

Studies and Reports

Twenty-fourth in the series

CO-OPERATIVES IN EASTERN & CENTRAL EUROPE

Slovakia

by Viliam Bosiak, Eva Jergová, Václav Majerník,

Oto Virsík and Frantisek Manda

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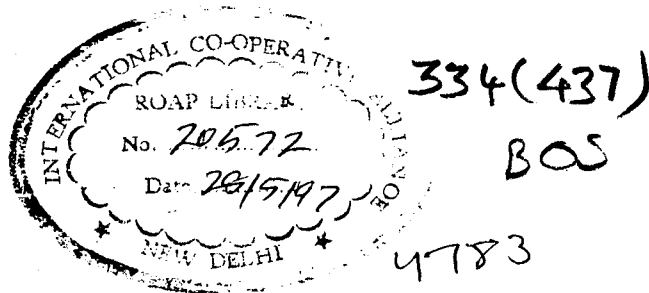
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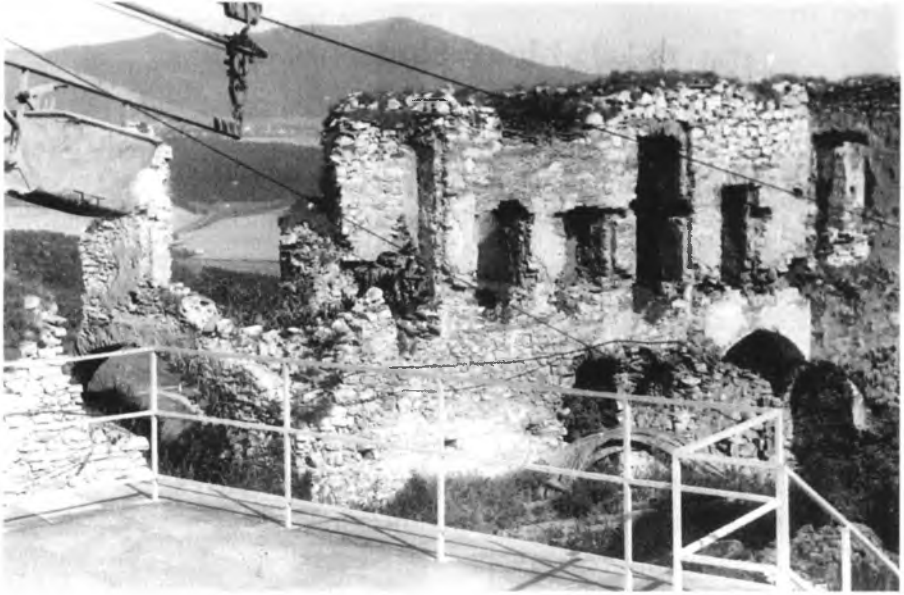
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Production co-operatives are working on the reconstruction of old historical buildings.



The future of production co-ops is dependent on the education of young apprentices - here we have apprentices in ceramic production.

Introduction

The first co-operative in Slovakia (then part of Hungary) was the Union of Farmers. It was founded by a Slovak teacher, Samuel Jurkovic (1796 - 1873) on February 9th, 1845, in Sobotiste village. This happened two months after the foundation of the Society of Equitable Pioneers in Rochdale.



The Union of Farmers was a credit and financial co-operative. At the time of its foundation it had 12 members; by the end of the year it already had 60. The majority of its members were peasants and craftsmen, some of whom were descendants of Swiss Anabaptists who left Geneva and emigrated to West Slovakia in the 16th Century in order to escape persecution.

The Union's regulations set out the rights and duties of members, and stated the principle of voluntary membership without regard to religious or national allegiance. In order to prevent public visits, members' meetings were always organised on Sunday afternoons. Each member was required to plant two trees and two shrubs every year. Membership was not open to anyone who indulged in alcohol, was a convicted thief, or whose lifestyle was considered to be immoral.

Samuel Jurkovic wrote that the Union's original orientation was purely materialistic - to collect money and to help one other. However, he pointed out that in good hands even clay can be transformed, so the orientation of the Union became moral and spiritual. Members grew to be more and more generous, moral, diligent, and conscientious in their occupation, and began to exercise prudence in their dealings with money.

After the foundation of the Union of Farmers, similar co-operatives began to appear in Slovakia. When co-operatives started to be founded according to the Schulze-Delitzsch and Raiffeisen principles elsewhere in Europe, Slovakia already had 20 co-operatives which adhered to the principles of the Union of Farmers. Whilst the Schulze-Delitzsch and Raiffeisen schools of thought influenced the development of co-operatives also in Slovakia, to this day Slovak co-operators acknowledge their indebtedness to Samuel Jurkovic . Even 40 years of a totalitarian regime was not able to eradicate these traditions.



A harvester at work in the Slovak Republic.

1 Main Characteristics of the Present Co-operative Structure

1.1 Models of co-operatives and their significance in quantitative terms

From 1948 onwards, four types of co-operatives have operated in Slovakia:

- agricultural
- consumer
- housing and
- production.

Their success differed according to the importance given to them by the eyes of the Government and other political bodies. Statistical data, which indicate the development of these co-operative branches between 1989 and 1992, are given in annex 2. The co-operative branches can be briefly characterised as follows:

Agricultural co-operatives

Agricultural co-operatives are using 70.8% of the Slovak Republic's agricultural land. Agricultural co-operatives farm on land belonging to one village, or frequently to several. This practice has continued following the recent changes to smaller units. The average agricultural co-operative currently farms around 1,800 hectares; in 1989 it farmed 2,800 to 2,900 hectares. Nowadays agricultural co-operatives, with the exception of the traditional agricultural production organisations, are becoming increasingly involved in the processing and sale of their agricultural produce.

Consumer co-operatives

The consumer co-operatives are, at present, organised according to the territorial division of the State. Retail, wholesale and purchasing activities, and also food processing, are generally carried out separately within each region. There are 41 consumer co-operatives at the time of writing. The share of the retail turnover of consumer co-operatives represents 13% of the total amount for the Slovak Republic.

Housing co-operatives

Prior to 1989 each region had its own large housing co-operative, and there were also several specialised co-operatives. After this date, these big housing co-operatives were divided into smaller units, and there are now 130 such organisations. Housing co-operatives manage 22% of the housing fund of the Slovak Republic.



Production co-operatives

The changes have been particularly marked with regard to production co-operatives. Before 1989 the average membership was 350, the smallest 130, and the biggest 1,600 members. Gradually these big co-operatives have been changed to smaller units. Since 1988 new production co-operatives have been established, the smallest of these having only five members and the largest less than 100. Production co-operatives are producing 4% of the total production of non-food consumer goods in the Slovak Republic. Production co-operatives in the construction field have 1% of the total production industry in the Slovak Republic. The production co-operatives operate in almost all fields of industry and building construction. They provide a wide variety of services to residents, and the majority of co-operatives successfully export their products to Western Europe, America and Asia.

1.2 Brief historical background

With the exception of the period from 1948 to 1968, when Slovakia formed part of the Socialist Republic of Czechoslovakia, Slovak co-operatives have developed simultaneously with, but independently of, the co-operatives in Czech lands during the post World War II years, despite the fact that they were all in the same State. Although from 1948 to 1989 the same legislation was in force throughout the whole State, the actual conditions in which they operated were not equal. This can also be seen during the current period of transformation.

The old totalitarian regime developed methods to control co-operatives, and misrepresented the co-operative principles in order to ensure that co-operatives would serve the State, even if this were not in the interest of their members. The co-operatives had only two choices: to try to survive by entering the so-called 'Socialist' sector, or to submit to inevitable liquidation, eventually becoming part of the State sector.

Numerous co-operatives, and also co-operative branches, which did not want to surrender were liquidated or nationalised, with the exception of agricultural co-operatives, which were treated differently. The only survivors were those which the regime considered 'useful'. For example, the State expected the consumer and production co-operatives to help to improve the situation within the domestic market, through production or by trade activities.

However, in the most difficult times, the co-operatives still exercised self-help and mutual assistance, qualities which were not evident in State production enterprises. The centrally-planned economy caused difficulties for, and even damage to, co-operatives. Nevertheless, the ability of co-operative members to utilize gaps in market was obvious, and lobbying of the decision-makers by co-operatives meant that they were eventually able to persuade central political and economic bodies to lessen some of the negative influences. In this way we can explain

why the stagnation which affected the national economy had less of an effect on co-operatives than on State enterprises.

