors and also using the method whereby people can buy shares using vouchers distributed by the Government. Direct sales to domestic or foreign investors must be approved by the Government.

Privatization via vouchers has meant that 8.5 million citizens over the age of 18 have taken the opportunity of buying investment vouchers at a nominal price and then converting them into either company shares or shares in investment funds. Vouchers could be bought to a maximum value of 1,000 Kcs. The advantage of this method is that it is a relatively less bureaucratic way of involving a large proportion of the population in the market economy in a short space of time.

Romania

The privatization process in Romania is not moving as fast as in the other former Eastern Block countries. Nevertheless, a number of important decisions have been taken during the year. These include the starting of a project to prepare 34 State owned companies for privatization.

Approximately 4,000 smaller companies are to be sold off by auction. A guarantee fund will provide credit for small and medium-sized companies. Approximately 80% of agricultural land is to be transferred to private farmers.

Hungary

The privatization process in Hungary has three primary functions. The first is to help stimulate a more market economic way of thinking. The second function is that privatization will help create a functioning capital market. The last function is that privatization will help to create an attractive investment climate, which will

attract foreign capital. Hungary is employing three main methods of privatizing State-owned companies. The first is to transform State companies into limited companies whose shares are then offered for sale to the public. These shares will eventually be quoted on a stock exchange. There is even the possibility of companies being quoted on foreign stock markets, provided they fulfil the necessary requirements.

The second way of privatization is by a sort of tender system. Invitations to make tenders can be offered to the general public, but sometimes the offer is made only to a few chosen people, since the Government wishes to control ownership. This method is used mainly for selling off small and medium-sized companies.

The third method is to divide the share capital of a company between its employees.

A newer way of privatizing run-down State-owned companies has been 'privatization leasing', which means that Hungarians who believe they can make a better job of running the company than the present management can draw up a leasing agreement with the State privatization authorities. The leaser then pays a fee when the company goes into profit and after a certain period of, say, ten years, can buy the company at a prearranged price.

The privatization authority, the State Property Agency, has been given other assignments this year, but is mainly concerned with privatization.

As we can see, in addition to the general trends which I described in the beginning, there are a number of detailed solutions, depending on the country.

Property Rights in Co-operatives

by Lloyd D. Wilkinson*

My brief for this conference is to 'set the scene' and I am privileged to have been asked to undertake this task.

In this rapidly changing world it is timely that we should be meeting here today to consider such an important subject: important for those of us who are involved within the Co-operative Movement because it relates very much to our own future, and important, too, because we believe our particular form of enterprise can play a role in helping to solve the problems that inevitably flow from changes in the wider world.

Let me say at the outset that because of my background in consumer co-operatives what I have to say will inevitably flow from that experience. But, as I am sure you will be aware, the worldwide Co-operative Movement of today, and the basic principles on which it seeks to operate, have all grown from that first consumer co-operative in Rochdale, whose 150th anniversary we shall be celebrating in 1994.

Yes: the first co-operatives were formed over 150 years ago, and today we have a worldwide Movement of co-operatives. Why are we still around, and on such a large scale, and in so many sectors of economic and social life?

So what is a co-operative, why has the form survived, how does it work, what is its future?

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Forgive me if I state, or rather re-state the obvious to many in this audience, but in setting the scene we should begin from the beginning and remind ourselves of the fundamentals. I would also add, at this point, that my approach will be from the standpoint of co-operatives as economic organizations: not just because that seems to me to be their relevance at this particular conference, but what any co-operative can achieve in its broader social, cultural and ethical aspirations will depend, at the end of the day, on its success as an economic organization.

A co-operative is a membership organization. It is a group of people, coming together, working together, acting together in an effort to satisfy their own needs: it is, as has been said so many times over the years, a self-help organization. This does not mean that it owes obligations to no one else. Obviously a co-operative owes obligations to its employees, to the public at large and also to the State. However, the fundamental principle is its distinctive obligation to its members, as consumers or users or producers, and not, as with a capitalist enterprise, to the owners or providers of capital.

Most of the essential features of a co-operative rest upon this fundamental principle: and the fact that the original Rochdale Pioneers, whom I referred to earlier, laid down the principles which, in the main, have stood the test of time has much to do with the survival and, indeed, the growth of co-operatives over the past 150 years.

Those principles relate to the conduct and control of the business, the distribution of profits and payment of interest on capital, and the organization's membership. All these are issues used today to test the 'bona-fides' of a co-operative:

- * Membership must be voluntary and open to all: available without any artificial restriction on any social, political, religious or other grounds.
- * The members of the co-operative must ultimately control

their society on the basis of one member one vote: not on the basis of their provision of capital, or their purchases.

This principle, exercised through members' meetings and the election of representative bodies, is the distinguishing feature between a co-operative business enterprise and an ordinary capitalist business. Many co-operatives today are experiencing declining membership and are working hard to stimulate interest. This decline has much to do with changing society, and the growth of competing interests.

However, it should not be forgotten that, even in times past, the proportion of members who actively involved themselves in their co-operative society was small relative to the total membership. Further, we should be realistic in our assessment of these matters, as only a small minority of any community will wish to associate themselves with voluntary organizations. But the important aspect from a co-operative's viewpoint is that the opportunity for participation does exist, and that no person who wishes to be involved is debarred from doing so.

- * A further basic principle relates to the basis upon which the members are remunerated in respect of the capital which they individually subscribe. The principle is one of a limited return, in line with the co-operative approach that distributions relate to business with the society, not on investment. In today's advanced economy, a limited return is interpreted as being one in line with market rates, particularly where members are prepared to invest above the minimum requirement with their society.

Consequently, the capital-owners receive a fixed rate of interest. They have no claim to the residual profit: it is the member-consumers who 'own' the society and have the sole claim to the residual surplus.

The economic significance of this fact is primarily for the distribution of income, that is the distribution that results from co-operative trading is quite different from that which results from private enterprise. But this is not due to the positive fact that surplus is paid out as a dividend on purchases: rather to the negative fact that surplus is not distributed as a gradually rising income to a group of private shareholders.

If the co-operative sector of retail trade were in the ownership of private enterprise, then the equity would be held not by a substantial number of ordinary member-consumers, but by a relatively small number of relatively wealthy property-owners.

Thus, the fact that the Co-operative Movement does not distribute its surplus as an equity income to its ordinary shareholders, but pays instead a non-transferable fixed return on share capital, creates the possibility of achieving economic growth without a continuous rise in the value of privately-owned property.

A co-operative might, therefore, be more appropriately called a non-capital-gains-creating organization, rather than a non-profit-making organization. Traditionally, the rate of interest paid on share capital has been low. To raise the level would not conflict with the arguments advanced, provided the rate does not fluctuate automatically with trading surplus. The shareholders, as such, in a co-operative have no claim to any increased surplus, and a rise in surplus does not, in any case, cause the value of shares to rise, since they are fixed in money terms.

- * Finally, on what I describe as the economic principles, the distribution of surplus or profit arising from the co-operative's activities. Commonly known as the 'dividend', this is available for distribution to the members in relation to their business with the society. The ratio is one to be determined by the members (in general meeting), but it will also take into account the capital needs for the development and future

growth of the co-operative, and also possible requirements for the provision of common services for members.

An important dimension for the future growth and development of the co-operative is the allocation of profits or surplus to reserves: what is frequently termed 'free' or 'own' capital. Not only is this important from the standpoint of being the cheapest form of capital available, but also it is fixed and long-term: that is to say the indivisible reserves of the co-operative.

Being collectively owned, that is by the membership as a whole, these reserves give a stability to the co-operative, and a capital base for long-term development. I believe that this could also provide a mechanism, through the tax regime, to encourage the co-operative form of organization. If governments were so minded they could allow allocations to such indivisible reserves against tax assessments, which would be an encouragement to development and growth.

Additional to those 'economic' principles are two other fundamentals: education and training of members and employees in the principles and techniques of co-operation, and co-operation between co-operatives.

In outlining these 'basics' of the co-operative form of organization, I believe that you will understand that it is neither public enterprise nor private enterprise, although some would say that it is collective private enterprise. But it is not private enterprise based on individual capital. As has been said so many times, co-operatives are the third way, providing an opportunity for individuals to organize their own affairs by co-operation, and it is a message that those of us who are involved in the co-operative movement are continually trying to get across.

The fact that today, after 150 years, co-operatives are still being established as a valid economic form of organization is testimony

in itself to those basic principles. I referred at the outset to my own background in consumer co-operation. Even today this represents a substantial proportion of worldwide co-operative activity but, as you will all be aware, it has extended its net very widely: into the organization of agriculture, fisheries, housing, banking, insurance, travel and other activities on co-operative lines.

But the basic principles apply: the rights of each member relative to the property that the co-operative has accumulated through its endeavours are identical, and do not vary according to the capital provision that each has contributed. The members are the shareholders who, in turn, are the owners of the property of the co-operative, and although we inevitably have, in the event of a winding-up of a co-operative, to determine asset-worth, this does not apply in an ongoing situation. This, of course, is unlike the situation in a joint-stock company where the asset-worth is reflected daily in the share price, and the shares are then traded on that basis.

All of this, however, does not absolve a co-operative from being an efficient, well-managed organization. Indeed, it is imperative that a co-operative ensures that it employs top-class professional management which will, in turn, be answerable to the elected Board of Directors. All of my experience points to the successful co-operatives being those with good managers who both understand, and have empathy with, the co-operative form of organization.

Finally, what does the future hold for the co-operative form of organization?

No doubt we shall hear much more about that during this conference, and I for one will look forward to hearing the views put forward. As we are all aware, and as I said at the outset, today's world is changing rapidly, the environment in which we have to operate is changing rapidly, and it is very apparent that the traditional way of doing things is no longer working.

The world economy is in a mess. We see a widening gap between the rich and the poor, between the North and the South and, as far as this particular audience is concerned, I don't have to refer to the East/West problems arising from all the political changes we have witnessed in recent years. In my own country we had too many years of 'Thatcherism' (that is, 'let market forces decide and all problems will be resolved'): an extreme approach for which we are now paying the price.

There is, therefore, in my view an opportunity, a climate in which the co-operative way - the third way, neither public enterprise nor private enterprise - could be advocated with a greater likelihood of appeal and acceptance. There is evidence around the world that co-operatives are increasingly seen as the appropriate solution to difficult problems because they involve people themselves in seeking to resolve their own problems.

I hope that this conference will give an impetus to the co-operative way being pursued between East and West Europe.

Co-operative Survival Tactics in the Market Economy

by the Central Co-operative Union of Bulgaria

Two years have passed since the tenth congress of the Central Co-operative Union. In the course of this period some serious political, economic and social changes have taken place in our country. The most important of these is the severe economic crisis, the stagnation of production and of the market and the beginning of rapidly increasing market competition.

The changes of this period oblige each co-operative and each co-operative union to examine its activities, analyse them in depth, and determine its development tactics for the market economy.

One must not, however, forget that what is required is not a simple fortuitous analysis of the problems, but the elaboration and adoption of an economic, social and organizational plan of action for the co-operatives and co-operative unions to guarantee their survival. For, this new market economy is not only subject to change, but will be continually enriched by the elements of free market economy which it adopts.

To be honest, it must be stated that the co-operatives' present state, from the organizational, economic and financial points of view does not create the conditions necessary for the survival of a large proportion of co-operatives.

The complex state in which the co-operatives and co-operative unions currently find themselves necessitates the application of a whole series of measures, the foundation of which must consider the interests of the co-operative members, who are the living source of the co-operative strength.

We should briefly recall that historically the task of the co-operative is not to transform and replace the existing economic system, but to allow access to it by those members of the working and middle classes who form the co-operative, and in whose interests it operates, protecting them from exploitation, the competition of big business and speculative capital, whilst making them autonomous and independent.

The efforts, elements and aspects of the co-operatives' activities and of their administrative bodies and management must be directed towards the satisfaction of the co-operators' interests. Any departure from these interests will be disastrous for the co-operatives. We must, above all, direct our efforts, our actions and our resources towards the successive and lasting adaptation of co-operatives to the transition towards the market economy.

Top priority should be given to making a realistic appraisal of the state of each co-operative and co-operative union and of the conditions in which its activities take place, whilst carrying out an analysis of the strengths and weaknesses of its work.

Secondly, it is necessary to determine realistic tactics for the immediate future. What are our strengths and weaknesses?

Our strong points are:

1. The co-operative system is the only relatively intact economic structure able to participate to any great extent in the economic life of the country.
2. The co-operative system, through its 30,000 commercial outlets and public canteens, has good access to the market.

Always in contact with its members, the co-operative is aware of their needs and purchasing power and, on the basis of this, it is able to organize the supply of merchandise.

3. Over 80 commercial bases function in the co-operative system. These can, and should, regulate the commercial process. This process will be finalized by the Central Co-operative Market, which has already begun to operate.

4. The co-operative system produces merchandise to the value of 3 million leva, the majority of which has a guaranteed market: bread, non-alcoholic drinks, confectionery, meat, meat products etc.
5. Purchasing activities assure the co-operative organizations sufficient resources for the internal market, for processing and for export, and represents a considerable source of revenue for them and their members.
6. Our external commercial organizations 'Boulgarcoop', 'Sovbulcoop' and 'Anzercoop' can take care of all the foreign trade.
7. Our co-operative bank and the seven regional banks can provide these regions with banking services on beneficial conditions.
8. The Central Co-operative Union (CCU) has at its disposal an executive training system as follows: Co-operative Faculty, School of Economics and 16 professional training centres.

Our weak points are:

1. In comparison with retailers and private manufacturers, the co-operative system is sluggish. The private retailer is more active, thinks ceaselessly about what he needs to do, and does it promptly. We, on the other hand, act slowly. Apart from the organizational difficulties, we are plagued by insufficient motivation and unwillingness to take personal responsibility.
2. Our financial resources are insufficient, which diminishes the effectiveness of our activities.
3. Our executives don't have adequate training and have difficulty in adapting to the new conditions of the market economy.

Although we are already aware of the data for 1991, it is necessary to bring our attention to some basic indicators which characterize the financial and economic state of the co-operatives and co-operative unions.

Firstly, in analysing the state of co-operative capital one realizes that the authorized capital, although it increased from 70 in the preceding year to 92 million leva, is far from adequate for co-operative activities. Compared with the co-operatives' needs for capital to finance the development of their activities, the amount is still small. Because of this, in 1991 the co-operatives took out short-term bank loans totalling 446 million leva and long-term loans amounting to 72 million, paying 308 million in interest payments. These interest payments had a detrimental effect on the profitability of the co-operatives, which is why a large proportion of them made losses. To ensure its survival, it is absolutely necessary for each co-operative to undertake the augmentation of its own funds.