After 1989, conditions started to change significantly both for the better, but also often for the worse. It became possible to approach the removal of the externally-imposed characteristics which had affected the co-operatives and to progress to the gradual re-establishment of true co-operative principles, both in legislation and in practice.

On the other hand, negative features appeared and these affected the co-operatives to an extraordinary extent. The chaotic situation began with the legislation regarding privatization and transformation, which was inadequately planned. Immediately after their approval by Parliament, some Acts had to be amended and corrected, sometimes repeatedly, because the drafts had not taken account of unresolved problems.

Furthermore, many changes in State policy had a negative effect on the movement, especially on agricultural and housing co-operatives. Not only did the 'shock therapy' of previous Federal Government fail to bring about the expected effect, it also hampered the process of transformation, privatization and transition to market economy. Individual steps were not properly timed, and this caused many unnecessary complications.

An example of this is the Federal Parliament's Act N° 42/1992 on the adjustment of property relations and settlement of property demands in co-operatives, the Transformation Act. The shortcomings of the draft preparation are witnessed by the fact that, at the plenary session of the Federal Parliament at the end of 1991, approximately 150 proposed amendments were submitted.

It has not been possible to eliminate all of the contradictory or ambiguous Acts. However, with regard to the given terms of the transformation process, it was decided that the Transformation Act should be published

as soon as possible. For this reason it is not perfect, but it nevertheless indicates the basic orientation of the transformation.

1.3 Membership relations in the existing co-operatives

During the period from 1948 to 1989 the co-operative principles were enshrined in legislation, but in practice they were not observed. The other regulations, laws, Government orders and internal pressures made it impossible for the organisations to adhere to the co-operative principles. For example:

- Candidates for higher elected posts had to be approved by the appropriate body of the Communist party: an individual who was not a member of the Party had only a slight chance of gaining such approval.
- Although co-operatives were said to be democratic, the principal of 'democratic centralism' was seen to be more important. This made it possible for more prestigious co-operatives, and especially political bodies, to overrule the members and representatives of the 'lesser' co-operatives.

The way in which the State controlled co-operative development and the utilisation of co-operative funds had an adverse effect on these organisations. In practice, the ultimate authority usually lay with the Ministry of Finance rather than co-operative members. This was a significant handicap, because it is the co-operative funds which create the economic basis of co-operative democracy inherent in the ability of members to dispose of their own finances in the form of co-operative funds.

Prior to 1989, the property situation of members was legally controlled by rigidly-enforced 'Model Regulations'.

Agricultural co-operatives (previously known as ‘farmers’ unified co-operatives’) differed substantially from Soviet kolkhozes, in their members’ relationship to the property. The kolkhozes’ land belonged to the State. That owned by the farmers’ unified co-operatives remained the property of the members. Members could not freely dispose of it, because the State controlled the transfer of land rights within the co-operatives. However, land could be inherited, subject to certain limitations. Before 1989 there was little official discussion about members’ rights to the land because, in fact, the co-operatives kept huge amounts of property in private ownership. The material preconditions for speedy transition to higher economic forms were not present. In 1960 agricultural co-operatives managed 60% of the land. The process of merging and integration started at this time.

It was not until the second half of the seventies that the co-operators began to take an interest in the financial affairs of their co-operatives. Mergers were arranged in order to enable the organisations to take advantage of new technology. Mergers were frequently politically motivated, with a decisive role being played by regional political and economic bodies.

In the following two decades, plant and animal production began to intensify. The State made huge investments in improvements, the production of fodder, the development of big farms and organisation of collective farms. During the seventies and eighties, thanks to extensive investments by the State, the agricultural co-operatives in Slovakia managed to keep up with world trends in the production of cereals, grapes, meat and poultry.

More and more qualified workers and university graduates were attracted to the agricultural co-operatives. In 1970, there were seven graduates for every 1,000 co-operators; by 1980 this ratio had increased to 18, and it had reached 30 in 1990.

Simultaneously, differentiation started to emerge between agricultural co-operatives. This was partially due to the fact that many were not able to keep up with the rapid development of the outstanding co-operatives and got into difficulties, especially financial difficulties.

In the light of these results it is necessary to understand that democracy was, and still is, seen to be of the utmost importance in applying rights and requirements. However, it is not yet fully manifest in the members' voluntary and democratic fulfilment of duties towards their co-operatives, nor in the augmentation of co-operative property, improved business practices, efficiency and respect for the democratically-elected officials of the co-operative.

In agricultural co-operatives, there are not only member-workers, but also shareholder-members who do not work in the co-operatives, but who reclaimed land during the last three years under the restitution law.

In many cases the present representatives and managers are able, with the help of members, to fulfil the new requirements for co-operative development: but they frequently fail to obtain sufficient response and understanding from their members in their approach to the new tasks required by the market economy.

Often, managers are unable to adapt to new market conditions and to cope with the inevitable exposure to risk which business entails. Unsuitable economic tools, discrimination against agriculture and the State's failure to respect its particular conditions prevent steps being taken to lessen shortages.

Consumer co-operatives have the longest tradition of all co-operative branches in Slovakia. In 1989 they had nearly one million members and were responsible for roughly one third of retail sales nationwide.

The activities of consumer co-operatives were influenced by various factors. They had a virtual monopoly of food and industrial goods sales in rural areas. This was due to a political decision dating from 1952 according to which consumer co-operatives were forced to abandon their centres of operation in towns and industrial centres. Because of this, co-operatives had to establish a completely new network within the countryside, heavily subsidised by the State. When this monopoly position ceased to exist (in 1990), the number of consumer co-operatives plummeted by 73%. This was partially explained by the return of 542 operational units, under the law of restitution, to the previous owners or their heirs.

1990 was the year in which Slovak consumer co-operatives attained their highest qualitative and quantitative results. They had 8,289 operational units in the retail sector and operated 3,823 public catering establishments. Their membership was in excess of 900,000, with 57,930 employees and 5,230 apprentices.

After 1990, following the liberalization of prices and privatization of State trade, the fall in consumers' purchasing powers and consequent decrease in demand, especially for industrial goods, the consumer co-operatives lost dominant market position. In 1992 their share of retail sales fell to 13.8%, the number of shops remaining under the direct control of consumer co-operatives dropped to 5,399 and that of public catering establishments to 1,232. Simultaneously, membership fell to 260,500 and the number of employees decreased to 34,302.

Housing co-operatives have the shortest tradition. The first ones were established in 1919. World War II partially destroyed the housing stock. Considerable new housing development was required, and housing co-operatives, especially employees' and companies' housing co-operatives, played a significant part in this.

After 1948 housing co-operatives were forbidden to participate in new housing development. Only 15 housing co-operatives, later renamed to 'national housing co-operatives' remained in Slovakia. These co-operatives are still in existence, but form only a small proportion of the total stock of co-operatively-owned housing.

The former regime aimed to provide accommodation for all its citizens free of charge. In the fifties it became evident that this intention was unrealistic, as the demand for apartments was far in excess of those available. Therefore, the political bodies decided to require a financial contribution from candidates so as to cover the growing costs of the new housing developments.

For this reason, the Act of May 1959 once again permitted the establishment of construction housing co-operatives, on the condition that their management, i.e. their regional administration and national committees, would be responsible to the State. Conditions regarding the financing of housing development were issued. These were acceptable to the majority of housing co-operatives and their residents.

However, conflicts were caused by State intervention in the affairs of housing co-operatives under the system of central control which limited co-operative autonomy at that time. Three forms of accommodation then existed simultaneously: individual, State and co-operative.

Housing co-operatives became predominant in construction because of a Government policy introduced in order to stabilise population and manpower in certain areas by allocating housing to residents under the name of co-operatives. This had a negative effect because residents did not become members of housing co-operatives on the basis of voluntary decision but merely because the accommodation allocated to them was officially known as co-operative housing. Such 'members' were not interested in the work of the co-operative, but they did make demands upon it.

The basic co-operative features of solidarity and self-aid were weakened. The State used housing co-operatives to implement its housing development policies. Flats were allocated according to economic and political criteria, thus people who had no connections whatsoever with co-operatives became their members.