Secondly, stocks of finished goods, merchandise and packaging held by the co-operatives and co-operative unions amount to approximately 1,447 million leva, meaning that a great deal of capital is tied up. This stock forms a reserve from which resources may be liberated and reliance on very expensive bank loans decreased. It is very important to speed up the circulation of funds by stimulating turnover and revamping or disposing of unsaleable merchandise: even at a loss, provided this does not exceed the bank interest. It is necessary to think seriously about the sale of goods with a slower turnover. From this point of view, it is very important to avoid the use of loans for terms exceeding 3 or 4 months. Limiting credit must also be done by accelerating the turnover of warehouses, an important factor for the co-operatives. The analyses of stock levels, receipts and sales should be used as the most effective economic tools in the management of commercial and industrial activities.

Thirdly, client accounts are also very large. They amount to 300 million leva, including monies due for sales effected and the other debts amounting to 230 million leva. This is a very serious and dangerous tendency, because it slows down the true turnover and prolongs the period of credit used, thus increasing the amount of interest payments to be made. It is necessary for each co-operative to make an in-depth analysis of its client accounts and undertake measures for the collection

of receipts from sale of merchandise. Such efforts should be directed towards credit control, and improving takings and business turnover. The co-operative system needs contracts with guaranteed payments.

These three points show that co-operatives operate under conditions of inadequate capital, large bank loans and large customer accounts. These are three extremely negative factors, the influence of which, now and throughout the course of the year which follows, must be limited. Otherwise, co-operatives will continue to work for the benefit of the banks.

Fourthly, spending is another important factor in the survival of the co-operatives. If we have to say where we are the most vulnerable with respect to our competitors, it must be admitted that it is regarding administration and management expenses. Our competitors are more economical, more rational, more ingenious. The reduction of these expenses is imperative as part of the co-operatives and the co-operative unions' efforts to survive. Part of these expenses is closely linked to prices as they can be controlled. The variable expenses, characteristic of finished products, services and merchandise, must be limited and reduced. Having chosen this plan of action, the co-operatives naturally seek to take action in the areas of debt repayments, salaries, interest charges and external services. It is possible that the decisions taken concern only certain of the variable expenses. The second aspect concerns general operating expenses: servicing, management and others. With turnovers steadily diminishing, characteristic of the Bulgarian economy in stagnation, it is always necessary to make new decisions and to rationalize, i.e. to make general expenses reflect prices and business turnover. In practice, this means to ensure that a smaller proportion of income is utilized to cover general expenses.

Fifthly, turnover in the market economy is directly related to State policy by means of taxation on turnover. According to the laws currently in force in our country such taxation is too high. Each co-operative, each union or co-operative business must seek opportunities for the reduction of these taxes, for making them work to our advantage.

This is a difficult process which requires a persistent and systematic study. The alternatives available to the co-operative system are not numerous, but they do exist.

The first is to seek, where possible, compensation for all or part of the high taxation, through price increases. However, this is a limited alternative. It may be applicable in the production of goods and services which are saleable, and the prices of which may be raised slightly. It is not possible for other sales.

The second alternative consists of the successive restructuring of sales within the co-operative system through the use of a strategy oriented towards the production of goods and services which benefit from lower taxation on turnover.

Sixthly, the stabilization of co-operatives and co-operative unions is possible not only because of turnover, expenses and reserves, but also in return for new capital and investment in the co-operative system. This is a question which should not be neglected and decisions relating to it should not be put off. However, for the resolution of this problem there are some basic aspects to be considered.

The first aspect is the financial means of the co-operative system. They exist, they are used, but not always in the most appropriate way. It is necessary to establish a policy to govern the use of our assets in such a way as to make them work to our advantage. Our resources should not be wasted.

The second aspect consists in the liberation of activities from unwisely invested capital. The solution to this problem may be envisaged under two headings: freeing capital from areas which do not provide a return on investment, and limiting investment in similar activities. One can find many such examples within co-operative activities.

The third aspect is the duty of all co-operators to seek opportunities to increase the asset base. This may be done through authorized share issues. This process should be carried out enthusiastically and should attempt to attract the small investor.

Fourth, there are opportunities to attract extra capital from savings activities. Another possibility may be the development of mutual insurance schemes by co-operatives.

Fifth, the market economy is based on the association of capital. This is, also, a resource for the co-operatives. They must not miss even the smallest opportunity for joint projects between co-operatives, unions, businesses, etc. in the form of well-targeted investment projects, sales and business openings. However, they should only invest following a thorough evaluation of the proposed business ventures.

The sixth aspect is linked with outside capital, borrowed capital: the problem being that it is difficult to invest, to finance projects and to realize turnover targets with such capital. This is why it is necessary to make efforts to attract capital from loans. In practice, this means:

- a) Capital from co-operative banks and proposed regional banks. The attraction of this is found in the advantageous levels of interest charged, because a lower interest rate is added to the base rate.
- b) Capital from short-term bank loans of one, two or three months. In this way interest charges do not have a great influence on profits. Figures must be thoroughly analysed before any long-term loans in leva are taken out.
- c) A considerable resource for co-operative activities is loans in other currencies. The advantages which such credit offers is that the banks operate according to interest rates determined by the market, which works in our favour. They vary between 5 and 9 to 10%.

Co-operatives cannot dispense with investment. However, over-investment is not to be recommended in market economy conditions. Many examples can be given in the production of non-alcoholic drinks, commercial outlets and others. All this necessitates a rational examination of investment policy within the co-operative system.

The seventh aspect: many consumer co-operatives are insolvent.

Survival Tactics by Sector

The survival of co-operatives is closely linked to the development of their operations. The diversification of co-operative activities necessitates the realization of a whole series of measures.

Commercial Activities

We must, above all, change the concept and image of commercial activities. Commerce should be seen as a unified process, terminating in the sale of merchandise to consumers for cash. We must concentrate on shortening the journey of the merchandise, on making this process more efficient and less expensive. If we do not master this process, commercial activities will not be effective and some co-operatives may enter into liquidation. We also have competitors who are taking our markets, our territory, and make the sale of our products difficult.

In order to change these tendencies and limit the negative effects of competition it is necessary to consider the following measures:

1. Immediate restructuring of commercial activity at all levels and in the domain of retail marketing.
 - The co-operative unions must transform themselves into regulators of the commercial process, organizing markets for the supply of basic products, such as: oil, sugar, rice, pasta, washing powders and fabric softeners etc. These products must be supplied to the co-operatives at the lowest possible price, whilst providing financial incentives for their sale.
 - The National Co-operative Market must satisfy the co-operatives' requirements for sugar, oil, rice, gelatine, coffee, cocoa, salt, confectionery, chocolate, agricultural equipment, chemical products, seeds etc. As from 1st June, the payment of National Co-operative Market employees will be according to the tasks performed by each, with no ceiling on potential earnings.
 - The co-operatives must take measures to tighten the sales network and to reduce the number of employees who work within it. The main retail outlet must be the general store, where all sorts of products, both food and non-food, are sold.

2. Lower prices can be used as a weapon in the competition war. The principal co-operative producers of non-alcoholic drinks, canning businesses and others must develop two types of price - one for co-operative organizations, and a slightly higher one for competitors.
3. The co-operative union of Sofia must determine its relations with the co-operatives and co-operative unions in order to ensure supplies of fruit and vegetables to shops, street vendors and markets within the capital.
4. The organization of co-operative markets, and fruit and vegetable outlets to supply the needs of the capital.
5. It is proposed that the employees of shops and public canteens should be encouraged to invest their capital and take a share in the profits.
6. The presidents of all co-operatives must analyse the competition in each region and take measures to be competitive, e.g. double their ranges, whilst offering lower prices and better quality.

Public Canteens

To make public canteens more effective it is necessary to:

- Rationalize and perfect the management of the co-operative by introducing examinations for the selection of the executive directors. These competitive examinations could be used throughout the economic activities of the food sector, the remuneration of those in charge may be expressed as a percentage of the economic results.
- Co-operative organizations must improve their market research, analysing the positive and negative points of their competitors and reacting accordingly.
- To perfect the management of public canteens and the hotel business it is necessary to use all the methods of payment available, for example an 'administrative contract' might include one large establishment and its management or, for the smaller ones, the manager of a group of establishments.

- The consumer co-operatives must study the requirements of the market and adapt their commercial activities to its specific needs. In small towns and villages the public canteens must fulfil other co-operative functions, e.g. commerce, buying up and processing agricultural products.
- The central co-operative union and the unions should assist the co-operatives to establish business contacts with well-known firms within the food sector and hotel business in order to profit from their experience by means of franchise contracts, the constitution of joint companies etc.
- Leaving the investment difficulties of the co-operatives permits workers to participate in the reconstruction of establishments with means which will represent their authorized capital, on which they will receive dividends.
- The consumer co-operatives, with the help of specialists from the co-operative unions, must develop programmes for industrial integration between the co-operative food sector and the food industry in order to make full use of the existing production capacity and opportunities to decrease transport costs.

Tourism, the Hotel Business

Those co-operative organizations which own tourist establishments must unite in regional co-operative societies of commerce for the development of the tourism industry, based on the following principles:

- * participation by means of authorized shares, existing infrastructure and working capital;
- * apportionment of revenue according to authorized shareholding, guaranteeing the increase of authorized shares by reinvesting dividends;
- * regional specialization of tourism: mountain, sea, spa, driving holidays.

On this basis the following types of commercial co-operative societies can be created:

- * commercial societies of maritime tourism using the co-operatives' infrastructure: hotels, seaside resorts, campsites, motels and the possibility of participation by foreign societies;
- * commercial societies of mountain tourism, of spa resorts with infrastructure such as: hotels, schools, convalescent homes and the possibility of participation by foreign societies;
- * commercial societies serving the tourist industry with the participation of the co-operatives: building sites, motels, camp sites and the participation of foreign societies. Areas of activity: tourism services, petrol sales, automotive services, sale of food and non-food products etc.

The co-operative organizations must finalize long-term contracts with private landlords and create tourism and hotel co-operatives in the region of the Black Sea.

Co-operative Industry

The new economic situation necessitates new directions for the development of the co-operative food industry.

Firstly, the co-operative system must invest in technology which will guarantee the sale of more expensive products - products which will stand up to competition - not only on the home market, but also on the international markets. Special attention must be accorded to the creation of small, highly effective enterprises, according to the programme adopted.

Secondly, the production of bread and other bread products should be directed towards high quality products, which are less expensive than those of the competition. To achieve this aim it is necessary to use flour improvers and to make use of technological advances.

Special attention should be given to profit-sharing schemes for those working in this area, and in certain cases one can even foresee their participation in the share capital of the companies.

Thirdly, during recent years, 40 nonalcoholic beverage production units, with capacities between three and 12 thousand bottles per hour have been built. In the new conditions this increased capacity has come up against two basic problems: the consumption of nonalcoholic drinks has decreased by about 60%, and the invasion of the leading firms into our 'Coca-cola' and 'Pepsi-cola' markets have almost entirely satisfied demand. It is necessary, as quickly as possible, to redesign our existing packaging and to use it for other types of product: packaging for vinegar, beer, wine, mineral water, liquid chemical products etc.

Fourthly, in meat processing it is necessary to create conditions to stimulate larger investments for the development of a chain of businesses and of factory units.

Fifthly, in order to guarantee lower prices, co-operatives must try to organize their own production of canned goods to sell in their shops and restaurants.

The Repurchasing of Agricultural Production

The repurchasing of agricultural production gives the largest survival opportunities to co-operatives. In the organization of this activity the following measures must be implemented:

- the consumer co-operatives must organize the repurchase of strawberries, raspberries, medicinal plants, milk, animals for the meat industry, snails etc. and conclude the deals without intermediaries;
- the co-operative unions must occupy themselves with the distribution of the repurchased production within their respective regions;
- the businesses of the Central Co-operative Union must organize the processing and sale of produce to the foreign markets. Pay-

ments for produce must take place at the time and place of repurchase. This will contribute to the creation of an atmosphere of security and confidence in dealings with producers.

It is necessary to stress profit-sharing whilst taking account of the volume of work carried out, and the quality and quantity of the repurchased production.

The organization of the repurchase activity must be based on the prior and definitive settlement of accounts with producers. It would be opportune to restore an old co-operative tradition consisting in opening accounts for production sold, to be paid within set periods.

Opportunities for the Central Co-operative Bank to Assist the Co-operatives During the Period 1992/1993

The opportunities of the Central Co-operative Bank and the regional banks must be used to improve the effectiveness of working capital within the co-operative system.

The Bank's activities can be more effective if the co-operative organizations deposit their leva or foreign exchange disposable income in deposit and current accounts. It can then be used to grant credit at interest charges 5 to 6 points below normal.

This will be possible by creating a large banking reservoir which the co-operative unions help with buildings, technology, money, executives etc.

Organizational and Administrative Aspects of Survival Tactics

The survival of co-operatives in conditions of competition depends, to a great extent, on the organizational and administrative strengthening of the co-operatives, co-operative unions and co-operative enterprises.

Firstly, we must proceed very carefully and very accurately in solving problems concerning the decentralization of co-operatives. Five hundred new consumer co-operatives have been created as a consequence of the decentralization process. Despite the advantages which it offers, the process runs the risk of creating co-operatives which are not viable. Although over-centralization created giant, difficult to administer, co-operatives, excessive decentralization may lead to the creation of 'dwarf' co-operatives which will easily fall prey to fierce competition. It is necessary, therefore, for the regional co-operative unions to create working groups to examine the problems of decentralization and possible openings for the fledgling co-operatives in the new conditions.

Secondly, we must also put a stop to the harmful practice which has been adopted by some co-operatives of decreasing the number of co-operative members. This process of liberation by setting the share value at the high level of three to five thousand leva is a phenomenon of bureaucratic practice. The artificial increase in share value is an extremely dangerous tendency which is a denial of the consumer co-operative and of its character as an open organization.

It would be appropriate for the general assemblies of those co-operatives which have begun to release their members or to sell off co-operative goods to decide upon measures intended to limit the arbitrary powers of their managers and to invalidate their decisions. It is equally necessary for the controlling bodies of the regional co-operative unions to ask to save the co-operatives from the recurrence of such problems.

Thirdly, the consumer co-operatives should adopt the tactic of accumulating funds by applying a wider system of participation with authorized shares. Apart from the authorized shares, it is necessary to make full use of the opportunities for supplementary participation with money in the form of voluntary authorized shareholdings.

Fourthly, as one means of accumulating finance we should also make use of the possibilities offered by savings and credit activities. A large number of co-operatives have not yet created savings and loan banks. These banks represent a considerable resource for the co-operatives.

In a wider sense, co-operative tactics in conditions of competition should have as their aim the ceaseless activation and enlargement of the co-operative's relations, not only with its members but also with the rest of the population. The better these relationships, the more effective they will be as a buffer against competition.

Fifthly, one should also develop active links with and relations between the co-operatives and the co-operative unions. Within a competitive market, collaboration and mutual aid between co-operatives become vital for their survival.

There are two essential points in the relationship between co-operatives and the co-operative unions. In the first place, the association of co-operatives in regional unions is a very important factor in their survival. The activities of the regional co-operative union are no less important. These should all be oriented towards the provision of services and assistance to the co-operatives' members.

Taking account of the importance of these factors for the survival of the co-operatives, the organizational and financial aspects of the relationship between the co-operatives and the co-operative unions must be analysed.