Although limited in number, there were also some self-build housing projects, in which the participants carried out some of the building work themselves and employed contractors to perform other tasks which were beyond their abilities.

Despite the many problems encountered during this period, the housing co-operatives manifested their ability to survive.

Production co-operatives were also unable to avoid negative interference from the State, particularly in the form of a totally unsuitable system of a bureaucratic planned economy. However, at a relatively early stage it was possible to obtain an undertaking from the Ministry of Finance to permit the members of production co-operatives to retain a certain proportion of their profits according to criteria approved by the members. This 'complementary reward' was small and had no relationship to the amount of work produced, but it was a recognition of the fact that the members of production co-operatives are partners in business who must bear entrepreneurial risks.

Before 1989 the co-operatives and their Union were able to exercise a certain amount of self-determination. They could not escape the effects of the planned economy, but they were able to create a bigger niche for co-operatives than would originally have been thought possible. This meant that production co-operatives were gradually able to move away from the State system of credit and financing, creating their own financial system from the taxed income (contributions) of co-operatives and from other resources. This enabled them, above all, to provide co-operatives with credit on favourable terms and, in some cases, even

interest-free loans. This permitted intensive investment in construction and technology to take place, resulting in rapidly increasing levels of exports to Western Europe. Thus, many co-operatives were able not only to adjust their production to Western market conditions, but also to purchase advanced technology with the foreign currency earned. It was even possible for some plants to be fully automated.

After 1989 there was a significant decrease in the number of co-operative members and workers. Some of them left to join other companies, where they expected to attain higher earnings. Others chose to go into business as independent tradesmen or craftsmen.

Yet another explanation for this fall in membership was the decrease in standards of living, and consequent fall in demand for goods offered on the domestic market. Increasing levels of unemployment further limit demand, and the growing ratio of people in socially weak groups also has this effect.

This whole process has still to be finished, and has not yet been fully analysed. The transition of the former Czechoslovakia and other post-Communist States from planned to market economies and to greater levels of privatization could be supported neither by theoretical approaches nor by practical verification. Inadequacies appeared, especially in the timing and order of steps. Because of this, the countries have had to learn by trial and error, learning from their mistakes and continuously analysing their reforms.

The truth is that many citizens entered into business lacking the appropriate knowledge and abilities, or with the intention of implementing get-rich-quick schemes with no concern for the effect which these might have on their fellow citizens or the State budget. The main cause of budgetary deficit is not higher expenditure, but the black economy (loss of revenue from taxes, customs duties and other charges on such illegal activities).

1.4 Co-operative secondary organisations, associations, federations

After 1989, relations between co-operatives and their unions were among the most discussed problems, and provoked strong criticism and broad discussion.

Co-operative Unions (of the agricultural, consumer, housing and production co-operatives) and the former Central Co-operative Council received State recognition as the organisation's central bodies. They held quasi-ministerial authority, being able to issue binding amendments and regulations to member co-operatives, but Union chairmen could not become members of the Government. The special position enjoyed by the Co-operative Unions meant that the Government did not order Union chairmen to perform tasks, but requested them to undertake these, or recommended that they implement similar procedures.

The co-operatives and their Central Unions perceived the greatest interference in co-operative democracy to be the State's suggestion of candidates for elected positions. Lists of functionaries were circulated, on which were indicated the central or regional body of the Communist party which had proposed the candidate. In this way it was ensured that only Party members would be candidates for all the highest offices and that they would have a majority in all the collective bodies.

The second type of public authority interference was created by the power of the Union, which could, in certain cases:

- recall elected functionaries or co-operative bodies and appoint substitutes which were responsible not to members, but only to the Union;
- decide to merge or divide co-operatives, even if this were against the wishes of the co-operative members;

- approve the co-operatives' annual reports and balance sheets, including the division of profit (except for the farmers' unified co-operative): confirmation of this decision by the General Assembly of the Union was a mere formality. Only in exceptional cases would appeals from members' meetings influence the decisions of the Union.

Some development features were specific to co-operative agriculture. In July 1947 legislation was passed to abolish the agricultural chamber and legalise the Central Union of Slovak Farmers. In March 1948 the Union was reorganised to suit the new political situation. It fulfilled economic tasks and participated actively in the establishment of the Farmers' Unified Co-operatives. In 1956 it had 156,000 members, 57,000 of whom were women, and developed activities in villages, especially educational activities and the foundation of co-operative laundries.

Gradually, as the Farmers' Unified Co-operatives were established in the regions, the units of the Central Union of Slovak Farmers were disbanded. Finally, the whole Union was wound up by a decision of its Managing Committee in March 1952.

The peasants regretted the loss of the Central Union, feeling that even the Congresses, which took place every two to five years, were no compensation. This period, during which the agricultural co-operatives had no central organisation, lasted until the foundation of the Slovak Union of Co-operatives and Farmers in 1968. Although content and organisation have been subject to some changes, it is still in operation.

At the beginning, the Union's purpose was the economic defence of its member organisations. From 1970 onwards, it was gradually to change its original mission, restrict its economic activities and focus on the social protection and welfare of its members. By this means it gained the character of a trade union organisation. Any new initiative was criticised by the political and State organisations. As part of centralisation, the

Union had to change its structure and became known as the Union of Co-operative Farmers. Nevertheless, it survived and continued to develop its activities.

After 1989 basic changes occurred in the position and activities of the co-operative unions. The Slovak Union of Production Co-operatives, Slovak Union of Consumer Co-operatives and Slovak Union of Housing co-operatives:

- defend and support the interests of co-operatives and their members, mainly in their relation to State bodies and foreign and international co-operative institutions;
- participate in the creation of, and propose amendments to or acceptance of, new legislation;
- support mutual collaboration between co-operatives of all kinds;
- develop humanitarian aims and ideas as part of co-operative activities, including the establishment of disabled people's co-operatives;
- manage Union property and the joint funds of each co-operative branch;
- establish business entities to assist member co-operatives in their activities;
- perform extended consultancy services, especially for legal, financial and taxation matters, and also defend industrial and other rights of member co-operatives;
- organise education and training of members, and establish apprenticeships, according to the interest and needs of member co-operatives;

- to help develop cultural, recreational and sporting activities;
- to assist co-operatives tackle social problems by means of a 'fund for mutual co-operative aid';
- to maintain a common information system among co-operatives and unions;
- to develop their participation in business activities, and thus increase their financial resources so as to decrease costs to unions and member co-operatives;
- to represent member co-operatives in economic transactions, should they be requested to do so;
- to provide better publicity for the co-operative principles and values in economic, social and democratic fields, and thus improve public opinion.

Certain features were notable in the development of the Union of Co-operative Farmers after the 1989 revolution . In April 1990, democratically-elected representatives met at a national conference of co-operative farmers, which established a new organisation, the Agricultural Co-operative Association. This took over from the existing Union. In Slovakia, the independent Slovak Agricultural Co-operative Association was established.

The conference adopted the regulations and orientation of its activities resulting from the needs of their members. The Association unified agricultural co-operatives, farmers and agricultural employees. Its activities were governed by the rules of voluntary association and democracy.

During 1991 and 1992 the Association intensified its activities against interference from the central Federal and Slovak State authorities. This

was manifested especially in expressing co-operative views and commenting on the implementation of economic reforms in agriculture. It proposed solutions in the field of economic tools, and measures to defend the social interests of agricultural co-operatives' members.

In May 1993, at the Conference of the Slovak Agricultural Co-operative Association in Bratislava, a successor organisation, the Union of Agricultural Co-operatives of the Slovak Republic was established as the unified Slovak State organisation.

According to approved regulations, this is a voluntary, independent and self-governed organisation which is an association of legal entities: agricultural co-operatives and trade associations in which co-operatives participate. The Union also permits trade associations and other legal entities to become associate members if the subject of their activities is agriculture or associated services.

Union activities must take the following into consideration:

- socially-oriented market economy and freedom of business activities,
- all forms of ownership having equal rights,
- basic human rights and freedom,
- co-operative principles,
- protection of the environment, as the most valuable national asset.

The mission of the Union is to promote the development of favourable entrepreneurial conditions for its members and to defend their other economic and social interests.

In this sense the Union develops partner relations and collaborates with State authorities, co-operative and trade organisations and other domestic and foreign institutions.