Sixthly, there are certain large consumer co-operatives which underestimate the importance and role of the co-operative unions as an organizational form under which co-operatives associate in order to realize common activities. This type of co-operative defends the concept of development and of the creation of co-operatives which have no links with an association. This is the philosophy of 'unofficial' co-operatives, which are not associated with any co-operative union. It may be claimed that the unofficial co-operatives are not true co-operatives, since in refusing to associate themselves with a union they reject one of the international co-operative principles, i.e. the principle of co-operation with other co-operatives at regional and national level. The separation of the unofficial co-operatives results in a misconception of absolute autonomy which does not exist in countries with developed

co-operative movements. In these countries there are no co-operatives which are not associated to a union. Even in the co-operative laws of Sweden, Austria and Switzerland it is categorically stated that their co-operative unions have an obligation to control activities which depart from the co-operative principles.

Seventhly, in the new conditions of the market economy, it is very important to react quickly to changes as they arise and to take the necessary management decisions. Therefore, the Administrative Councils and other executive organs of the co-operatives and co-operative unions are adopting a new style of working.

Eighthly, it is now more necessary than previously to clarify management functions and structures within the co-operatives and co-operative unions in conformity with the law, the Statutes and the demands of the market economy. Each organizational, structural and executive resource of which the co-operatives and co-operative unions can avail themselves should be used effectively for the development and survival of co-operative activities. The co-operative unions must direct themselves towards activities which will guarantee them an economic rearguard for the co-operatives and the provision of various services.

Ninthly, the co-operatives' survival tactics may be realized with the help of competent executives. These executives are necessary for the co-operatives now and in the future. This is why the problem of executive training is becoming very topical. It must be admitted that it has been neglected until now by the co-operatives and co-operative unions. If we want to succeed, this problem must become problem number one for the survival of the co-operatives.

Tenthly, many departures from ideal practices may be observed within the co-operatives and co-operative unions, resulting in a decrease of their financial possibilities.

On the one hand this is due to dishonest practices amongst certain co-operative executives, infringing the co-operative principle of integrity with regard to the co-operative. It is recorded that in certain co-

operatives and unions there are cases in which some executives have created private firms duplicating the activity of the co-operative.

One of the reasons for the existence of such behaviour is the insufficient policing of the CCU and other supervisory bodies. Certain negative occurrences remain outside effective control. One contents oneself entirely with statements, and information, without providing adequate measures for the defence of the co-operatives' interests.

We wanted to determine a strategy for the survival of the co-operative movement in the new conditions of the market economy. We will be able to discuss this at the next congress of the CCU and have begun to prepare for this.

On the 12th of March, a delegation from the CCU took part in a seminar organized by COPAC in Paris. There, we informed the participants about the situation of the Bulgarian co-operative movement and its relations with the State. We were also able to meet Mr. Albert Morel, president of the National Federation of Consumer Co-operatives. Mr. Morel informed us of the circumstances of the consumer co-operatives in France: that only four are remaining from an original 4,000, and all the others collapsed in the 1980s. The reasons for this are similar to the problems against which we are struggling at the moment - invasion of outside capital, fierce competition and, parallel to this, many personal faults on the part of the co-operative executives. Instead of implementing concrete measures, designed to beat the competition and to ensure the survival of the co-operatives, they began to work on a long-term survival strategy for co-operatives. And, as he tells it:

'we determined a strategy, we used up our funds, then sold our enterprises to outside capital. In our shops we buy only bread: for everything else we go to our competitors.

This is why I advise you to act as follows:

1. Renounce development strategy, because you don't have the necessary infrastructure. Instead, elaborate a strategy of:
 - Monetary policy,
 - Long-lasting legislation.

- Markets. Yours no longer functions, that of the East is lost, that of the West won't accept you.
- 2. Prepare survival tactics, comprising of measures which will be of use to you.
- 3. Seek to guarantee your internal structures. Don't content yourselves, as we did, with selling only bread and salt. Seek to develop services, to increase turnover, to adapt, to struggle.
- 4. Declare that you will undertake a survival regime which demands co-operative discipline, order and good management. Don't worry if you have to impose yourselves or to exercise pressure on those who do not understand that they are going under. During this period, forget about the autonomy of the co-operatives and co-operative unions - they will be grateful to you later on. The situation necessitates a regime of performance and of action'.

That is one of the factors taken into account by the Executive Committee in its elaboration of the co-operatives' survival tactics.

Property Rights in Co-operatives

by the Central Co-operative Union of Bulgaria

According to the Constitution of the Republic of Bulgaria there are two types of property: private, and public (State and communal). As a result of the general political and economic changes in our country, we can observe new processes and events. What are these processes?

Increases in the share of co-operative property have, in the past, been almost symbolic. Now, they have been substantially increased. In this way, the economic connection of the members with their co-operatives has strengthened, and they feel themselves to be the real owners. On the other hand, the economic power of the co-operative has increased. Co-operatives have begun to work with their own financial means so that bank loans are no longer needed, and lending rates amount to about 60%. This makes them more competitive and increases co-operative assets.

With the Co-operative Law, the possibility has been created for co-operators to make designated instalments. These have a fully voluntary character and will contribute to expanding the co-ops' assets. So, the interest of co-operators in the efficient use of the facilities built with their contributions is increased. Such contributions strengthen the 'co-operator-co-operative' connection.

As a result of the Co-operative Law, co-operative property which was seized by the State has been returned. During the last 45 years a number of co-operative enterprises - stores, dairies, bakeries, warehouses and others - came under State ownership as a result of different acts of executive authority. Now, they have been given back to the co-operatives and co-operative unions.

Nevertheless, in practice, the restitution of property is facing serious difficulties. A number of economic organizations which are making use of this property are trying, under different pretexts, to frustrate or postpone the return of co-operative property. However, recent developments promise to lead to a substantial increase in such returns.

When fulfilling normative regulations, the property of co-operative unions, acquired over several decades, is distributed among the co-operatives and members. We are observing a movement of property upwards. For this purpose, the Central Co-operative Union has developed a methodology which is already being applied. As a result of the new financial organization, co-operatives are receiving dividends which are determined by their contribution to CCU funds. This has no precedent in co-operative history.

Nevertheless, one fact is frustrating. The effect of this regulation brings a legal anomaly with it. Co-operative unions are legal entities, yet they are, in practice, deprived of all their property. The enforcement of the normative regulations has led to a violation of their property rights.

Restitution of fixed assets which were previously the possession of other individuals or legal entities has unfavourably influenced co-operative activities. In our capital city alone, about 70% of co-operative property has been withdrawn in this way.

Complex problems are arising in connection with facilities which were jointly established by municipalities and agricultural and other co-operatives. Some of our partners have been liquidated by law. In other places, in accordance with past practice, the required norms of urbanization have not been met. In order to expand municipal funds, a great number of town councils are showing a definite aggressiveness towards co-operative property. In an effort to settle this problem a new set of norms is currently being drafted.

Foreign capital is more successfully attracted to co-operative activity. We would like to share with you the knowledge that this process has better practical results, when compared with the State economy. Together with the 'Coca Cola' group, the CCU has established six joint ventures for the production of soft drinks. Joint ventures have been also set up for the construction of refrigerators for storing vegetables and fruit, and for the establishment of mushroom production units, etc.

When discussing the problem of the participation of foreign capital in co-operative property, we would like to mention the areas in which we are hoping to be assisted. Foreign assistance could be directed to:

- * granting of long-term loans under favourable conditions;
- * participation in the establishment of joint ventures;
- * engineering and consultative support;
- * technology transfer;
- * training of personnel, etc.

The support of the Western co-operative unions will be very useful. They could do this by interceding with their governments to include joint projects for the development of co-operative activity when granting State credits. For example, we have learned that the Danish Government has established a fund for Eastern and Central European countries. We should benefit from it if, when granting a credit, it is designated for the realization of joint projects.

The International Co-operative Alliance could, with its great possibilities and authority, support this initiative when international credit and other institutions, as well as co-operative organizations, are granting loans.

The eventual raising of a specialized fund to support the co-operative movements of Eastern and Central European countries could also be discussed.

Co-operative Legislation and Property

by Kolyo Bozhkov*

In July 1991 the then Grand National Assembly passed a new democratic Law on Co-operatives. In our opinion, it meets the needs of the co-operative movement and of the economic reform in Bulgaria. Especially:

- The new law regulates the essence and character of a real co-operative as a voluntary association of natural persons which does not destroy, but serves and supports, the development of economic interests of the co-operators and of their private business. It corresponds to the generally adopted international co-operative principles and, last but not least, to the experience and traditions of the Bulgarian co-operative movement;
- The law establishes new relations between the State and the co-operatives. It removes all the possibilities for State interference in their activities and regards them as independent and self-contained organizations.

In February and March all the co-operatives held their annual members' meetings and adopted new statutes, so that now the co-operatives are functioning on the basis of new Acts which govern their internal structure.

The new Law on Co-operatives plays the role of a powerful legislative stimulus for the development of the co-operative movement in Bulgaria.

Together with all the above-mentioned facts, during the one-year application of the Law on Co-operatives in Bulgaria, several problems have arisen, and now I would like to share them with you.

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First problem: about some inconsistencies between the law which has already been passed and other proposed bills dealing with taxation, insurance, financial control, etc. In these bills regulations have been provided which, if they are passed, would in practice restrict the application area and the activity of co-operatives. For example, in the Bill on Insurance two obligatory conditions are set: the insurance co-operatives must comprise at least 500 members, and the amount of ownership capital must be at least 10 million Lv. In our opinion, these requirements are limiting the possibilities for establishing insurance co-operatives. The law on Co-operatives requires the participation of at least 7 founder-members to establish any type of co-operative. No requirement is set for the amount of capital, which is variable.

Additionally, the Bill on Financial Control must fully include the co-operatives. So, essential prerogatives previously held by the co-operative unions are to be withdrawn. This is even more obvious with the existence of an explicit legal regulation which permits the Supervisory Council to realize this financial control: on condition that its members have the required qualifications.

Second problem: connected with the insufficiently regulated legal state of co-operative unions. They have to be subject to the same legislative regime which regulates co-operatives and inter-co-operative enterprises.

The existing deficiencies in Law create a number of difficulties for a normal functioning of the co-operative unions. As a result, essential restrictions exist for the registration of the unions' enterprises and for the realization of their economic activity.

Third problem: connected with the types of co-operative. In its present form the Law on Co-operatives does not recognize specific situations for the different types of co-operative. This has created a risk that, in practice, many important principles may be neglected in the organization, structure and management of the different types of co-operative.

Future Government Policies and Relations with the Co-operative Sector

by Kadir Kadir*

Article 2 of the Co-operative Law stipulates that 'the State shall assist and promote the co-operatives through favourable tax, lending rate, customs duties and other economic concessions'.

Which directions should the development of Governmental policy and relations with co-operative sector take?

The National Assembly of the Republic of Bulgaria and the executive bodies fully recognize the role of Bulgarian co-operatives during the transition towards a market-oriented economy. They consider the co-operatives as specific economic units which promote burgeoning initiatives of Bulgarian citizens: an important guarantee for the successful realization of economic reforms. It is thanks to the activities of co-operatives that production of commodities and services for the population has expanded, the commercial servicing of the people is ensured and, predominantly, the need for basic foods and industrial goods is met, agricultural products bought up, etc. Being an association of persons, the co-operatives are furthering the creative initiative of their members to promote the formation of new skills, habits and knowledge needed for the realization of their future economic activity.

Last year the National Assembly passed a number of economic laws which created a new ground to support realization of the economic reform. Among these, the Co-operative Law has an important position.

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The Supreme legislative and executive authorities now consider that the legislative basis for the future activity of co-operatives has been created and that they represent economic bodies which are useful and necessary for society.

In this direction, we think that during the next months the following will be required:

1. Creating a broad normative basis for the versatile activity of co-operative societies, for which purpose:
 - * a bill has been elaborated to amend and supplement the Co-operative Law. This bill has been adopted by the Council of Ministers and introduced to the National Assembly. It will probably be discussed during a plenary meeting of the National Assembly. The Central Co-operative Union and the Central Council of the Productive Co-operatives have actively participated in its elaboration. This bill removes a number of imperfections in the Law passed a year ago. First of all, it creates a better legislative basis for developing the activities of the co-operative unions, as voluntary associations of co-operatives. The problems of restitution of co-operative property which was confiscated and made State property are efficiently solved. These and other new legislative decisions are forming a micro-atmosphere which corresponds to the new political and economic conditions for the development of the co-operative movement in Bulgaria.
 - * the new bills which are being introduced to the National Assembly formulate special regulations for co-operatives to recognize their specific features. In refining the general legislative regime of the country, a better legislative means is created for developing the activities of these associations of citizens. Co-operatives in Bulgaria are relieved of paying tax on their profits. A number of other tax reliefs have been created for their activities in alpine regions and small settlements. Now, other successful solutions are sought to support their activities.

- * the Council of Ministers, as a Supreme executive authority, is preparing a number of decrees which are designed to settle different problems encountered in the economic activity of co-operatives. We would like a favourable regime to be created for them because they are also fulfilling important social functions. The Ministries have the task of coordinating their proposed legislation with the co-operative unions so that the needs of co-operatives can be considered. Mr. Georgy Stoyanov, the Bulgarian Minister of Agriculture has been entrusted with this task. This very fact makes the attitude of our Government towards co-operatives and the ICA obvious.
2. New requirements have been set with regard to the practice of central and local authorities in respect of the work of co-operatives:
 - * the practice has been established for Ministers to be regularly informed of the most important and topical problems of co-operatives;
 - * the tradition of regular contact with the regional managers and mayors of municipalities has been introduced, so that efforts to serve the population can be integrated;
 - * representatives of co-operatives and their unions are included in the various permanent or acting bodies of the central or local authorities, having the right of decisive or advisory vote. This promotes an awareness of co-operative problems by the State executives, so that the newly arisen problems may receive practical solutions.

We could point out many negative examples of relations with co-ops. We are striving to decrease their number and to ensure that these do not influence the structure-building facets of everyday co-operative life. It seems to us that the establishment of an auxiliary body of the ICA which would deal with the problems of co-operative movement in Eastern and Central European countries should be discussed. Its ideas would support the State authorities in the individual countries, to achieve the most efficient legislative solutions and practical operations.

Privatization of the Bulgarian Workers' Productive Co-operatives

Stilian Balassopoulov*

As you are aware, the co-operative movement in Bulgaria has a history of 100 years and holds an important position in the development of the Bulgarian economy. During the 40 years since Bulgaria became a totalitarian State, co-operatives were forcibly incorporated into the State mechanism of planned activities and were subject to State laws regarding investment policies, salaries, etc. For instance, it was not permitted for a member of a co-operative to have a share bigger than two months' wages; a worker in a co-operative could not receive a larger salary than that of his equivalent in a State enterprise; and no dividend greater than 6% of the profit could be paid out, regardless of economic results or the will of the General Assembly.

atives

All this brought about deformities in the structure of the co-operatives' property; it caused an abnormal growth of indivisible assets since 94% of the Workers' Productive Co-operatives' profits could not be divided between the co-operators. Besides, according to the legislation in force at that time, at the dissolution of a co-operative its indivisible assets had to be transferred to the Co-operative Unions and to be shared between the co-operators themselves. In practice, the members of the co-operative only possessed the 6% they had paid as capital share.