Co-operative Unions also enter into specific activities to facilitate the financing of Union and co-operative activities. In 1948 there were 1,200 credit and financial co-operatives in Slovakia. They had 468,000 members with share capital of about 70 million Czechoslovak Crowns. These co-operatives were nationalized in 1948, the majority being amalgamated into the State savings bank and the remainder being taken over by the State Bank. In 1991, the KOOPERATIVA co-operative insurance company was established with its headquarters in Bratislava and a daughter company in the Czech Republic. In 1992, COOP-BANK was founded. Its headquarters were in Brno (in the Czech Republic) and it had a daughter company in Bratislava. These two joint-stock companies offer services to all companies and individuals and the majority of shares are held by co-operatives and co-operative organisations. At the division of the Co-operative Union of the Czech and Slovak Federal Republic, Czech and Slovak partners agreed that they would leave intact some trade companies whose spheres of operation were in both the Slovak and Czech republics:

Coop-Bank, a joint-stock company with its head office in Brno and with branches in the territory of both republics,

Kooperatíva, a joint-stock co-operative insurance company with its head office in Bratislava and branches in both republics.

Low-level contacts are also maintained by co-operative joint-stock companies for foreign trade: **Intercoop** in Bratislava and **Unicoop** in Prague.

The Unions have established a number of joint-stock companies and limited liability companies:

Agricultural co-operatives

- Agroslovakia - a farmers' investment fund, is a joint stock company in which farmers have the majority of the shares. This was one of the investment funds established in the first wave of 'coupon privatisation'. Most of its shares are in the food industry.
- Interaudit - a limited liability company - provides auditing, accounting and other economic services to agricultural co-operatives.
- Agrokapital - a limited liability company processes investment funds by means of participation certificates. In this way, it helps the agricultural co-operatives to arrive at correct, rational investment decisions.

Consumer co-operatives

- DOVP, a co-operative trade and production enterprise, a joint-stock company, provides wholesale services to consumer co-operatives and manufactures a small selection of products;
- DRUPRO, a joint-stock company offers design and engineering services to co-operatives and other bodies;
- DVPT-Inform, a joint-stock company, carries out information technology, software, hardware and computer education projects for co-operatives;
- OPTIMA, a joint-stock company, refits and provides equipment for retail units and restaurants. It also carries out repair and maintenance work and organises publicity and exhibitions;

- Three joint-stock companies: OPTIMAL, FROP and POINT, repair trade equipment for retail and wholesale units, restaurants, refrigeration equipment, etc.;
- TATRATOUR, a joint-stock company, is a co-operative travel agency which offers a wide range of services to tourists, both at home and abroad;
- ESDE, a joint-stock Investment Fund, was established by the Slovak Union of Consumer Co-operatives under the law on investment funds passed by Parliament before the first wave of 'privatisation coupons ';
- The Agricultural Institute for Education, a joint stock company, organises educational activities for co-operatives and co-operative organisations.

These 10 joint stock companies are entirely owned by consumer co-operatives.

Production co-operatives

- EUROCOM - Slovak-Italia, a joint-stock company, operates in the field of civil engineering and construction;
- GENOCONSULT, a limited liability company provides various intermediary and commercial services for production co-operatives;
- ESKULAP, a limited liability company, offers specialist services to production co-operatives through the implementation of new techniques and technology;
- SLOVAKIA, a limited liability company, is a network of retail units which sell co-operative products;

- MAGNET- SLOVAKIA, a joint-stock company, is a mail-order company for co-operative products;
- The Co-operative Members' Investment Fund, a joint stock company, operates the 'coupon certificates' system established by the SUPC (Slovak Union of Production Co-operatives).

These companies are mainly owned and controlled by the production co-operatives.

Co-operatives and co-operative unions also hold shares in some banks and trade associations, namely:

- Tatra-Banka, a joint-stock company;
- Devín-Banka, a joint-stock company;
- Technopol, a joint-stock company involved in foreign trade.

From the above, it is clear that co-operatives, and especially their associations, participate in entrepreneurial activities which do not result in fierce levels of competition. Profits from shareholdings and reduced costs resulting from collaboration help to keep co-operatives' membership fees to a minimum.

The main tasks fulfilled by the **Co-operative Union of the Slovak Republic** are as follows:

- to promote the interests of co-operatives in dealings with the Government and its Ministries, and the Parliament of the Slovak Republic, especially as regards any legislation which affects co-operative activities;
- to represent and coordinate the activities of member organisations (Co-operative Unions) in foreign relations by collaborating with the ICA and its specialised bodies.

All Unions promote the interests of co-operatives and their members with regard to:

- the Council of Economic and Social Agreement (known as the Tripartite), in which employers' and employees' organisations and Government have equal representation;
- the Trade Unions.

1.5 Evaluation of the existing co-operative system

An examination of the strong and weak points in the present co-operative system within Slovakia reveals differences between the co-operative branches.

Those branches which were able to develop a stronger, more stable structure in the years between 1948 and 1989 are in a relatively more favourable position. The consumer and production co-operatives were first to be able to establish their unions in the period after 1948. Furthermore, since these co-operative branches were represented in the ICA through the Central Co-operative Council they were able to learn about the situation and problems of co-operatives in non-Communist States, and to gain information from their membership in ICA committees.

The situation of the housing co-operatives was not quite so good because their development began comparatively late, the Union of Housing Co-operatives not being established until 1968. Members of housing co-operatives usually lacked, and continued to lack, close ties with their co-operatives. Only gradually have they begun to realize that membership imparts not only rights, but also obligations. An improvement is now being witnessed in the maintenance and cleanliness of co-operative housing, especially when this is compared with State-owned accommo-

dition. Members have begun to take more care of their environment because they must contribute to the cost of repairs.

The most complicated situation is witnessed in the agricultural co-operative system. As regards restitution, it has been necessary to distinguish between several categories of people who have a claim on co-operative assets under the transformation law. They are:

- a) those who, as part of the 'collectivisation' of agriculture, (either voluntarily or under pressure) became members of agricultural co-operatives and brought with them land, buildings, machines, tools, livestock or other assets;
- b) those (usually former agricultural workers) who became co-operative members but did not bring any property into the co-operative. This category also includes those who worked in co-operative administration and graduates from agricultural secondary schools and universities, but equally those whom the Communist Party bodies sent to work in farmers' unified co-operatives;
- c) those who did not work in co-operatives or in agriculture, but who were the former owners of agricultural land or their legal heirs, having handed their land over to the unified agricultural co-operatives.
- d) those who worked in the co-operatives as employees.

As can be seen from the above, transformation and privatisation is a far more difficult task in agricultural co-operatives than in other co-operative branches. These problems are presented in more detail in chapters 2.1 to 2.4, which deal with the transformation of co-operatives.

The application of market forces and economic transformation forced almost all agricultural co-operatives into a position of economic crisis, in which all the advantages previously provided for co-operatives were cancelled. Many members failed to appreciate the advantages which co-operatives gave them: i.e. employment and a decent wage. Many others simply lacked any sense of solidarity with their co-operatives.

In the transition to a market economy a considerable proportion of co-operatives were unable to adjust quickly to the tough new economic conditions, either for objective or for subjective reasons.

The problems which co-operatives face are complicated. So, too, is the question of the image of the co-operative movement as a whole.

During the last 40 years there has been little recognition of the co-operative movement's achievements prior to 1948. This has resulted in a one-sided view of co-operatives: and it is a negative view. The opinion prevalent among middle-aged and younger members of the population was that co-operatives were products of the totalitarian regime. Even many co-operative members did not know about the long and positive tradition of co-operatives within Slovakia. The technical literature continued to affirm that co-operatives could develop fully only within the Communist regime. It was simply not possible to publish truthful information about the pre-1948 co-operative movement.

In other co-operative branches the effects of 'collectivisation' were usually less drastic, so their image was, and is, less subject to change.

It is possible to see the production co-operatives in a relatively positive light. The 'collectivisation' of crafts resulted in the majority of private craftsmen going to work in State enterprises. Most of those who chose to join production co-operatives did not own much in terms of liquid or fixed assets, so the transformation went relatively smoothly.

The image of consumer co-operatives is also a positive one, despite the fact that membership has fallen considerably over the past two to three years. With the help of the State, consumer co-operatives built a solid network of shops, department stores, public catering establishments and travel agencies. Unlike their counterparts in the Czech Republic, the Slovak co-operatives have been able to build in towns.

After 1967 consumer co-operatives had been allowed to come back into the town so that, by the end of the eighties, co-operatives were responsible for 29% of the urban turnover. Political bodies support this process, because it encourages real competition for State trade.

The most problematic image is that of the agricultural co-operatives, as has already been discussed. Furthermore, a serious social problem is manifested, i.e. that the membership is aging and these co-operatives have a relatively small proportion of young people.

In many agricultural co-operatives the tough economic conditions have caused immense problems. The liberalisation of prices and consequent increase in inflation caused a rapid drop in demand, which resulted in the dismissal of more than one third of members and employees. The agricultural co-operatives' economic crisis was also caused by a rise in the cost of inputs by 250 - 280% at a time when the increase in prices paid for agricultural produce was only 120%. In other words, the co-operatives' incomes failed to cover their costs.

2 The Co-operative Reform Process

2.1 The need for, and main fields of, co-operative reform

When the term 'transformation' is referred to in the following section this does not mean a change of form from co-operative to another type

of business (which has happened only in a limited number of cases). The legislation relates rather to the co-operatives' transformation from planned to market economy.

Within the three co-operative branches discussed in this section real transformation was only possible during the validity of Code N° 94/1988 and before the introduction of Code N° 42/1992, on the Adjustment and Settlement of Property Relations in co-operatives. This took place only in exceptional cases, the majority of co-operatives retaining their co-operative character.

Slovak co-operatives were greatly in need of reform or transformation, above all in the following areas:

- a) legislation, especially relating to housing and agricultural co-operatives;
- b) economic measures to implement the co-operatives' transition from planned to market economy;
- c) the membership: one of the most important assets of the co-operative movement.

The fact that reforms are taking place does not necessarily mean that the Slovak co-operative movement will return to the situation which existed before 1948. It is of the utmost importance that the development of co-operatives in democratic States, especially since the end of the Second World War, should be taken into account as this will provide information about the co-operative movement in conditions of market economy. The details of the reforms will vary between co-operative branches, but they should all be in accordance with the three main points of the aim outlined in the introduction.

The implementation of reforms also requires some changes in the attitudes of Parliament, the Government and the public to the co-

operative movement. The co-operative theory and co-operative history must be purged of the remnants of Communist ideology. Only then can the necessity to create conditions which control co-operative reform in the fields of legislation, audit and property management be understood.

It is not due to the co-operatives that the reforms have failed to be fully effective. The main reason for this is the legislative measures passed without a thorough analysis of previous development and present conditions. This has created a large degree of uncertainty.

Agricultural co-operatives

In agricultural co-operatives the transformation process is not finished. Suffice to say that the Law governing the restitution of nationalised land was not passed by the Slovak Parliament until October 1993. Agricultural co-operatives have not been able to carry out internal structural transformation. The majority have debts, and for this reason the banks are unwilling to provide them with loans. Some co-operatives are even facing bankruptcy.

Co-operatives are free to establish their own legal form, even one which is not co-operative. However, in order to do so they would have to settle their substantial debts. The State and the financial institutions (banks) have first call on a company's assets, the co-operatives' members would only be able to make a claim once any debts to these parties had been settled. For this reason, members are reluctant to liquidate existing co-operatives and establish new ones. Thus, the existence of many co-operatives is unclear, as is the material position of their members.

The Association of Agricultural Co-operatives has already submitted concrete proposals for the solution of such problems. To date, neither Government nor Parliament has examined the proposals, thus the transformation of agricultural co-operatives cannot be successfully finalised.

Consumer co-operatives

The consumer co-operatives are faced with a different problem. With the exception of fruit and vegetable sales by small-scale producers almost all retail trade used to be in State or co-operative hands. Furthermore, the State controlled the whole of the wholesale sector, thus the consumer co-operatives were significantly disadvantaged. However, the most significant factor was that most of the State shops operated in the towns, where the purchasing power was concentrated. The consumer co-operatives had their main network in rural areas, where the population is dispersed and higher percentage costs are incurred for distribution, wages and other expenses.

One of the main tasks of reform is restructuring the retail trade and establishing a supply network for the consumer co-operatives. The following new types of operational units were established:

- KONZUM EXTRA shops, which sell food and cosmetics (surface area in excess of 150m²),
- KONZUM MIX shops, which sell food, cosmetics and selected high-turnover consumer products (surface areas of at least 100 m²),
- DISCONT discount stores,
- KOMPLEX retail outlets, which stock a rich assortment of consumer goods, and
- DODO, a department store.

The co-operatives sell their smaller restaurants and hotels to private entrepreneurs, eventually handing them over with a commercial lease. They only retain control of such establishments in exceptional circumstances, mainly when the businesses are able to operate throughout the whole year. These enterprises have the collective name 'GASTRO'. Through the sale of their smaller units the co-operatives are able to release money for the settlement of bank loans.

The new strategy seeks to create a unified external and internal image, with own-brand goods and a uniform corporate image for logos, shop decor, staff uniforms etc. This process is evident throughout the consumer co-operative network, from packaging and transport through to marketing.

The wholesale network is continually under scrutiny, with the reorganisation of areas so as to optimise the supply of shops. Where possible, central purchasing is to be introduced. Profits from wholesale activities are being set aside for this purpose.

In the long term, the establishment of supermarkets and hypermarkets will be taken into consideration, as well as expansion of the network of discount shops.

Computer technology will be used to evaluate new forms of franchising in order to maintain the co-operatives' activities whilst decreasing their expenses. The creation of new legal entities in the form of holdings will be also taken into consideration, so that higher-level legal entities - either co-operatives or joint-stock companies - will retain a controlling interest in them.

Housing co-operatives

A comparatively complicated transformation process is being considered with regard to the housing co-operatives, and its ultimate form has yet to be finalised. Despite this, significant changes have begun to take place within the housing co-operatives.

Even when the independence of housing co-operatives had been given legal recognition, the construction of co-operative apartments continued to be planned and realised by the State. Furthermore, the housing co-operatives continued to be financially dependent on the State. However, Law N° 176 of 1990 permitted members to transfer their apartments, together with members' rights and duties, to a third party. The co-operatives' authorities respected this right.

In the seventies there were 800 co-operatives in Slovakia, and their numbers were reduced to 80 within a short period of time. In order to remove any injustice arising from the forced merging of housing co-operatives, a proposed law permitted the establishment of a new co-operative by its separation from a larger, integrated co-operative. At the time of writing, 36 co-operatives have taken advantage of this new law. Six housing co-operatives were established by separation. At present, however, attempts are being made to form larger co-operative units, especially for those co-operatives which administer only one house, because of the problems of high overheads, which have to be met directly by members.

The amendment of the Civil Code with effect from January 1992 abolished the law of 1964 which previously dealt with the administration of flats. This significantly increased housing co-operatives' independence from State.

Some, not insubstantial, problems have arisen from the fact that the new commercial code does not distinguish between individual types of co-operative, with all co-operatives being seen as profit-making enterprises. This has created big problems for co-operatives in the development of regulations. There was an effort to adjust the members' entitlement to claim a share in the co-operatives' assets, but as yet this has not been successful.

Transformation Law N° 42/1992 imparted to housing co-operatives the legal obligation to transfer property rights to their members on the latter's request. The Transformation Law does not permit housing co-operatives to take on any other legal form.

In 1993, Parliament approved Law N° 182, referring to the ownership of apartments and other forms of accommodation. This Law gives co-operatives two years to sign contracts transferring the ownership of members' apartments to those members who request it on the basis of

the previous regulations. The price of the apartment is set according to the unpaid investment loan outstanding on the accommodation. The State contribution previously provided does not have to be repaid. The freehold of the land on which co-operative houses were built are to be handed over to the co-operatives, which have a duty to transfer it, free of charge, to the owners of the accommodation.

It is clear from the above that the process of property transformation and the interpretation of the transformation law will be a long-term process, the end results of which cannot be foreseen, because it depends exclusively on the decisions of the membership.

Production co-operatives

In production co-operatives the transformation process is largely finished, with the exception of a few cases which are still to be decided in court. The aim of the transformation was to establish the State's claim on the co-operatives' property and then to change co-operatives into co-operatives of shareholders. In Slovakia, the State did not have any claim against the production co-operatives' assets, so it was not possible to do this.