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This deficiency in the correlation between divisible and indivisible co-operative property caused problems in the way of thinking of the people and their attitude toward the property of their own co-operatives. The people felt alienated from the co-operative, they treated it like part of the State and they increasingly began to consider themselves as hired labour.

After the new Co-operative Law was passed in 1991 conditions were available for the elimination of these anomalies. A practical step was required as well, so that the co-operatives could be recreated in their true form, the injustice of the undistributed profits eliminated and confidence as real owners of the co-operative given back to the people.

In view of all these problems, the Managing Council of the Central Union of the Workers' Productive Co-operatives adopted a course toward a redistribution of the divisible and indivisible property of the Workers' Productive Co-operatives and toward an increase in the capital share of the co-operative members. With the help of scientists a system for distributing the property of the co-operatives was worked out. This was actually a system of methodical rules, on the basis of which, at their General Assembly, the co-operative members would be able to distribute a part (by law up to 80%) of the indivisible co-operative property between themselves. Thus, every member was to be granted part of the collective property. This was the part which the totalitarian regime had unlawfully taken away from his share of profit and artificially included in the indivisible co-operative property. In this way, an injustice was finally corrected, and a real step was made to restore to the co-operator his confidence as a person of property.

This methodical system is unique, as is this initiative of ours, since they were both made imperative by a historical necessity. As a matter of fact, it is a technology for the organization and execution of a specific kind of privatization within the co-operatives. However, as I have already mentioned, we do not call this process of

redistribution of property 'privatization' since it does not refer to turning State property into private property but to distribution of part of the co-operative property to those people who have the right to own it.

The methodical regulations applied consist of three main parts:

- Establishing an evaluation of the property,
- Distribution of the estimated value of the property between the members who have a right to it,
- Economic realization of the share thus obtained.

These three parts are also three stages in the personification (privatization) work of the co-operatives. The first part deals with the technical questions and the accounting of the actual values of the property. The second part sets out five basic versions for the personal distribution of the estimated values of the property in the form of shares in the names of the people entitled to them. The third part suggests different methods and ways for the economic realization of the co-operative shares. The whole is a system of principles which offers the possibility for choice of different solutions in each co-operative according to its conditions.

The distribution of property in a Workers' Productive Co-operative is an organizational, juridical and economic act taking many directions. We must stress that it is voluntary. The methodical system is a recommendation only, just suggesting scientifically-motivated solutions. Only the General Assembly has the right to take a decision for carrying out such an act, and determining the way it will be organized. The Central Union of the Workers' Productive Co-operatives, through its own experts and those recruited from other institutions, helps this process. A special Expert Council, consisting of leading specialists from Ministries and scientific institutes, evaluates and recommends methods for privatization. Afterwards, their documents are proposed to the General Assembly of the co-operative for its approval.

For the past seven months about 20 co-operatives have been preparing and executing a plan to distribute part of their property between the co-operative members. The first co-operatives that have begun this complicated and time and effort-consuming work, have concluded it already. The initial results are rather encouraging.

The 6th Congress of the Central Union of the Workers' Productive Co-operatives in Bulgaria, held in July 1992, once again ratified the decision for the partial distribution of co-operative property between the members.

In the finalization of this process, the role of co-operatives becomes even more distinctive as a factor of real importance for the reconstruction of our country's economy into a free market economy. We are firmly convinced that co-operation in this form is the best alternative in the forthcoming process of privatization of the State sector.

Privatization Policy and its Effect on Co-ops in the ECEC

by Georgi Stoyanov*

Privatization of State and communal property is an objective necessity. Nevertheless, it poses a number of new, previously unknown, problems to co-operatives. These problems are connected with changing the character of property on the one hand and the place of co-operatives as associations of private persons on the other, due to lack of experience, special normative regulations and so on.

In accordance with the valid legislation, in Bulgaria the privatization of State and communal enterprises is realized by transferring stocks and shares which are the property of the State and communities, and those of trade associations, as well as the property of whole enterprises, detached parts of this property, or the possessions of liquidated enterprises to individuals and legal entities.

What practical matters are concerning us now and what directions should our efforts take?

Privatization of State and Communal Property

Active and real participation of co-ops in privatization: Article 5 of the Law passed in Bulgaria explicitly states that all individuals and legal entities can participate in privatization under equal conditions. We accept this statement as fully correct. Nevertheless, having in mind the social functions of co-operatives and the fact that they are the only organizations to serve the population in

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sparsely populated areas, and this at most beneficial prices, it appears to us that co-operatives should have the right to participate in privatization on preferential terms. This is most relevant to the communal enterprises and to the smaller State enterprises with basic production funds of up to 10 million Leva (about 430,000 US\$). These production units are most closely connected with the population, and in this respect they are similar to co-operatives.

We are of the opinion that the right to preferential participation should be regulated by a number of legal and economic conditions. Our view is that protective regulations can be also provided, so that the possibility of speculative operations, hidden under the name of co-operatives, may be eliminated.

Now we are thinking of suggesting that the sale of stocks and shares which are State or community possessions should be re-realized under relaxed conditions for co-operatives. Of course, a restrictive ceiling must be set: say 10 or 15% of their total value. This will vary when selling shares of joint-stock companies with the State as their only owner, and those of limited liability companies established with State property.

With the joint-stock companies, we favour the preferential purchase of shares. This will most probably be on the understanding that these are to be nominal shares only, and will not give the voting rights. With the limited liability companies, the co-operatives could buy a common stake in the company capital, also limited to 10 or 15% of this capital.

Co-operatives should have the right to buy whole State and communal enterprises or detached parts of these enterprises. There would not be much demand for this, because of the relatively bad condition of a number of co-operatives in the transition period towards a market-oriented economy. This is why we see a possibility for the acquisition of parts of enterprises through their 25 year lease, with an option to purchase afterwards; through management

contracts with an option to purchase at their end; through purchase by instalments, etc.

We are of the opinion that part of the income from the privatization of State enterprises could be used by co-operatives to carry out activities of social benefit. A similar use for part of these resources is provided for by the law so that funds for social insurance may be formed: a fund for the 'Support and development of agriculture', etc.

Conditional Privatization of Co-op Enterprises

The problem of part of the property of co-operative enterprises being acquired by their employees is especially topical at present. This problem is debatable under a number of economic and legal aspects. That is why I would like to draw your attention to it.

The above-mentioned enterprises are, as a whole, the property of co-operatives. The employees have no claim on co-operative property. As a result, they have no direct interest in the economic results of the enterprise. The social attitude towards this problem is that those working in the co-operatives should possess part of their property: under specific conditions about 15 - 20 percent of the property could be given to them. Now, the problem is according to which criteria, and in which way, should this be realized? With regard to criteria, we are elaborating a methodology to include the duration of work with the enterprise, personal contribution, etc. We shall also include former workers who have retired. It is very difficult to find a way of transferring the property. In its nature, it is private property, i.e. it belongs to the member-co-operators. Consequently, such a transfer can be realized solely with their consent.

When applying the ideas of granting co-operative property to those who work in co-operative enterprises, we have recommended that they should establish new co-operatives which can then purchase this co-operative property.

Co-operative Legislation in the Czech and Slovak Federative Republics

by Vladimir Kacka*

Allow me, please, to address you on behalf of the Co-operative Union of the Czech and Slovak Federative Republic and to join in the discussion by making a few comments relating to the problem area of co-operatives, particularly by focusing attention on several issues which are to be considered by this Conference: that is to say, the issues of co-operative legislation and property relations within co-operative societies in present-day Czechoslovakia.

The comments which follow relate to the document entitled 'The Political and Legal Problems of the Transformation of Czechoslovakia's Co-operatives', by the President of the Co-operative Union of the Czech and Slovak Federative Republic. This document has been made available to the participants of this Conference.

In the first place, may I say a few words about the legislation which regulates the legal regime of the co-operatives. Regarding the transformation of our country's economic system into a market economy, a process marked by the privatization of economic units and leading to the creation of equal conditions for all types of business activities, the changes taking place include the conversion or transformation of the existing co-operatives into associations corresponding to the co-operatives found in democratic market-economy countries.

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In the initial stages of the transformation process, there were problems: for, within the legislative bodies and in the activities of certain political parties, various efforts were being made to find a way of liquidating the existing co-operatives. It was argued that they were products of the socialist economy. Gradually, however, the co-operatives succeeded in overcoming these unjustified and incorrect attitudes. To a considerable extent this was thanks to the efficient support of experts from the International Co-operative Alliance, the International Labour Organisation and the authorities of the European Communities Commission, as well as the assistance of co-operative partner organizations from other countries. The achievement of this success was subsequently reflected in the adoption of new regulations concerning co-operatives, incorporated in the Commercial Law Code, effective from 1st January 1992, as well as the adoption of a compromise-based law on the transformation of co-operatives, effective from 28th January 1992. This situation is described in detail in the duplicated text prepared by Mr. Ota Karen, President of the Co-operative Union, which has been distributed to you. Today, as a result, one no longer hears from Parliaments or from Government authorities declarations claiming that co-operatives should not operate in a democratic State and within a market economy.

The legal status and property relations of co-operatives are regulated in the Commercial Law Code, side by side with provisions concerning business companies, and the parameters of the legal pattern thus created are comparable with the current European co-operative legislation. As distinct from the earlier legislative situation, which was mainly institutional and organizational by nature, the provisions contained in the Commercial Law Code clearly reflect a legislative arrangement of the property relations within a co-operative society as a legal entity, as well as the legal basis of property relations between a member and his co-operative society. It is significant that the legislation regulating these affairs includes optional provisions, so that the co-operatives are free to arrange and regulate the property relations between a member and the

society itself, and to a certain extent also the division of competencies and powers between the society's authorities, according to their specific conditions for, in a number of issues, they may depart from the law.

Consequently, it can be said that the legislation governing co-operatives is not unduly restrictive, but gives them ample scope for the emergence of new societies, for the activities of the existing ones and for their mutual co-operation, as well as for their collaboration with any other businesses, whether domestic or foreign.

It is probably debatable (and such debates are, indeed quite frequent among the supporters of various theories) whether it would not have been more suitable, after all, to regulate co-operatives by means of a separate co-operative law. We do realize, of course, that the incorporation of legislation concerning co-operatives in an overall Commercial Law Code is the exception rather than the rule in European countries. It will certainly be useful to consider these legislative issues in collaboration with the co-operative legislation of other countries. Nevertheless, in spite of certain legislative and legal imperfections resulting from the relatively accelerated formulation and adoption of the Commercial Law Code, the present legislation governing co-operatives in Czechoslovakia does, indeed, provide favourable conditions enabling the co-operatives to enjoy an equal status and equal rights within the system of businesses recognized as legal entities by the laws of our State, and also to promote an all-round development of their activities.

In practice, of course, co-operatives sometimes come up against the endeavours of certain professional business organizations to restrict the opportunities for business competition. This, however, is obviously a matter of development, in the course of which the laws of our State are gradually creating a legislative framework for the prevention of various restrictive practices of unfair competition, including attempts to establish a monopoly or a dominant market position.

Today, from the legislative point of view, co-operatives have access to many different forms of business under the same conditions as those applicable to any other entrepreneur. This applies to the licences granted for the operation of various crafts and trades, to the State taxation policy relating to businesses, and to bank credit policies.

In the provisions of the Commercial Law Code, the legislation concerning co-operatives has done away with the differentiation of co-operatives according to their spheres of business. Accordingly, the law no longer distinguishes between agricultural and non-agricultural co-operatives, as used to be the case.

On the other hand, however, it is expected that specific arrangements will be legalized in respect of the homes built by housing co-operatives, within the framework of the envisaged legal regulations governing housing in general.

The present situation within the Czech and Slovak Federative Republic as a whole can be characterized by the fact that the legal regulations governing co-operatives are adequate. Any further modernization of these regulations is likely to take place within the framework of the gradual improvements to be made in civil and commercial legislation as a whole.

The co-operative movement's representatives believe that they will have the opportunity of voicing their opinions on these matters within the framework of the tripartite negotiations, organized through the Economic and Social Agreement Councils, within which the co-operating parties are the representatives of Governments, employers (including co-operatives) and trade union organizations.

A factor causing some complications at present, as regards the opportunities for co-operatives in our country to associate at secondary and tertiary levels, is the existence of laws on what are

known as Economic Chambers. These laws make it obligatory for all businesses, including co-operatives (with the exception of those housing co-operatives which are not engaged in any entrepreneurial activities), to become members of these Chambers. This means that in both our Republics, Czech and Slovak, the Economic Chambers have been created by law in addition to professional organizations, while in the sphere of agriculture the corresponding institutions will be Agrarian Chambers, to which it is obligatory for agricultural co-operatives to become affiliated.

In the negotiations currently taking place within the preparatory committees of these Chambers, it is our aim to identify the status of the promotional associations of co-operatives, unions and associations of co-operative societies, and the apex Co-operative Union of the CSFR, within the mechanisms and structures of the Chambers, including the relationships between co-operative societies and their associations.

It is well worth mentioning that co-operative societies and their promotional organizations have come forward with new entrepreneurial activities which used to rank among their important lines of business, several decades ago, before being curtailed by 'Socialism'. These renewed activities include the re-entry into the financial sphere. This has led to the establishment of a co-operative insurance society named 'Kooperativa' operating on a nationwide scale, and also of a co-operative bank bearing the name of 'Coopbanka'. These institutions have been established in the form of joint-stock companies, though predominantly with co-operative participation, and include foreign shareholdings. Another company, likewise with co-operative participation, is preparing to start operating in the field of pharmaceuticals, with the aim of building up a network of co-operative pharmacies in future. Furthermore, hundreds of new co-operative societies are engaged in branches of business previously inaccessible to co-operatives.

This concludes my remarks on the legislative and economic framework of co-operative activities in Czechoslovakia. There is every reason to believe that these conditions will continue, irrespective of the actual result eventually decided upon with regard to the constitutional restructuring of Czechoslovakia.

And now, may I pass on to the other sphere: that of property relations within co-operative societies and the consequent property transformation according to the previously mentioned compromise law on the transformation of co-operatives.

The underlying ideas of this law, as well as some of its pitfalls, have likewise been dealt with in President Ota Karen's paper.

In view of the active approach of the co-operative societies, co-operative unions and the apex Co-operative Union of the CSFR, and thanks to the mutual collaboration of co-operatives and their promotional associations within the co-operative movement, it has been possible to prepare the co-operatives quite well (in the methodological, organizational and professional respects) for the whole re-transformation process, despite several problematic provisions within the co-operative transformation law.