At present, the co-operative assets consist of:

- ownership of the co-operative (non-divisible funds),
- the members' assets (property shares).

Both forms are controlled exclusively by the members and their representatives. The State has no right to dispose of any property belonging to the co-operative or its members.

The assets owned by production co-operatives are valued in the region of 4.1 Billion Sk, of which property shares represent 1.9 Billion Sk¹.

¹ USD 1.00 = 33 Slovak Crowns (Sk)

Despite the fact that the transformation law contains many ambiguities, which result in different interpretations and even contradictory regulations, the production co-operatives have been able to avoid the biggest obstacles. This was possible mainly because co-operatives and their associations agreed on common procedure. There are 200 production co-operatives, but only in three cases have queries needed to be submitted to court for decisions.

The basic change to the previous situation was in the relative value of members' shareholdings. Those entitled to claim under the transformation law were given property shares. Thus production co-operatives became co-operatives of shareholders. Until 1990 each member's shareholding was valued at 500 Sk. Following transformation, the average shareholding was twenty to thirty thousand Sk. Opportunities to share property amongst the members are limited, as it cannot easily be transferred to another member or other individual. When a member leaves the co-operative the value of his share in such property will be repaid to him as part of the compensation share. By 'compensation share' we understand the member's claim on the co-operative property at the time of their departure from the co-operative. In other words, their share of the growth in co-operative assets which has taken place during their membership of the co-operative.

2.2 Government co-operative policies

Evidence of the State's policy regarding co-operatives and co-operative characteristics can be found in the preceding section, especially in the part dealing with reform and the transition process, which are underway and will continue to progress within Slovak co-operatives for some time.

Immediately after 1989 it was possible to characterise this policy as one which was unfriendly and even hostile. However, until 1991 a more

moderate policy was manifested by the State bodies in connection with its acceptance of the transformation law. At present it seems that Parliament and Government are in a quandary as to what they should do with co-operatives.

State policy does not differentiate between entrepreneurial activities, and regards co-operatives as being included in these. The same economic and taxation regulations are applied to all. Nevertheless, in individual co-operative branches some variations are evident especially in tax questions and regarding State subsidies.

Agricultural co-operatives

Within the agricultural co-operatives, immediately after the transformation law was passed the Farmers' Co-operative Union, submitted concrete proposals and requirements to Government, dealing with the establishment of a State agricultural policy which recognised the position of agricultural co-operatives.

From 1989 onwards, State subsidies for agriculture (i.e. to co-operatives) decreased significantly. At present they are very much lower than the levels of agricultural subsidies currently paid in West European countries. In 1993, agricultural subsidies amounted to only 7.1 Billion Sk.

In the future, investment is needed to support those functions which are not directly related to the production process. It is presumed that supplementary means will be allocated to protect the co-operatives against high interest rates, to provide loans for 'biological supplies' and cover part of the costs of biological material, for the improvement of breeding stock, to fund increased productivity (agro-chemicals, fertilizers etc.), for assistance in quality control (genetics and breeding), for employment support, (agro-tourism, development of rural head offices) etc. The allocation of subsidies is decided by tender on the basis of applications from individual subjects. The Union of Agricultural Co-operatives' representative is always a member of the commission.

At the same time, two main questions must be examined in order to plan the production of agricultural produce:

- the importance of co-operatives' contribution to the future agricultural production of Slovakia and co-operatives' relations with the private sector;
- the quantity, quality and structure which such agricultural production will take, especially since it may be assumed that the opportunities for export may be limited (e.g. by the General Agreement on Tariffs and Trade and the European Union).

From the beginning of 1991 the financial situation of consumer co-operatives has gradually worsened in comparison with the position before 1989. Interest rates were 6% till the end of 1990 for stocks of the wares. The whole amount of the supplies was covered by bank credit in the central planned economy. Suddenly, from 1 January 1991 interest rates rose to 24% and fell to 17% during 1991 but this is still very high.

A new tax system came into force from the beginning of 1993, and this adversely affected the consumer co-operatives. Even prior to the liberalization of prices, the huge differences between demand and supply within the market raised the prices of all inputs. This had negative impact on all co-operatives. The new income tax represents 45% of net profits and is applied to all business activities. Furthermore, the introduction of Value Added Tax has significantly increased the price of all goods. Some other new taxes have also been established: real estate tax, road tax, tax on the transfer and sale of property, inheritance taxes and gift taxes.

The consumer co-operatives' plans are described in detail in Section 2.1. Their implementation will depend on the development of the State's financial policy regarding co-operatives, which will affect the co-operatives' ability to compete with the private sector in economic and technical terms.

Housing co-operatives

The situation of housing co-operatives is still not clear (as outlined in Section 2.1). The transition to a market economy has had an immense effect on results achieved. It will be especially difficult to reconcile the rapidly growing costs of, and prices fetched by, new housing developments with the changing financial circumstances of current and potential members.

During the former regime, the Government regarded housing co-operatives as a valuable tool for the solution of its numerous and complicated housing problems. Housing co-operatives were given land to use free of charge and equipment provided. The State made financial contributions towards construction costs and loans at favourable rates of interest. In return for permitting certain organisations to allocate some of the apartments to their employees, part of the members' share costs could be covered. Co-operatives had tax advantages for the purchase of materials, and maintenance and repair works. Certain advantages also existed regarding the taxation of wages.

All these advantages have now been discontinued. There is only a limited range of subsidies for the installation of heating systems, and the demolition of the substandard prefabricated houses which had been built in the past.

The question still remains as to whether or not the State will be willing and able to instigate a social housing policy. If co-operative housing development is less advantageous for citizens than obtaining an apartment in the private sector, the future of housing co-operatives will be uncertain.

Production co-operatives

Production co-operatives are able to exercise a great deal of freedom in the selection of activities. Each production co-operative is completely independent, and is not restricted to a certain type of product. Despite

this, the co-operatives have realised that it is advantageous for those pursuing similar activities to join together for the performance of such activities, which can be realised more profitably when a bigger number of co-operatives works together.

An exception has been created in the case of disabled persons' production co-operatives in which at least 60% of the members are disabled. At present the State provides these co-operatives with certain benefits, especially in the form of lower costs. The standard rate of income tax is set at 45%, with a tax-free allowance of 5,000 Sk per person and 15,000 Sk for those employees with a serious disability or health problem.

From August 1993, disabled people's co-operatives pay only a 10% tax for pension and health insurance if at least 50% of its members are disabled (the standard level of tax is 38%). State support to such co-operatives takes account of their specific conditions, especially the higher costs arising from the need for specialised equipment. The State also recognises that its disabled workforce is less able to adapt to new conditions, and it is able to see that it is difficult to identify suitable production programmes which are appropriate both for the abilities of disabled persons and for market conditions. In many cases disabled people also have lower qualification.

In order to support the State's work for disabled people the Slovak Union of Production Co-operatives has established a rehabilitation fund, which makes a contribution to the State budget of 2,000 - 3,000 Sk per year for each disabled person, the exact amount depending on their level of disability.

It is still not possible for co-operatives to participate in the privatization of State property, which may be bought only by individuals. Originally the co-operatives tried to persuade the State authorities to allow them to participate in the privatization. No decision has as yet been made regarding this matter, so co-operatives are still eliminated from the

privatization process. This is sometimes justified by the fact that before 1989 the co-operatives were part of the Socialist sector. This was not a voluntary decision of the co-operatives and their members, but was a necessary condition of the former regime's toleration of co-operative activities.

There have been some instances in which co-operatives were 'privatised' to form new commercial companies. This happened prior to the passing of Transformation Law N° 42/1992, which does not permit the privatisation of consumer, housing and production co-operatives, but only the increase in members' ownership of the co-operatives' assets.

2.3 Co-operative legislation

Co-operative legislation in Slovakia (and also the former Czechoslovakia) is still influenced by the biased education which citizens received during the previous regime. The legislative process demonstrated, and still does to a certain extent, the deputies' lack of knowledge regarding the problems of co-operatives. Popular opinion still sees co-operatives as the products of the Communist regime and supporters of 'Socialisation' within the national economy.

There is also a less popular opinion that the continuing transformation and reform in the national economy, including the co-operatives, is an unwelcome deviation from the situation which existed prior to 1989. Although such opinions have little influence, the number of dissatisfied people is growing due to plummeting standards of living and the growth in unemployment.