The present situation is such that a large majority of the co-operative societies will be approving their transformation projects and deciding about their future activities during the third quarter of this year (some co-operatives will be doing this during the last quarter) in order to comply with the requirements of the law, according to which the transformation of all co-operative societies in existence on 1st January 1992 should be completed by 28th January 1993 at the latest.

What the transformation actually involves is described in Mr. Karen's paper. However, I will point out that the transformation contains two main components:

One of them is a property transformation prescribed by the law regulating the transformation of co-operatives. Its aim is to identify the property entitlements of those individuals able to claim a share in the co-operative society's assets.

In agricultural co-operatives, about two-thirds of such individuals are the owners of the land which the society previously farmed free of charge, by decision of the State authorities. The owners of this land were not members of the society; after the Communist take over the land was taken away from them. They were deprived of its ownership or, alternatively, they remained its owners but had to surrender it to the agricultural co-operative society for collective farming. About one-third of those entitled to a share in the assets are members of the co-operative society, whether owning land or not. From this it follows that in agricultural co-operatives, persons who are not their members will become entitled to approximately two-thirds of the property shares. If they wish to take up private farming, after the approval of the transformation the co-operative society must surrender their property shares to them within three months. If they neither become members of the co-operative society nor intend to be engaged in farming, their property share must be surrendered to them within seven years. On the other hand, if the owners of such land wish to become members of the agricultural co-operative society, their property relations will be regulated by the society's rules.

Consequently, a specific feature of the property transformation of agricultural co-operatives, as distinct from other types of co-operative, is the fact that two-thirds of the property shares in the assets of these co-operatives will belong to persons who have never been members of the co-operatives. Therefore, it would be appropriate for the rules of these co-operatives to regulate all property issues connected with the disposal of this property share, its valuation, share in profits etc.

In consumer, industrial and other non-agricultural co-operatives, the position is quite different. Those who are currently members of such a co-operative society account for approximately 99 per cent of the individuals entitled to acquire a property share in the society's assets. The amount of the property share will be calculated mainly for the benefit of these. Moreover, in consumer and industrial co-operatives the property share will be calculated from only a small part of the assets, because 75 per cent of such a co-operative society's assets must be transferred to the society's indivisible fund.

If the transformation should result in the existing co-operative society being divided up and its member should not be willing to become a member of any of the societies created by the division, he shall become entitled to have his property share surrendered to him, in those cases where he becomes an entrepreneur within the co-operative society's field of activity, or otherwise within 7 years.

Quite different again is the situation in housing co-operatives. Here, no comparable property transformation takes place. However, the law on the transformation of co-operatives makes it possible, albeit by means of a few imperfect provisions, for a member of a co-operative housing society to apply for the transfer of the co-operative home to his personal ownership. The deadline fixed for the submission of applications for such a transfer was 28th July of this year. Accordingly, a large number of housing co-operative members have submitted applications to their co-operative societies. This does not mean, however, that all of them will really be interested in having their co-operative home transferred to their ownership, because a number of legal and property aspects still remain unclear.

The transformation law has regulated these matters only marginally, and very inadequately. Certain aspects have subsequently been regulated more accurately by a legal ordinance of the Presidium of the Federal Assembly, but quite a number of legislative

solutions are yet to be finalized: specifically by the envisaged Housing Act, for which the necessary bill was prepared some time ago, but the Federal Assembly did not have enough time to consider and approve it before this year's General Election.

Consequently, the transformation of housing co-operatives must be regarded as a specific problem, closely connected with the issues of co-operative housing in general and with the envisaged legislation regulating the ownership of dwellings.

In general, it can be concluded that within the systems of agricultural co-operatives and housing co-operatives there will probably be, in the very near future, ample scope for the application of the type usually referred to as owners' co-operatives, i.e. co-operative societies associating owners and catering for their needs: for example, by taking care of their housing.

In future, co-operatives of this type are also likely to come into being within the spheres of trade, production, services etc., either as newly emerging societies or by gradual conversion of a number of the co-operatives currently in existence.

The authorities are very favourably disposed to co-operatives of such a type, and therefore their emergence is most likely to be supported in future. Such a development may well be expected in view of the fact that the State's current policy includes the creation of the necessary legal and economic framework to support small and medium-sized businesses, which includes most co-operatives, with the exception of certain very large co-operative societies.

The other component of the transformation of co-operatives is a change in the legal status of the societies, so that they may be transformed either into co-operatives conforming to the provisions of the Commercial Law Code, or alternatively into business companies of the types recognized by the Code in those cases where a co-operative society has decided to be transformed into such a company.

The legal form of co-operatives, as well as of business companies, is regulated by the Commercial Law Code, which also lays down, in its transitory provisions, the duty for co-operatives to undergo the transformation, while the actual procedures and methods applicable to the individual types of co-operatives are prescribed as obligatory in the transformation law itself. From this, it follows that a co-operative housing society will carry out its legal transformation merely by adjusting its rules to the Commercial Law Code and by getting the necessary facts recorded in the Commercial Register. A consumer or industrial co-operative society must amend its rules similarly and continue to operate as before, or it may divide itself into two or more new co-operative societies, whereby the original society ceases to exist. It cannot, however, transform itself into a commercial company. Agricultural and other co-operatives may either adapt their rules to the Commercial Law Code and continue to operate as before or, alternatively, they may subdivide or even transform themselves into business companies.

In general, it can be stated that the transformation of agricultural co-operatives is considered to be a matter of fundamental importance within the whole co-operative transformation process at present. That is why its progress is being watched with utmost attention by Government authorities, the press and the public at large. The transformation of other types of co-operatives is being given less attention, because it concerns, in essence, only the co-operative members themselves, whereas in agriculture the issues at stake include the solution of problems concerning matters of principle: the relationship between the land's owners and the agricultural co-operatives.

Furthermore, considerable attention is being paid to the overall problem area of housing, sales of dwellings and their prices, the legal status of house owners and tenants: and in these contexts also the future concept and policies of co-operative housing societies and the issues relating to co-operative flats. These matters are partly undergoing some movement, as far as co-operative flats are

concerned, in view of the transformation law's provisions concerning transfers of co-operative flats to the ownership of the resident members, occupants of the flats and subtenants, and also in connection with the policy issues and conceptual considerations involved in the envisaged legislative regulation of the ownership of dwellings and related issues.

Closely connected with this problem area is the concept of a savings-for-building scheme, which has not been introduced in this country yet. Accordingly, a savings bank for the promotion of building has already been established, on the initiative of the Union of Housing Co-operatives, and the preparations for new legislation needed for the scheme have reached their final stages in the Czech Republic, while in the Slovak Republic the appropriate law has already been adopted by its legislative body.

On the basis of the knowledge gained up to now from the preparation of the transformation projects, and on the basis of talks with the representatives of many co-operative societies, it is possible to draw a general conclusion to the effect that the co-operatives can be relied upon to be engaged in a wide range of business activities, while simultaneously endeavouring to satisfy the social, cultural and other needs and interests of their members. These aims will be pursued not only by the existing co-operatives, which are undergoing transformation, but also by the newly-arising co-operative societies of various kinds and types.

A wide range of different kinds of businesses, and an appropriate place for the co-operatives among them, is sure to come into existence in the course of the years to come, after the accomplishment of the large-scale privatization of the national economy. Amidst this entrepreneurial environment, the role and position of the co-operatives will no longer be determined by any political approaches, whether positive or negative, to the co-operative societies themselves. Instead, everything will depend on their own ability to operate and develop within the environment of a market economy and a democratic State.

Ownership Reform Process in the Estonian Economy

by Ardo Kamratov*

Estonia, as one of the first countries to declare independence from the former Soviet Union and re-establish itself as an independent State, has already made substantial progress in implementing its bold programme for transformation to a market economy.

Economic Background

Before World War II, Estonia was predominantly agricultural. However, following the Soviet policy of rapid industrialization in the 1950s and 1960s, the share of agriculture in net material product (GNP) declined to about 20 percent in 1990.

Soviet rule led to the forced collectivization of 140,000 private farms into 365 collective and State farms. In the mid-1980s the policy of collectivization was reversed, and by the end of 1991 over 6,200 private farms had been established, operating alongside about 160 collective and State farms. However, heavy dependence on imported inputs (fodder, fertilizer, and fuel) from other former Soviet republics have made the agricultural sector highly vulnerable to dislocations in trade.

Estonia's industrial output (including construction) currently accounts for about 60 percent of GNP, of which about half consists of intermediate and capital goods, and the other half of consumer goods (mainly clothing, electrical products, and furniture). The industrial sector is characterized by:

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- a high degree of concentration, with about 20 percent of all enterprises producing about two thirds of total industrial output;
- a heavy reliance on inputs imported from the rest of the former Soviet Union and
- its dependence on markets in the former Soviet Union.

Estonia is an important producer of energy, with production based mainly on its reserves of shale oil. About 90 percent of shale oil output is used as fuel for two thermoelectric power plants, while the remainder is used in the cement and chemical industries. About half of the electrical power generated is exported to Latvia and the Russian Federation, and the remainder is consumed domestically (meeting roughly half of Estonia's primary energy requirements).

The service sector is still dominated by the State, although there has been rapid growth of private enterprises in the retail and tourism sectors. The financial services sector, which was relatively undeveloped until the 1987-88 reforms, expanded rapidly thereafter, mainly through growth in commercial banking.

In April, 1992 we had 1,623 enterprises with foreign capital, including 329 joint-ventures, 1,165 international joint-stock companies and 34 international companies. More than 150 million US\$ have been invested in the Estonian economy. The enterprises with foreign capital have mostly been in wholesale and retail trade, industry, servicing, construction, hotels, etc, mostly with Nordic countries like Finland and Sweden, the former USSR, the USA, Germany, etc. More than 240 representations by foreign firms have been registered in Estonia.

Estonia will actively make political and economic contacts with the other countries. The Republic of Estonia has been acknowledged as an independent sovereign State by most of the world's countries and participates in many international organizations. Estonia is a

member of the UN, the World Bank and the IMF. It also belongs to the Commission of Western Sea Countries, participates in the work of the Baltic Assembly, etc.

At the present time the policy on investments is one of the most important ones. The investment climate in Estonia is better than in other East-European countries. We already have many facilities for foreign investors, with Laws to provide the following:

- tax allowances for investors;
- the protection of foreign investments is guaranteed by the Estonian Republic;
- foreign currency repatriation for foreign investors, etc.

Among the former republics of the USSR, Estonian entrepreneurial talents have been the most evident because the Estonians are very active in both political and economic spheres. In connection with the privatization process we expect an increased level of investments.

In mid-June 1992, Estonia introduced its national currency, the kroon (crown). The goals of the Estonian monetary reform were as follows:

- increase of Estonian sovereignty;
- rapid achievement of convertibility for trade purposes;
- achievement of external and internal currency stability;
- acceleration of privatization, restructuring of the economy and reorientation towards Western markets;
- enhancement of the economy and political support for the reforms.

The Republic of Estonia began with the arrangement of property relations in 1991, when the Ownership Law was accepted. The development of ownership relations shall include the following arrangements:

Restitution or Compensation for Property

The restitution of, or compensation for, property to resident Estonians. More than 200,000 claims have been submitted by resident Estonians and are now under elaboration. Under the Law of Restitutions many farms and dwellings are already in the process of restitution.

Municipalization of State-owned property.

More than 3,000 units of housing stock, regional financial services, education, service and trade have been transferred to municipal ownership.

Privatization

The programme of privatization was launched in 1991. Some progress has been made in the privatization of smaller enterprises, especially in the service and trade sectors. In May, 1992 these went on sale (at a total cost of not more than 800,000 kroons each). According to statistics available on the 1st of June, 800 businesses, or 30% of the total, had been sold. At the same time, the privatization of smaller enterprises has already come to an end in some regions of Estonia. Auctions are the basic form of privatization. In 1991 an experimental privatization was carried out, in the process of which seven large enterprises were sold. In August, 1992 the resolution on the privatization of large enterprises was passed by the Supreme Council of the Republic of Estonia. It gave permission to start the sale of the State joint-stock companies and 30 other enterprises (including their assets). There are no purchasing limits for foreign investors in the Estonian privatization process.

Reform of Co-operative and Social Organizations

Historically, there are three typical social and co-operative organizations in the Republic of Estonia. The first group consists of the 'new' organizations, founded during the last 5 years according to democratic principles. The second group is made up of organizations which have existed since 1940, but which were deformed and

amortized during the Soviet power (for example the Trade Unions and the Estonian Consumer Co-operative System). The third group consists of collective farms.

At present, the process of reorganization and liquidation of collective farms according to the Law on the Reform of Agricultural Ownership is ongoing. At the end of August the Supreme Council of the Republic of Estonia accepted the Law on Corporations, which will be the basis for their foundation and also for the reorganization of the Estonian Consumer Co-operatives System. At the present time both the consumers' co-operatives and the Central Union of Consumer Co-operatives have been reorganized.

Structure of Entrepreneurship

State-owned property

State enterprises	102
State joint-stock companies	185
Small enterprises	647
All others under State ownership	870

Municipal property

Municipal enterprises	177
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Rental enterprises	203
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Co-operative enterprises

Co-operatives	3,816
Others	863

Private property

Private enterprises	597
Farm-houses	2,867
Joint-stock companies and economic corporations	17,589

Total	27,916
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Privatization of Agriculture in Hungary

by Dr. Csaba Bálint*

It is an honour for me to be able to take part in this event on behalf of the Hungarian Federation of Agricultural Producers and Co-operators (MOSZ) and to present our standpoint on current practice in Hungary.

The deadline-limited ownership and business organization changes currently taking place in Hungary, along with the execution of other legal measures regarding restitution, co-operation and transition, differ from the privatization of the State-owned food processing and retailing industry. In our view, the effect of these un-coordinated processes will probably be that, while large-scale structures are transformed into small-scale family-based enterprises and into other smaller business units and co-operatives, the monopolistic State-owned industrial companies, associations, limited companies and shareholding units will conserve their structure, and thus be able to take advantage of their superior asset base to adversely influence the privately-owned productive sector.

Furthermore, the privatization of related commercial, supply and service organizations has primarily resulted in either management buyouts or in transfers to foreign owners.

As far as we know, the progress and formation of the Western European structure was, for many years, purposefully influenced

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by the Common Market and the national States, and the producers' incentives were supported by providing assistance to co-operative forms of organization.

70-100% of the major agricultural sectors of the agriculturally most developed countries are possessed by the processing and sales co-operatives of producers and farmers. In this way, the production, processing, transport, storage and marketing of produce can operate efficiently by spreading risks and taking advantage of economies of scale.

In this respect, the Hungarian situation seems to be critical. The possibilities for agricultural producers to take part in privatization are rather limited. In order to allow producers to establish co-operative forms more efficiently in the course of privatization, we consider it important and necessary to emphasize the following points:

We are making efforts to encourage and promote the transformation of State-owned companies into co-operatives via the privatization laws. We deem it necessary that State companies in the food industry should be transformed into co-operatives within the framework of a new privatization technique. This is the only way in which fair market competition may be created and a safe and reliable food supply secured. This form has already been well tested in Western Europe.