The removal of such incorrect views of co-operatives will require the reeducation of the media, co-operative members, State representatives and the public. Exceptionally important is the provision of information to secondary schools and universities. With this in mind, the associa-

tions of consumer and production co-operatives developed an initiative to enlist the assistance of the media in all its forms (press, radio and television).

It is necessary to make a particular mention of the help given by the International Co-operative Alliance (ICA) to the Czecho-Slovak co-operatives during 1991 and 1992, the period in which Transformation Law N° 42/1992 was prepared. The existence of co-operatives was seriously threatened at that time. Under the influence of some, extremely anti-co-operative politicians, moves were made to bring about the eradication of co-operatives as the 'residue of Communism' and to redistribute the co-operatives' assets in their entirety. Only then might those affected decide to establish a new co-operative: but this would be without legal and property continuity, and minus the financial resources which had been accrued by several co-operative generations.

The Transformation Law is not perfect and does not fulfil all the co-operatives' requirements, but it does allow them a future.

The most influential legislation

Until 1948 Bohemia was governed by the old imperial Austrian law N° 70/1873 regarding profit-making and commercial associations, and in Slovakia the old Hungarian commercial law of 1875 was in force until 1954.

After the beginning of totalitarian regime in 1948, the new 'Socialist' constitution and Law N° 187/1948 on the Central Union of Co-operatives was accepted. These standards were used to bring about the liquidation of some co-operative branches and numerous co-operatives. For a long time they permitted State authorities to intervene in co-operative affairs. In 1949 Law N° 69, governing unified agricultural co-operatives, was approved.

The first general co-operative law in Czechoslovakia was law N° 53/1954 regarding co-operatives and national co-operative organisations.

It formally restricted the rights of State bodies to interfere in co-operative affairs.

In 1959, Law N° 27 on housing co-operative development was issued. 1960 brought the new Czechoslovak constitution, which defined co-operatives as 'voluntary social organisations'.

The third section of the commercial code N° 109/1964 set out the basic framework for regulations, leaving the Central Union of Co-operatives and the Branch Unions of Co-operatives free to establish the other regulations themselves.

Law N° 122/1975 made some changes to the activities of agricultural co-operatives.

In its final moments the former regime tried to alter conditions within the co-operative system, especially through Law N° 94/1988 regarding housing, consumer and production co-operatives. This took many of its regulations from the current law on State enterprises, but also freed the co-operatives from some of their obligations.

In 1990, Laws N° 162, on agricultural co-operatives, and N° 176, on housing, consumer and production co-operatives, were issued. They were not in force for very long. The new commercial law N° 513/1991 replaced all previous laws and became the general legislation standard for all types of co-operatives. Some of its shortfalls have already been discussed.

Law N° 42/1992 adjusted property relations and compensation requirements in co-operatives. It defined the way in which the co-operatives should become co-operatives of shareholders. Some paragraphs of this law had to be repeatedly amended, either because they contained contradictory regulations, or because it was not possible to put them into practice.

At present Slovakia has no co-operative law. Co-operatives see law N° 42/1992, which regulates the mergers and separation of co-operatives as discriminatory. According to this law, in such cases the co-operative is wound up and any indivisible funds are transferred to the National Property Fund administered by State. In this way the State is able to appropriate part of the private property of co-operatives, which rightly belongs to their members. This regulation makes it impossible, no matter what the conditions, to carry out mergers or divisions of co-operatives.

The Co-operative Union of the Slovak Republic has already submitted the amendments to this regulation.

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

Some aspects of structural changes have been already analysed, especially in connection with the transformation of co-operatives. Some additional data are now presented.

In 1989 there was a total of 635 agricultural co-operatives. In the course of 1990 some bigger co-operatives were divided to form smaller ones, so by the end of 1991 there were 965 co-operatives. After the transformation, by the end of 1993, there were also twelve joint-stock companies and nine limited liability companies.

The number of consumer co-operatives increased from 37 to 41.

The housing co-operatives divided some of the larger co-operatives to form smaller ones, thus increasing in number from 83 to 130.

Between 1989 and 1993 the number of production co-operatives increased from 113 to 196. In the course of transition two co-operatives

were changed to commercial corporations, nine were abolished or left the Union and seven of the bigger co-operatives divided to form 27 smaller ones. Two co-operatives were merged.

Changes also started in the co-operative Unions. These had begun in 1968, when two national unions (of consumer and production co-operatives) were divided to form independent, 'national unions'. These were:

- the Czech Union of Consumer Co-operatives and the Slovak Union of Consumer Co-operatives,
- the Czech Union of Production Co-operatives and Slovak Union of Production Co-operatives.

These Unions were of equal status.

Then another two Unions of Housing Co-operatives were established:

- the Czech Union of Housing Co-operatives and
- the Slovak Union of Housing Co-operatives.

The Central Union of Co-operatives, which represented Czechoslovak co-operatives in the ICA, remained unchanged after 1968, but it did not have any power in economic matters because, as regards planning, the co-operatives and their unions belonged to the Czech and Slovak Government.

In April 1990 the Slovak Agricultural Co-operative Association was established. In 1993 this became the Union of Agricultural Co-operatives of the Slovak Republic.

In 1991 the functions of the former Central Council of Co-operatives were taken over by the Co-operative Union of the Czech and Slovak Federative Republic. After the division of Czechoslovakia into two independent republics on 1 January 1993 this Co-operative Union was abolished.

A diagram illustrating the organisational relations within the co-operative system is attached. See Annex 1.

3 Future Options for Co-operatives

3.1 The major trends of change

Sympathizers and opponents frequently ask: ‘How is it possible that co-operatives in Slovakia had such good results in the period of “normalisation” (i.e. after the Prague Spring)? Had they not been exposed to assistance from, and intervention by, the totalitarian regime?’

The answer is that the co-operatives were able to build a solid foundation in extremely unfavourable conditions. Neither the State, nor the State economic sector, was able to satisfy demand for goods and products, food and accommodation. This was an opportunity which the co-operatives seized. As the regime did not want to widen the gap between demand and supply it had to enlist the help of co-operatives.

Many co-operatives were readily able to utilise this situation, and thus replace comparable branches of the State sector. Co-operatives were successful not *thanks* to the planned economy, but *in spite of* it. They even achieved some level of success in securing foreign trading deals, the consequence of which was that co-operatives were able to gain foreign currency and import food, consumer goods, and investment from the West.

These, together with many other factors, enabled co-operatives to develop a strong economic base. What co-operatives need now is a consistent transition to the market economy, and improved marketing. In comparison with joint-stock companies, the co-operatives differ in that, in addition to their entrepreneurial function, they fulfil a socio-

economic and social role in accordance with their 150-year tradition. This is very attractive under the current situation.

It is presumed that co-operatives will make few demands on the State: only that it should provide the appropriate conditions in which they can run their business and social activities, and similar subsidies to those which are usual in Western countries. In their 150-year history, co-operatives have repeatedly survived periods of crisis. Only a few were unable to survive, but those which remained showed a very strong will to continue.

The struggle to reach a favourable position in the market economy will be won by those who understand that assistance primarily comes not from Government, but from the people. This applies to small and medium-sized enterprises, and to privatised State companies which have become joint-stock companies, but it is equally valid for co-operatives. Co-operatives can survive only if they come back to the tried and trusted principles of co-operative self-aid and mutual aid. The future is not to be found in separating the existing co-operatives into smaller business units, nor in individual co-operatives' and co-operative unions' acting in isolation, both of which have been witnessed since 1989. The future must be looked for in the voluntary, deliberate and economically advantageous merging of co-operatives. Within a market economy only the strongest businesses are able to thrive. This does not mean that priority should be given to the establishment of big co-operatives, but it should be possible for co-operatives to enter into mergers or collaboration so as to take advantage of joint resources, ideas, and especially joint capital.

Despite the present, exceptionally complicated, situation it will be up to the co-operatives themselves to retain and eventually strengthen their position in society and to become competitive within the national market.

Slovakia is currently, as are the other post-Communist States of Central and Eastern Europe, in a period of transition. Our credit system is not yet adequate and the situation is such that it is only with great difficulty that many businesses, including co-operatives, are able to obtain bank loans at acceptable interest rates.