To achieve these objectives, farm producers should be ensured a 50-100% holding in State-owned companies engaged in the haulage, processing, marketing, supply and servicing related to agricultural production.

The companies should reorganize themselves as co-operatives according to the regional location of farm producers. In the course of this, the producers should be given a claim against the co-operative's assets in the form of share certificates in proportion to

the amount of products they contract to produce on a regular basis: milk, meat, grain, vegetables, wine, etc. The companies which were formerly under State control should be reorganized according to the new co-operative legislation and not into share-holding and limited-liability companies. The producers are to become interested in co-operation by virtue of their ownership share, because the values of the lowest and highest shareholdings must be determined in advance, and thus the producers have access to markets in proportion to their shareholdings. Share certificates may only be acquired by producers, individuals or enterprises, and if someone leaves the company his share may only be transferred to someone ready to accept the obligations which his shareholding imposes on him.

Shareholding by foreign owners should be limited to 20-30%, as an advisable limit. However, extra capital may be raised by issuing business shares.

Such share certificates may only be transferred among the producers themselves, but their possession and use can be encouraged by special allowances. However, such certificates invariably entail production and servicing obligations.

The restitution or recovery certificates, being issued by the Hungarian State to citizens and former nationals who have suffered material damage in one way or another over the last 40 years, are now functioning as Securities. What we would like to see is that these should be valid to exchange against a co-operative shareholding of equal value.

Should the State property, which has a lower value than that indicated in the books, be made available to producers against payment rather than free, then it would be advisable and reasonable to transfer 70% of these share certificates to producers in exchange for their restitution certificates, 15% as low-interest credits, and another 15% against cash payment.

Taking a longer view, we think that the effect of privatization on farmers' and producers' choosing the co-operative way will become of decisive importance. We fully appreciate that this issue is to be put on the agenda, and that the related questions are going to be thoroughly discussed from strategy and tactical aspects.

Legislation Affecting the Romanian Co-operative System

by Centrocoop*

In Romania the consumer and credit co-operative societies are organized on the basis of Decree-Law No. 67/1990, which establishes the autonomy and independence of the co-operative system in our country. However, this Decree-Law was adopted very quickly after the revolution. Under these circumstances, it was necessary to draw up a new law in order to create a legal framework for developing the co-operative system without the intervention of the State. This law was meant to show the specific juridical profile of the system, in conformity with the market economy.

From 1990 onwards many changes took place in social, political and economic life: changes followed by the drawing up of a new legislation. Therefore, the co-operative system needs a new legislation, too, in order to adapt it to the market economy.

The draft of the new co-operative law was forwarded to the Parliament of Romania to be discussed and adopted. This new legislation is based on the main principles of the co-operative system, namely the free association or 'open door' principle which gave to every citizen the right to participate freely in an association of individuals with shared interests; an association which he can enter and leave whenever he wants; the principle 'one man, one

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vote', which is the expression of the democratic way of organizing and managing the co-operative system; the principle of continuity, which means the net assets of a dissolved co-operative society are not divided between its members but transferred to the other co-operative societies; the principle which says that labour pays for the capital: hence the principle of the priority of labour over capital; the principle of mutual assistance and service to the members of the co-operative society.

Taking into account these principles, the organic law of the consumer and credit co-operative societies will include stipulations concerning the setting up, organization and functioning of the co-operative societies, the structure of the co-operative movement and the relations between different co-operative units, the autonomy of these co-operative units and their regional aspect.

The co-operative system is based on the co-operative society, namely consumer, credit and production co-operative societies. At district level, activities are carried out by the district Association of the consumer and credit co-operative societies (FEDERALCOOP), and at the national level by the Central Association of the Consumer and Credit Co-operative Societies (CENTROCOOP).

The provisions of the law on the consumer and credit co-operative societies also stipulate the relations between co-operative societies and the State, and settle the equilibrium of these relations by giving autonomy to the co-operative societies and by strict limits on State intervention, as well as by measures taken by the State in order to support the co-operative societies.

The scope of the law refers to the activity of the consumer and credit co-operative societies, taking into account the difference between this activity and purely commercial activity, the traditions of the Romanian co-operative system and the evolution of the co-operative movement worldwide.

Foreign Assistance for Transforming Romanian Co-operative Societies

by the Central Union of Consumer & Credit Co-operatives

In Romania the consumer and credit co-operative societies would like to make the following requests concerning foreign assistance for the transformation of the co-operative system:

- * in the economic field - supply with food and non-food raw materials for co-operative units;
- * in the technological field - machines, tools and equipment for the co-operative societies;
- * in the educational field - the training of personnel; scholarships for specialists in commerce, marketing, management and banking; donations of typewriters, xerox, fax machines etc. to our secretariats.

We take this opportunity to ask the leaders of the ICA, as well as the representatives of the other organizations here present, to make new proposals concerning export-import activities, co-operation in producing and exporting goods, the setting up of joint ventures, barter etc.

We consider the activities organized by the ICA, which aid us to be aware of the changes which have occurred in Central and Eastern European countries, as being of real interest and great help to us.

Privatization and its Effects on the Romanian Co-operative System

by the Central Union of Consumer & Credit Co-operatives

In Romania before the revolution of December 1989, as well as in the other countries of Central and Eastern Europe, the economy was super-centralized and based on State property.

One of the first measures taken in the process of transition to the market economy was beginning the privatization of State property by its continuous diminution to the benefit of private property.

By adopting Law No. 15/1990 concerning the reorganization of State enterprises to form autonomous units under State supervision and commercial societies, the first 30 percent of the social capital was transferred to the National Agency for Privatization, which issued property certificates distributed equally, and free of charge, to all Romanian citizens.

The second step was the drawing up of the Privatization Law, which developed the principles stipulated in Law No. 15/1990 and also contained a provision that the State, through a special law, should hand back all expropriated assets to the co-operative societies or individuals from whom they had been sequestered. So, all the rest houses, children hostels, and other buildings taken by the State without payment will be handed back to the co-operative system.

The privatization of the consumer and credit co-operative societies was carried out more rapidly due to the specific character of the co-operative system based on the private property of its associated members united for their mutual benefit.

It is not possible to apply the principles, such as they are, regarding the privatization of State property to the co-operative system. The co-operative societies were based on private property from the beginning, being recognized by the State as associations, but were not able to apply the co-operative principles until 1989 because of the interventionist policy of the State.

The situation mentioned above represents an advantage for the consumer and credit co-operative societies in 'privatization' and for the transition to the market economy, and this is the reason why the State didn't extend the provisions of Law No. 15/1990 to the co-operative system. On the contrary, each member of the co-operative society (Romanian citizen) received, free of charge, certificates of property from the State.

Property Rights in Romanian Handicraft Co-operatives

by Professor Gheorghe Belciu*

The Situation to Date

The property rights of legal entities in the handicraft co-operatives are established by the system of principal real right as laid down by Romanian legislation. Consequently, besides the property rights belonging to the other subjects of civil law: the Romanian State, autonomous administrations, trading companies, regional administrative units (county, city, village), political parties and other public organizations, religious bodies and individuals (Romanian citizens, stateless persons, foreigners), there are also the property rights of organizations (company, association, union) integrated in the handicraft co-operative movement of Romania.

It should be mentioned that, until December 1989, co-operative property (belonging to both handicraft and consumers' co-operatives) was considered as a second form of socialist property (the first form being State property), benefiting from a privileged legal regime in comparison to private property. However, we shall not discuss this legal regime, since it has now passed into the field of Romanian legal history.

In accordance with Romanian law, a legal entity belonging to a handicraft co-operative may achieve an action of economic co-operation with legal entities such as the autonomous administrations, State-funded trading companies or other trading societies.

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As a rule, in such a situation, whose effect is to create another legal entity, the problem of property rights is settled in the deed of partnership, by observing the required legal documents. We do not intend to consider the property rights of the legal entity thus created.

Furthermore, we shall pay no attention to the property rights of individuals within the handicraft co-operative movement (co-operative members or employees), as such rights are part of 'the private property rights of the physical person under Romanian civil law'.

Property rights in the handicraft co-operatives of Romania can be presented by examining the following principal issues: concept (definition, characteristics, relevant laws), subjects, object, content, way of acquisition, defence (protection).

The Concept of Handicraft Co-operative Property

When defining the property rights of handicraft co-operatives one should start from the legal definition of property rights in Article 480 of the Romanian Civil Code: '.....property is the right held by someone to benefit from, and dispose of, a thing exclusively and absolutely, however within the limits settled by the law'.

We can state, therefore, that the right of handicraft co-operative property is that principal, real right whose holder is a legal entity due to handicraft co-operation, by virtue of which the holder may possess, use and collect its products and may dispose of the benefits thus held, by observing the limits settled by the law.

Legal characteristics

The right to handicraft co-operative property shows the following legal characteristics:

- * It is a real right because its object is represented by goods: real estate or personal belongings. This characteristic makes it

different from the other patrimonial right which may exist in the patrimony of the legal entity (handicraft co-operative organization), namely the right of claim.

- * It is a principal right. This means that it has an independent existence, its legal fate not depending on other subjective right. This characteristic makes it different from the secondary real rights that may appear in the patrimony of the handicraft co-operative organization (security, mortgage, privilege).
- * It is an absolute right. As any absolute right, the right to handicraft co-operative property may be exerted without the concurrence of any other subject of law, being opposable to all the others (*erga omnes*).
- * It is a right of private property. This characteristic results from the terms of the Romanian Constitution; in accordance with Article 135 (2) 'All property is public or private'. However, according to alinea (3) of the same constitutional article, 'Public property belongs to the State or to the regional administrative units': on the contrary, subjects of civil law other than the State and the regional administrative units may hold rights only to private property. The legal consequence of this characteristic consists in the fact that the common law upholds private property rights. This problem is resolved in Article 41 (2) of the Romanian Constitution, as follows: 'private property is equally protected by the law, irrespective of its holder'.

Relevant laws

De lege lata, the property rights of handicraft co-operative organizations are found in the Romanian Constitution (Articles 41 and 135); the Romanian Civil Code (Articles 480 and 481), Land Law No. 18/1991; Decree No. 66/1990 regarding the organization and operation of handicraft co-operatives and UCECOM Council De-

cision No. 1/1990, on the adjustment of handicraft co-operative organizations to the conditions of the market economy, and 2/1990, regarding the sharing of the handicraft co-operative organizations by co-operative members and employees.

De lege ferenda, it is planned that the principal questions regarding property rights will be covered by the Law on handicraft co-operation (whose draft has been elaborated and is awaiting adoption).

Subjects of Handicraft Co-operative Property

Only a legal entity with the quality of legal person may hold rights to handicraft co-operative property. In accordance with the laws in force, such parties are: the handicraft co-operative, the handicraft co-operative society (joint-stock ones included), the regional unions (of Bucharest City and of the counties), grouping handicraft co-operatives, and the Central Union of the Handicraft Co-operatives - UCECOM.

Each of the parties above is a legal person under civil law and, therefore, a holder of property rights with respect to the goods of its patrimony (except when such goods are held with other legal title).

In all cases it should be noted that, although the handicraft co-operative property is private, it nevertheless belongs to a joint subject of civil law, i.e. a legal entity. Thus, the property rights of every legal entity are distinct and autonomous, as regards both the property rights of the other co-operative organizations and those belonging to the physical persons forming the membership of the legal entity.

Object of Handicraft Co-operative Property

The property rights we take into account hereby may have as an object both personal goods and real estate.

The legislation specific to handicraft co-operatives (Decree-Law No. 66/1990, Decision No. 2/1990 of the UCECOM Council) divides the goods of the patrimony belonging to the handicraft co-operative organizations into certain categories or groups (fixed assets, liquid assets, products, cash) establishes for each of them the specific issues of the legal regime, including the issue on the exercise of property rights upon them.

It should be mentioned that, in accordance with Article 41 (1) of the Romanian Constitution, the content and limits of property rights, including those of handicraft co-operatives, are settled by the law.

In principle, the legal regime covering the different categories of goods is that of common law. From this point of view, the dispositions covered by special legal documents, applicable to different categories of goods (e.g. land, buildings, metals and precious stones etc.) should be taken into account.

Rights of Handicraft Co-operative Property

Legislation, doctrine and jurisprudence see the right to own property as the most complete principal real right, conferring on its holder the possibility of exerting the prerogatives: possession, use, collecting the products and (material or legal) disposal; they are the prerogatives known under Roman law: *jus possidendi*, *jus utendi*, *jus fruendi* and *jus abutendi* (or, briefly, *usus*, *fructus* and *abusus*). This also applies in the case of the rights to handicraft co-operative property and the exercise of the prerogatives forming this content is submitted to the rules of common law.

The following characteristic should be mentioned, however: in practice the achievement of the purpose or the object of activity by every co-operative legal entity involves the exercise of all prerogatives conferred by the property rights, directly or personally. Cases when this occurs are very seldom encountered.

Ways of Acquiring Handicraft Co-op Property

From this point of view, too, since a right of private property is involved, the common law is applicable.

In theory there should be a 'specific' way of acquisition, namely 'co-operativization'. In practice, common law refers to this as acquiring 'by legal action'.

Another specific method would be 'enlarged reproduction'. This time, too, we are in front of the classic way of acquisition, which is accession, taking the form of *jus fruendi*.

Protection of Handicraft Co-operative Property

As with any other property rights, co-operative property rights are protected by the means offered by different branches of law (civil, administrative, commercial, criminal etc.).

The specific means of protection is, of course, the action under claim, concerning, as the case may be, real estate or personal goods. It is submitted to the rules of common law applicable to this field.

It should be noted that, in accordance with Article 41 (2) of the Romanian Constitution, 'Private property is equally protected by law, irrespective of its holder'.

Finally, according to Article 133 (6) of the same Constitution: 'private property is inviolable under the law'. This text correlates with Article 41 (3 - 6): 'Nobody can be expropriated except in the cause of public usefulness, established in accordance with the law, with fair, prior damage compensation.

For works of general interest, the public authority may use the basement of any building, with the obligation to compensate the owner for the damages caused to the basement, plantations or constructions and for other damages incumbent on the authority.

The damage compensation provided in the alineas (3) and (4) are established by common agreement with the owner or, in the case of dispute, in Court.

Property rights compel the holder to observe the tasks regarding environmental protection and the other tasks that are, according to law or custom, incumbent on him.

International Support for Romania's Handicraft Co-operatives

by UCECOM*

The wave of changes that restructured the whole of Central and Eastern Europe found its reflection in the co-operative movement of this region; it brought about not only far-reaching modifications but also a series of unknown elements, the effects of which are still being studied. , the

In Romania, the events of December 1989 have radically and abruptly modified all the socioeconomic and political structures. The system of values previously seen as fundamental and eternally viable vanished in just a few days. The threat of chaos and of economic anarchy was felt. The will of a whole nation denied a system which had proved to be encumbered by dogmas and unrealistic, but still a system. We were left with only a confused image of what should replace it: namely a 'market economy'. This feeling was also experienced by the co-operative movement of Romania.

Its legitimacy often contested by parties who had political decision on their side in the Communist period and considered co-operative property to be an obsolete property form, confronted with all kinds of hardships, subdued by interference from the totalitarian State, the co-operative movement stoically resisted the 45 years of Communist dictatorship. At the beginning of 1990 it was looking for its own identity. At that time, many voices were heard to assert that

* The Central Union of Handicraft Co-operatives in Romania.

co-operative property was reminiscent of the old Communist structures and must be abolished.

The voices that supported the idea of its abolition were heard both within and outside the movement. Maybe it was a natural reaction to everything that has happened in Romania for almost half a century: a hard and ferocious centralism that was sometimes pushed to the limits of the absurd and that was answered not by logic but by putting forward arguments bearing a deep emotional charge. Practically, privatization was demanded for the sake of privatization, both where it was possible and also where it was inoperative.

Within Romanian handicraft co-operation, rational people needed very sound arguments in order to demonstrate that:

- * co-operative property is not a creation of the Communist economy;
- * co-operative ideals and values are highly appreciated all over the world;
- * co-operation answers many of the world's major contemporary problems.

Such arguments have been put with the help of the international co-operative movement. We would like to mention the support received from the ICA and the CICOPA as well as from the national co-operative organizations of countries such as France, England, Spain, Italy etc. A rich documentation regarding the role and place of the co-operative movement in different European countries was sent to us promptly when it was requested.

We have to mention the great importance the vast documentary material on the theme of co-operative organization and legislation from different countries represented for us. Through comparative studies based on these sources, and by using the mass media to prevent undesirable co-operative legislation we managed to elimi-

nate a series of unknown elements regarding the organization of co-operation in the market economy and to project to the public (on the basis of Western experiences) a real image of co-operative values within a new socioeconomic form of organization.

Decree No. 66 of February 1990 regarding the organization and functioning of handicraft co-operation was passed to sanction the new realities of our organization. To conform to this legislation, a sustained effort has been made to affirm values generally recognized in countries with a long co-operative tradition. The documentation received from our colleagues formed much of the basis of this activity.

From the beginning, we have considered the above-mentioned Decree a transitory stage in the elaboration of the new co-operative legislation. At present, a large group of experts from our organization and also from academic circles are drawing up a new draft law that we would like to present for the approval of the legislative forum at the earliest possible date.

We would like to take this opportunity to express our gratitude to all those who have supported us in our rapid reintegration into the European and world-wide co-operative movement who, even when we were not members of the ICA and CICOPA, invited us to a series of international meetings that had, among other themes, one referring to the problems of Co-operation in Central and Eastern Europe.

A concrete action that enjoyed a large audience was the organization of the international symposium on the theme of handicraft co-operative legislation, in February 1992 in Bucharest. The presence of personalities such as Bernard Piot, President of the Juridic Commission of the Committee to Coordinate the Co-operative Association, Jacques Brioux, Coordinator of Programmes for Eastern Europe within the French Institute for Social Economy Research, and Chantal Chomel, the representative of the General

Delegate for Social Economy of the French Government, created the possibility for ample academic debate on the problems linked to co-operative law. Besides experts on the co-operative system, the symposium was also attended by representatives of official circles, well-known legal personalities, university staff and other decision-makers from public and private organizations. Its debates have clarified a series of problems regarding co-operative law, and have given a series of answers to questions that, placed in the academic sphere, had a direct impact on the current activities developed by the Romanian co-operative movement. We appreciate that such activities may provide the answers to many of the problems with which we are confronted at present, and we would like to express our gratitude to all our friends who helped us in changing our symposium to a platform to promote the co-operative doctrine.

Starting from the experience accumulated, we plan, with the support of the European Committee of Workers' Productive Co-operatives (CECOP), to organize an international seminar on the theme 'Adapting the Romanian handicraft co-operatives to the free market, to Europe and to the single market' in Bucharest in December of this year. We take this opportunity to invite everybody to take part in this seminar which will outline the lines of action to be taken by the co-operative movement of Eastern Europe.

We have tried to point out what we have achieved through the support of the international co-operative movement, and will now indicate where we feel in need of further external co-operation.

Change of mentality

A priority is to change the mentality of our co-operators. This may be accomplished most efficiently by establishing direct contact between the Romanian co-operators and the established co-operative movement, with a long tradition within a market economy.

We would appreciate it if Romanian co-operators could take part in work placements within co-operatives from Western European countries for a period of, say, 60 - 90 days. Our organization is willing to cover the travel expenses. Accommodation expenses should be covered by the work of our co-operators within the host organizations.

Staff training

Staff training represents another important problem for the co-operative movement of Romania. We may truthfully assert that the whole Romanian economy is in a managerial crisis, a phenomenon that handicraft co-operation has not avoided. In 1990, The Central Union of Handicraft Co-operatives from Romania (UCECOM) had already formulated proposals to found an international training centre for the staff of co-operatives and small private enterprises within Romania.

We would like to reaffirm our readiness to consider any suggestion that might have as its object the training of personnel belonging to the handicraft co-operative movement in order to assist its integration in the market economy of Central and Eastern Europe.

Co-operation between Western Europe and the ECEC

We are aware of the fact that the world economic recession creates difficulties for all co-operative organizations. For the co-operative movements of Eastern Europe these difficulties are amplified by a series of already well-known factors which need not be presented here. The handicraft co-operatives of Romania propose to constitute a committee to stimulate economic co-operation between the co-operative movements in the ECEC and the West. Any ideas for the development of co-operation within the European co-operative movements will be welcomed.

We are also open to any form of co-operation with partners outside the co-operative system. We take this opportunity to address our invitation to everyone interested in establishing work contacts in order to develop mutual trade activities. We dispose of production capacities, a qualified labour force and, owing to the comparatively small size of our units, we have a flexibility that allows us to adapt ourselves quickly to the needs of our partners.

Access to ECEC finance programmes

We appreciate that the presence of some representatives of the World Bank and other financial organizations creates the basis for an exact understanding of our problems. The co-operative movements of Eastern and Central Europe which played an important role in the transition to market conditions in the region, should be included in the finance programmes supporting of the socioeconomic transformation of this part of Europe.

We would like to express our conviction that the process now under way will promote a series of useful ideas which, through common efforts, will offer us the possibility to overcome the problems we now face.

Property Rights in the Romanian Co-operative System

by Mélania Bucsan*

In Romania, the revolution of December 1989 and the transition to a market economy gave rise to many problems, among them being the role, structure and aim of the co-operative system.

During the transition from a centralized economy based on State property to an economy based on supply and demand it is essential to reformulate our legal concepts to conform with the new property relations. The concept of 'property' in the co-operative system has changed following the revolution, and the new Constitution adopted on 21/11/91 stipulates that there are two forms of property: namely public property and private property.

Property rights in the consumer and credit co-operative societies are based on two essential rights held by every Romanian citizen: the right to free association (Article 37 of the Constitution) and the property rights of the co-operative association (Article 41 of the Constitution), which is an individual property right, despite the fact that the holder is a collective body, i.e. a legal entity.

Legal entities own the personal and real estates forming their patrimony, but their members are not co-proprietors of these assets. The legal entity is the only owner of the assets forming this individual property and represents the interests of its associates.

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Through the new regulation which recognizes co-operative property as a private property, the consumer and credit co-operative societies are compatible with the principles of the market economy: the most obvious argument in this respect is the prosperity of co-operative societies in the developed capitalist countries.

This form of property rights has the same juridical status and the same constitutional guarantees as do other forms of private property rights. Private property rights within the consumer and credit co-operative societies are in conformity with the co-operative principles, actually strengthening them. The most important argument for this is the setting up of the consumer and credit co-operative societies in Romania 150 years ago.

The principles of the market economy will be more easily applied to the co-operative societies and associations based on private property than to the State societies. The mobility and adaptability of the consumer and credit co-operative societies are due to the existence of many small units, in comparison with the big units belonging to the State.

Co-operative Legislation in the Eastern and Central European Countries

by Castaliu Nicoleta*

In Romania, the idea of co-operation began to become known during the first half of the 19th century, as a consequence of the currents of social and political reform that swept through the whole of Europe during that time.

The first co-operative legislation in Romania, the Law on People's Banks, was passed on March 29, 1903, later amended several times and then followed by the Law on Handicraft Co-operatives of December 29, 1909, the Decree for City Handicraft Co-operatives of February 10, 1919, the Law for the Unification of Co-operation of March 14, 1923, and the Co-operative Code of July 12, 1928. These were abrogated by the Law on the Organization of Co-operatives of March 28, 1929. This law opened the way for co-operative autonomy as regards the State.

After the 1929 Law, new laws were passed in 1935, as a consequence of the economic crisis obvious in the country's social and economic life. These laws removed the unions of guidance and control and the possibility of autonomous organization by the co-operatives.

The last legislation of the inter-war period was passed in 1938. It was justified by the drawbacks of the 1935 Law and the political discussions on the co-operative movement and its ideals. At that time co-operation was considered to be a national issue and an

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institution of public law, and the opinion that in such a situation a decisive State policy was required was encountered more and more often.

The law of 1938 left untouched the provisions of the 1928 and 1929 laws, the standards of incorporation and operation for the co-operative societies based on free association, but gave priority in the management and development of co-operative activities to the State. It gave the State considerable rights to become involved in the life of the co-operative societies: such as, for example, the dismissal of the boards of trustees and the councils of auditors, their payment, and decisions regarding the management, administration and operation of every co-operative organization.

The above-mentioned legal documents governed the activity of the handicraft organization during the period between the two World Wars.

Despite the increasingly obvious involvement of the State, co-operation did not lose its genuine virtues as associations of people, based on the principle of free adhesion and democratic management, who carry on their activities jointly in order to improve the living and working conditions of their associated members.

After World War II, the economic ruin, rampant inflation, and disorganization of social and political life generated conditions which encouraged the association of people from a wide variety of social backgrounds in co-operative societies of procurement, consumers and even handicraft production. Thus, the first Congress of Handicraftsmen, held on June 10 and 11, 1945 revealed the pressing need for their organization in co-operative societies so as to cope with industrial competition, to avoid the erosion of the handicraftsmen's social position and to promote a better supply of materials, more efficient sale of products and improved living standards.

During 1945-1948 a network of co-operative societies dealing in ready-made clothes, shoes, leather items, building and metal working developed.

After the 6th of March 1945, the consolidation of Communist power established the socialization of production in June 1948, and the adoption of economic planning, thereby forming the basis for Communist-type co-operation in our country.

The ideological and legislative bases of this period were the decision of the Plenary Session, held in March 1949, and Decree 133 of April 1949. These documents broadly marked the organizing and operating of co-operative societies in three forms: agricultural production, consumption and handicraft.

From 1949 to 1952 handicraftsmen were attracted to the co-operative societies as a result of an excessive and disastrous taxation policy. During this period, instead of a so-called co-operative independence or autonomy, the direct management of co-operation in all its forms was undertaken by the Communist Party and State. Within handicraft co-operation, the unwarrantable interferences of the Party and the State seriously affected members' interests. For example, in 1959, in two stages: July and November, over 300 co-operative societies and departments of industrial production, with assets of almost one billion lei, were nationalized and entered into the State sector.

Further abuse of the co-operative patrimony was also witnessed in the taking over of co-operative rest houses, and the whole network of out-patient departments and hospitals, without adequate compensation.

After the Revolution of December 1989, socioeconomic development took place under new circumstances in a continuous evolution caused by the process of reform of the entire system and specially the option of the market economy. Through its content,

the evolution of Romanian handicraft co-operation towards a mechanism of reforms was above all conditioned by the creation of a new legislative framework for the market economy. Thus, Decree No. 66 of February 8, 1990 on the organization and operation of handicraft co-operation was adopted.

This law created the legal framework for free, unrestricted development without any State involvement in the handicraft co-operatives. Its provisions assured the decisional-functional autonomy of the handicraft co-operative societies and the possibility that UCECOM should issue compulsory rules for all its organizations regarding labour relations, payment and premiums for co-operative members and employees, and for other areas of handicraft co-operation organization and operation.

Decree No. 66 and its provisions protected the system of handicraft co-operation in the present stage and allowed its reform from the inside, maintaining its operation and allowing the application of a social policy to protect the co-operative members.

When designing a new legal framework specific for the market economy, the following were taken into account:

- * the nature of property: private,
- * the observance of the co-operative principles,
- * the decisional-functional autonomy of the co-operation organization,
- * the establishment of basic rules for developing trading relations within the market economy, etc.

The legislation involving handicraft co-operation during this period should be divided into legal documents (laws, governmental decision, decrees) issued by Parliament and Government and also applied to the handicraft co-operatives, and the internal legal documents (decisions and decrees) issued by the Executive Office of the UCECOM Council.

The first category applies to all economic agents, including handicraft co-operatives and a preference can be observed in the executive management's implementation of the reform programmes for those involving finance and banking and for the exercise of fiscal control. Legislation in this field aims to support the strategy of structuring by means of levers specific to the market economy, which should stimulate the utilization of underexploited production capacity and reduce the tendency towards price rises as a result of pressure from salary increases. Measures include differentiated taxation of incomes depending on their size; the granting of priority credit to economic agents making competitive exports, tax incentives for joint ventures, etc. These are elaborated in Law 11/1991 (income tax), Law 32/1991 (taxation of salaries), Law 35/1991 (foreign capital investments), Law 30/1991 (the organization and operation of financial controls), etc.

At the same time as the legal documents outlined above, laws and decrees were also adopted aiming to protect the economic and social position of the population, co-operative members included. The legislation adopted in this field provides measures against illicit trade: Law 12/1990 regarding the people's protection against an illicit trading activity, Law 1/1991 on the rights of the unemployed and their professional reintegration, Law 15/1991 regarding the resolution of conflicts at work, Law 14/1991 concerning payment, etc.

During this period, complementary internal standards were also adopted to create an adequate legal framework for the adjustment of the handicraft co-operative movement's structures to the conditions of a market economy.

The general principles were established through Decree No. 66/1990 and UCECOM Council Decisions Nos. 1 and 2 of April 26, 1991, to which articles specific for every form of organization are added.

As a result of the handicraft co-operative movement's adjustment to the demands of the market economy it was hoped that the co-operative members should regain the feeling of ownership: they have the right to almost 70% of the net assets, and to a share of the co-operatives' profits depending on their work and the size of their own capital contribution.

In order to apply the above-mentioned decisions, Technical Standards of Registration to acquire a legal personality for all forms of handicraft co-operative organization were adopted.

The new legal forms of organization gave the handicraft co-operative societies a wide degree of autonomy, a greater concern for the protection of the societies' assets through rules regarding the drafting and publishing of accounts, relations with controlling bodies, the presentation of documentation to the co-operative society, the compulsory provision of information at the request of co-operative members and the right to contest any decisions made by the general assembly which did not agree with the articles or legal provisions in force, or which endangered the interests of the co-operative society members.

In order to facilitate adjustments to the demands of the market economy, the Executive Office of the UCECOM Council elaborated Decision No. 8/January 23, 1991 and Decision No. 197/1991, which permit the service units of handicraft co-operative societies to be independently administered.

At the same time as the structural transformation of the handicraft co-operative system, the Executive Office adopted a number of decisions meant to assure the legal framework for the introduction of mechanisms specific to the market economy, simultaneously with the application of a social policy with a view to protecting the co-operative societies and their members. These decisions aimed at all aspects of socioeconomic activity, attempting to settle the technical and investment problems, and those of procurement and sale, payment, social security, pensions, and job security, etc.

Besides these regulations specific to the handicraft co-operative system, the Executive Office of the UCECOM Council took steps within Parliament and Government to promote the adoption of laws regarding the support of the gratuity from the State budget, protection of the handicapped and their workshops, safeguarding the integrity of co-operative patrimony, the purchase of those State buildings in which co-operative societies carry on their activities, the recuperation of former co-operative assets confiscated by the State, the inclusion of co-operative members in the programme of unemployment benefits.

Some of UCECOM's efforts were rewarded by laws such as: Law 1/1991 regarding the rights of the unemployed and their professional reintegration, Law 53/1992 on the special protection of the handicapped, Law 57/1992 regarding the employment of the handicapped.

During this period the need to elaborate new laws regarding the organization and operation of handicraft co-operatives is increasingly felt. These laws should meet several major requirements: to take over the Romanian tradition of the pre-war co-operative legislation; to correlate with the values and principles of the world co-operative movement; to assure the protection of the co-operative societies' patrimony and their rights to such protection so that co-operation may be given a proper image and an adequate transparency.

The process of the legal framework reforms specific to handicraft co-operatives broadly coincides with the whole of the reforms. The crystallization of a legislative process is a long-term process also involving the correction of laws already in existence and the gradual transition to their uniform interpretation. The continuation of the transition process supposes the improvement of the handicraft co-operative system and the development of a socio-economic policy to assure its evolution toward the process of reforms.

Developing Co-operatives in the ECEC

by Mats Ahnlund*

Background

Of the huge sums of money directed to Eastern and Central Europe, only a very small amount reaches existing and newly developed co-operatives in these countries.

The need for know-how and investment in infrastructure are as great in the co-operative sector as in other sectors.

The reconstruction and development of the co-operative sector in Eastern and Central Europe is of commercial interest to Western co-operatives. In the short-term, co-operatives in the West can sell know-how to co-operatives in the East, funded by governments and international bodies. In the long term, co-operatives in the East can become the business partners and allies of co-operatives in the West.

Based on these three considerations, Kooperativa Forbundet (KF), Union of Housing Co-operatives (HSB) and Folksam Insurance Group propose to organize a Co-operative Network. Members of the Network will be co-operatives and/or co-operative structures working with Eastern and Central Europe.

All Eastern and Central European central co-operative organizations agreed at a joint meeting on 9 June 1992 to participate in, and

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contribute to, a Network and Centre as outlined in this invitation. ICA Geneva has also approved this proposal and has agreed to participate in the Network.

The Tasks

The Network and its Centre will have the following objectives:

- Enlarging members' knowledge about current needs in Eastern and Central European co-operatives and about possible Western co-operative assistance, as well as the availability of know-how.
- Matching needs with know-how and developing business possibilities.
- Identifying possible funding and assisting in the negotiation of credit and financial support, various types of educational assistance and the transfer of systems solutions. The sources to be used will be mainly international institutions and banks like the European Bank for Reconstruction and Development and the World Bank, as well as the European Economic Community (EEC), the Organization for Economic Co-operation and Development (OECD), the United Nations organizations and Western Governments. Fund-raising will also demand certain lobbying activities. Total funds to be made available during the next few years are close to CHF 100 billion.

So far, only the PHARE-programme (Poland and Hungary Action for Restructuring of the Economy) of the EEC seems to be well-tapped by the existing co-operative structures in Brussels.

- Political lobbying activities, for example in the field of co-operative legislation, and supporting the legitimacy of co-operatives in Eastern and Central European countries in dealings with their Governments.

The Organization

The Network will be managed by a Board composed of representatives from East and West and elected by the Network's members. The Network will have a secretariat working in a Co-operative Centre, in close collaboration with ICA and the World Council of Credit Unions (WOCCU). The location of the secretariat and the Centre will be decided by the board.

Funding

During its start-up period the Co-operative Centre will be funded by the network's members. After an initial period the main funding will have to be through projects managed by the centre and financed by external donors and lenders.

If the ambition is to fulfil all the tasks outlined above, the initial amount required will be between 1 and 5 million CHF, to be regarded as a once-only cost. The amount that is needed to begin on a smaller scale is, of course, smaller.

The co-operative organizations in Sweden proposing the formation of the Network have committed themselves to contribute CHF 400,000 as an entrance fee. Co-operative organizations in Eastern and Central Europe have promised to contribute according to their modest means. This could, perhaps, represent an additional CHF 100,000.

The Benefits

Besides contributing to the survival of the co-operative movement in Eastern and Central Europe, members of the network will be given the first offer to sell know-how and goods when the external development funding mentioned above has been obtained.

Points of Departure

Needs

- * There is a great need for the transfer of know-how to co-operatives in Eastern and Central European Countries (ECEC)

in areas such as management, marketing and modern production and distribution methods, and information systems. A need which is specific to co-operatives is the development of the 'ideological content' of their activities.

- * Investment needs, financial as well as physical, are substantial, not least in areas where co-operatives can participate in the development of the necessary infrastructure: for example, distribution systems in the food sector and domestic financial markets.
- * As co-operatives were for many years integrated into the Communist machinery of power, there exists a strong need to create legitimacy as a democratic movement, in which 'member-based' organizations can contribute to the necessary rationalization and modernization of trade and industry.
- * In several countries there is no economic legislation adapted to the specific conditions and working methods of co-operatives.

Possibilities

- * In the West, great economic resources have now been allocated to the support of reform policies and economic development in Eastern and Central Europe. The major part of these resources is intended as support to the nations concerned for the purpose of helping them to stabilize their economies. But large amounts have also been allocated as support to enterprises and projects, in the form of both loans and grants. Of the greatest potential importance to the co-operatives in ECEC is probably the PHARE programme, which this year will receive an injection equivalent to ECU 1 billion: the European Bank, which has a capital equivalent to ECU 10 billion; and the World Bank, which expects to provide support to the development in ECEC amounting to US\$ 7.5 billion over the next three years. To this should be added substantial grants/loans from individual nations.

- * There are relatively great chances for co-operatives in Eastern and Central Europe to obtain support in the form of know-how transfer projects, i.e. various technical assistance projects. In this area, Western co-operatives are already involved to a great extent. Here, the Center for Co-operation with European Economies in Transition (CCEET) programme of the OECD should be able to play a greater role for co-operatives than is currently the case.
- * It should be possible and desirable for co-operatives in the West to become involved in more collaborative projects than is the case today. The know-how and the systems solutions needed by co-operatives in Eastern and Central Europe are, to a great extent, available from co-operatives in the West. It should be possible to use, to a greater extent, existing economic support resources for such projects. There are probably also collaboration projects which can be justified on the sole grounds of short-term or long-term business interests.
- * There exists a preparedness within the co-operative movement in the West to participate in an exchange of ideological experience, thus contributing to the current 'ideological' reform of co-operatives in Eastern and Central Europe.

Problems

- * The 'problems of mentality and legitimacy' are of a profound nature and cannot be overcome quickly.
- * There is a certain amount of ignorance within Eastern and Central European co-operatives as to the possibility of obtaining help from the West, as well as a sense of alienation when faced with Western institutions and attitudes. The new Governments in Eastern and Central Europe also have a hesitant, and sometimes negative, attitude towards co-operatives, which makes it more difficult to provide support in cases requiring that co-operative projects are given priority by the respective countries' own Governments.

- * Western co-operatives, too, are facing problems and have limited economic opportunities to offer large-scale, self-financed support to co-operatives in ECEC.
- * In many of the banks and organizations administering support to Eastern and Central Europe there is a certain ignorance about co-operatives and a lack of understanding of the specific problems which they face. In Western Europe, too, there exists, in some quarters, a certain political and ideological suspiciousness of Eastern and Central European co-operatives.

Steps Taken to Date

- * International co-operative organizations like the ICA have set up a fund for the purpose of supporting development in Eastern and Central Europe and have initiated and coordinated a number of co-operative projects related to Eastern and Central European countries.

WOCCU, the World Council of Credit Unions, is involved in several projects in Eastern and Central Europe and has been successful in raising money for credit union development in the region.

There are also co-operatively-oriented consultancy activities, such as those arranged by the British Plunkett Foundation, which are largely focused on agricultural co-operatives. National Co-operative Business Center (NCBA - USA) has opened an American Co-operative Enterprise Centre in Prague. Swedish co-operatives are involved in a large number of different projects, aiming both at the transfer of know-how and at a more direct participation in the creation of co-operative solutions in areas such as agriculture, retailing, distribution, insurance, banking, etc. By participating in such projects, Swedish co-operatives have also been able to build contact networks and to acquire valuable experience. The KF Project Centre has been playing an important role in this respect. Through the Popular Movements' Consortium for Eastern

and Central Europe, certain preconditions have been created for coordinating and initiating future efforts. The Joint Buying Consumer Co-op Organization, INTER-COOP, has set up an office in Budapest.

Co-operatives and friendly societies in France, Italy, Canada, Japan, India, Ireland, Finland and several other countries have also provided support and technical assistance to Eastern and Central Europe, and the nine co-operative committees in Brussels have ensured good access to the PHARE programme for Eastern and Central Europe. But, support to co-operatives in the Eastern and Central European economies still represents a very small part of the total resources channelled through other and larger organizations.

Possible Future Action - a Joint Network

Here we present the creation of a Network to increase support and to direct part of any available funds to co-operatives in Eastern and Central Europe. This Co-operative Network will be organized for the purpose of spreading knowledge about the opportunities available for obtaining both financial and technical support. Such a network should be kept together by a small Co-operative Centre charged with the task of building contacts throughout Europe, as well as researching current needs and possible West European assistance, from both inside and outside the co-operative movement.

The main focus should be on identifying possible funding and assisting in the negotiation of loans and financial support, educational activities, providing models which can be implemented in the ECEC and the transfer of know-how. Certain political lobbying activities, for example in the field of co-operative legislation, and participation in the exchange of ideological experience are other areas which might be developed.

The Centre should be managed by a Board composed of representatives from both East and West. The advantages of such a solution

are that it is flexible and can be set up at short notice and on a fairly small scale, it requires considerably less in the way of starting capital than does a banking institute, and no major economic risks are involved. It also corresponds better to the needs of co-operatives in Eastern and Central Europe allowing them access to information necessary for tapping into potential funding sources.

The Network and the Centre can also be developed into an important collaboration partner for Western co-operatives in evolving business ideas together with collaborating partners in the co-operative movement of Eastern Europe. It meets the existing need for 'tailored' solutions, where the needs for capital, investments, systems solutions and training and education are intertwined. The drawback is that the organization will have no economic assistance resources 'of its own' but will be entirely dependent on its ability to provide knowledge and build relevant networks.

After a build-up period of two to three years, it should be possible for such an institute to be self-financing. To finance activities during the build-up period, with a staff of four to ten highly qualified people, a start-up capital of between CHF 1 and 5 million is required. Below is an outline of the involvement required from Western co-operatives and the immediate steps which need to be taken.

Western Involvement - an Important Precondition

The Network and Centre outlined above have the full support of the leaders of the Eastern and Central European co-operatives. However, for its ultimate success it needs both financial and ideological back-up from Western co-operatives and the 'global co-operative community'. Even though a large proportion of the funding can be obtained from institutions outside the co-operative movement and the projects may, to a great extent, be financed by the 'customers' themselves, some back-up from Western co-operatives is needed in order to win legitimacy and credibility.

The ability of Western co-operatives to provide massive economic support is very limited. However, the business opportunities which such an economic and ideological effort may open up, and the solutions which are available, should be carefully considered.

It is likely that Western co-operatives and private enterprises can benefit by taking part in a development process which will create production potential and which may bring business advantages.

The prevailing uncertainty, when it comes to issues of an institutional and legal character, is still so great that it has, in many Eastern and Central European countries, prevented direct investment and joint ventures. In addition, this approach is rather alien to the co-operative movement, partly for reasons of tradition but also because of the national orientation of co-operatives. Here it is a question of finding new solutions permitting and facilitating co-operative business collaboration across national borders. The co-operative movement should then be able to successfully compete with private enterprises and have a competitive advantage due to co-operation between co-operatives and to being closer to established enterprises and markets.

It may also be argued that it is in the ideological interests of the Western co-operative movement to promote the development of a strong democratic co-operative movement in Eastern and Central Europe as an alternative to neo-liberal privatization in the region. In fact, because of its very size, the co-operative movement in Eastern and Central Europe should eventually be able to contribute to strengthening the co-operative movement's position in Europe and the world as a whole.

However, these long-term considerations cannot solve the short-term problem of mobilizing economic and human resources. In some cases a co-operative interested in participating in the Network could have problems allocating funds from its own budget. Therefore, part of the preparation for a more vigorous approach in supporting co-operatives in Eastern and Central Europe could be

directed towards finding unconventional solutions, above all to the problem of financing. This is crucial if the movement is to achieve greater involvement in education and training and the transfer of know-how, in the field of corporate, as well as organizational, development. A few such solutions that could be considered are:

- * To allocate a fraction of a day's turnover in West European consumer and producer co-operatives to the support of co-operatives in Eastern and Central Europe. The advantage is that this may stimulate member involvement and that it can be used in marketing, at least for as long as such support is considered important and meaningful.
- * To offer members in Western co-operatives the opportunity to subscribe for shares in the institution being created. Here, too, the advantage is that this creates involvement on the part of members and enterprises.
- * To create such a high level of professionalism and business-like behaviour in the new institution that investment becomes natural, and also justifiable from a business point of view.
- * To become co-owners of the Centre.

Ongoing Work

- * Consideration should be given to the possibility of defining and financing, even before the Centre has been created, a number of 'starting projects'. If activities can commence with a number of such projects, the need for start-up capital will be reduced. The same is true if co-operatives in Western Europe make qualified staff available for the new institute.
- * Ongoing contacts with Eastern and Western co-operatives should produce a number of ideas on projects of a more overall nature which the institute/network should handle initially.

- * When a joint co-operative approach has taken shape, it will be important to inform leading representatives of international banks and organizations supporting development in Eastern Europe of this. The representatives of Western European countries should also be informed.

The first meeting of members interested in the Network could be held in conjunction with the ICA Congress in Tokyo at the end of October. A Centre could be created immediately afterwards, and start operating at the beginning of 1993.

After a founding meeting in Tokyo on the 29th of October 1992, the Network was formally created. So far (January 1993), about 20 national co-operatives have become members. A secretariat has opened in Geneva and is located in the ICA Headquarters. Mats Ahnlund was appointed as Manager and Ota Karen from the Czech Co-op Union is the Chairman of the Board.



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