Agricultural co-operatives

The continued existence of agricultural co-operatives will depend on State agricultural policy, as it does in countries with a market economy. For the time being, it is difficult to speak about agricultural policy in Slovakia. Three basic questions have yet to be answered:

1. How the privatization of land will influence the quantitative and qualitative growth, or decrease, in agricultural production.
2. How the positive and negative stimuli will be manifested in agriculture in general, and in co-operatives in particular.
3. What effect Slovak agriculture will have on the possibility of joining the European Union.

It is possible to say that agricultural co-operatives have a role to play in the future, although such co-operatives cannot be built on the principles of the old agricultural co-operatives. They will be established as businesses and will be smaller than the current co-operatives. It is not possible to exclude the possibility that some of them will be established in place of bankrupt co-operatives: on the same land, but with new members. They will frequently be 'co-operatives of small co-operatives', involving mergers between specialised production units. They will also have to have new, healthier member relations, consistently applied co-operative democracy and a strong work ethic. Each member will have to feel personally responsible for the prosperity of the co-operative.

It is with some justification that it is thought the new co-operatives will be actively involved in the processing industry and benefit from its profits. They will provide services to co-operatives as prime producers. It is also believed that co-operatives will fulfil a wider function: providing services to residents, and influencing the country's cultural and social life, including agro-tourism and also rural tourism. Agricultural co-operatives will have a particular interest in environmental improvement, safeguarding social conditions and producing agricultural products which have no health risks.

Furthermore, it is presumed that agricultural co-operatives will preserve their apex organisation, in order to represent them in dealings with the State, to assist with the sale of agricultural products, to organise the education and training of members and to provide varied advisory services. Upon request, the union will fulfil those tasks to which the members are entitled by virtue of their membership fees.

It is taken for granted in all co-operative branches that co-operatives will co-operate with other commercial companies when this is mutually advantageous, eventually creating joint ventures with them.

Consumer co-operatives

Consumer co-operatives now have to fight to win and retain customers. They have to take steps to motivate their members to attain good commercial results. Some steps have been taken in this direction, but much more will need to be done in order to develop the internal market. The question also remains as to how the reduction in citizens' purchasing power may be halted, since this is one of the main reasons for the decrease in co-operative revenues.

Housing co-operatives

The future of housing co-operatives will depend on the State's housing policy. Unfortunately there are no indications as to what this will be. The State should get rid of direct subsidies, but it should also provide

advantageous long-term loans to finance co-operative housing construction and take steps to eliminate the chronic failures which have plagued the housing sector for decades.

Production co-operatives

Production co-operatives are faced with the problem of developing a skilled management able to rapidly perceive changing trends and adapt production to these. The motivation of members is of the utmost importance. Members must consider it their duty to support their co-operative.

Credit, financial and saving co-operatives

An important task will be the development of further co-operative sectors, especially credit, financial and saving co-operatives. Prior to 1948 these were the pillars on which the Slovak co-operative movement was founded. Preparations for their reinstatement are underway.

3.2 Need for international assistance

In our opinion, mutual international assistance between co-operative organisations, members of the International Co-operative Alliance, is very important and very necessary. For the Slovak co-operative movement, such help had a positive influence in the development and approval of co-operative laws, especially in 1991 during the discussion stage of the Co-operative Transformation Law.

Over the past three years some concrete forms of assistance and collaboration between Slovak co-operative organisations and co-operative organisations in economically developed European countries have been developed. The level of collaboration varies according to individual co-operative unions and countries. For example, there are successful developments between Slovak consumer co-operatives and Swedish, Danish, Finnish and other European co-operative organisa-

tions; between production co-operatives and the ICOSI organisation from France and other countries; between Slovak housing co-operatives and Dutch housing co-operative organisations; between Slovak agricultural co-operatives and others from Denmark and elsewhere.

Even though international assistance has had many positive results, there is still a need for much more. Below, we would like to mention some possibilities (not in order of importance) which might be usefully applied in the Slovak conditions.

1. To publicise co-operative development worldwide, to inform the public about the international experiences of the co-operative movements in Europe, throughout the world and in Slovakia, and to distribute information material to politicians, members of parliament, ministries, universities, etc.
2. To invite representatives of the international co-operative movement to the most important co-operative assemblies and meetings.
3. To assist Slovakia to overcome our problems by exploring the possibilities for collaboration within the International Co-operative Alliance's European region. To utilise such collaboration to improve the co-operative image and to develop better economic conditions for the co-operatives within the Slovak Republic.
4. To send representatives of the International Co-operative Movement to meet politicians, members of parliament, members of the government and senior officers in the ministries. Also to maximise the publicity given to such visits.
5. To provide foreign assistance for the education and training of managers and co-operative members.

6. To develop the co-operative system, which will enable Slovakia to benefit fully from the possibilities for assistance from international financial sources. In this connection we would request co-operative movements within more developed countries to lobby their Governments to provide more visible assistance to our co-operative movement through their co-operative organisations.
7. To help us to apply for assistance from international financial sources such as the PHARE programme of the European Union, the European Bank for Reconstruction and Development, the World Bank, etc. to fund the development of our co-operative system.
8. That the International Co-operative Alliance and its members should prepare the conditions for wider development of international co-operative collaboration. To organise international events as conferences, seminars, training etc. to this end.
9. That the International Co-operative Alliance and its members should provide assistance for the development of new types of co-operatives such as credit and saving co-operatives, pharmaceutical co-operatives etc.
10. To develop collaboration between universities to provide courses dealing with co-operative systems. It would be possible, under the umbrella of the International Co-operative Alliance, to organise conferences with contributions from all those universities which have co-operative studies in their curriculum.
11. To provide support for the preparation and organisation of sales exhibitions and co-operative markets worldwide.
12. To donate to our co-operative movement copies of any professional literature regarding co-operatives from 1950 to the present date.

4 Contact Organisations

Druzstevná únia Slovenskej republiky (DÚSR)

(Co-operative Union of the Slovak Republic)

Chairman: Ing. Marián Rybár

Address: Bajkalská 25, 821 01 Bratislava

Phone: 42-7/213 308; Fax: 42-7/214 132, 214 966

Slovenský zväz bytových družstiev (SZBD)

Slovak Union of Housing Co-operatives

Chairman: Ing. Ladislav Pollák

Address: Strojnícka 8, 827 07 Bratislava

Phone: 42-7/236 905, 291 821; Fax: 42-7/220 628, 291 928

Slovenský zväz spotrebných družstiev (SZSD)

(Slovak Union of Consumer Co-operatives)

Chairman: Ing. Silvester Adamca

Address: Bajkalská 25, 827 18 Bratislava

Phone: 42-7/2015 111; Fax: 42-7/215 237, 214 526; Telex: 092 267

Slovenský zväz výrobných družstiev (SZVD)

Slovak Union of Production Co-operatives

Chairman: Ing. Marián Rybár

Address: Mliekárenská 10, 824 92 Bratislava

Phone: 42-7/213 000, 212 521; Fax: 42-7/212 412

Zväz po nohospodárskych družstiev Slovenskej republiky (ZPD SR)

Union of Agricultural Co-operatives of the Slovak Republic

Chairman: Ing. Cyril Moravčík

Address: Priemyselná 6, 824 94 Bratislava

Phone: 42-7/211 504; Fax: 42-7/678 63

Abbreviations:

- DÚSR - Družstevná únia Slovenskej republiky - Co-operative Union of the Slovak Republic
- SZBD - Slovenský zväz bytových družstiev - Slovak Union of Housing Co-operatives
- SZSD - Slovenský zväz spotrebných družstiev - Slovak Union of Consumer Co-operatives
- SZVD - Slovenský zväz výrobných družstiev - Slovak Union of Production Co-operatives
- ZPD SR - Zväz poľnohospodárskych družstiev - Association of Agricultural Co-operatives
-
- BD - Bytové družstvá - Co-operative housing societies
- VD - Vyrobné družstvá - Co-operative producer (industrial and artisanal) societies
- SD - Spotrebné družstvá - Consumer co-operative societies
- PD - Poľnohospodárske družstvá - Agricultural co-operative societies
- A.S. - Akciová spoločnosť - Joint-stock Company
- S.R.O. - Spoločnosť s ručením obmedzeným - Limited Liability Company
- JRD - Jednotné roľnícke družstvo - Unified Agricultural Co-operative

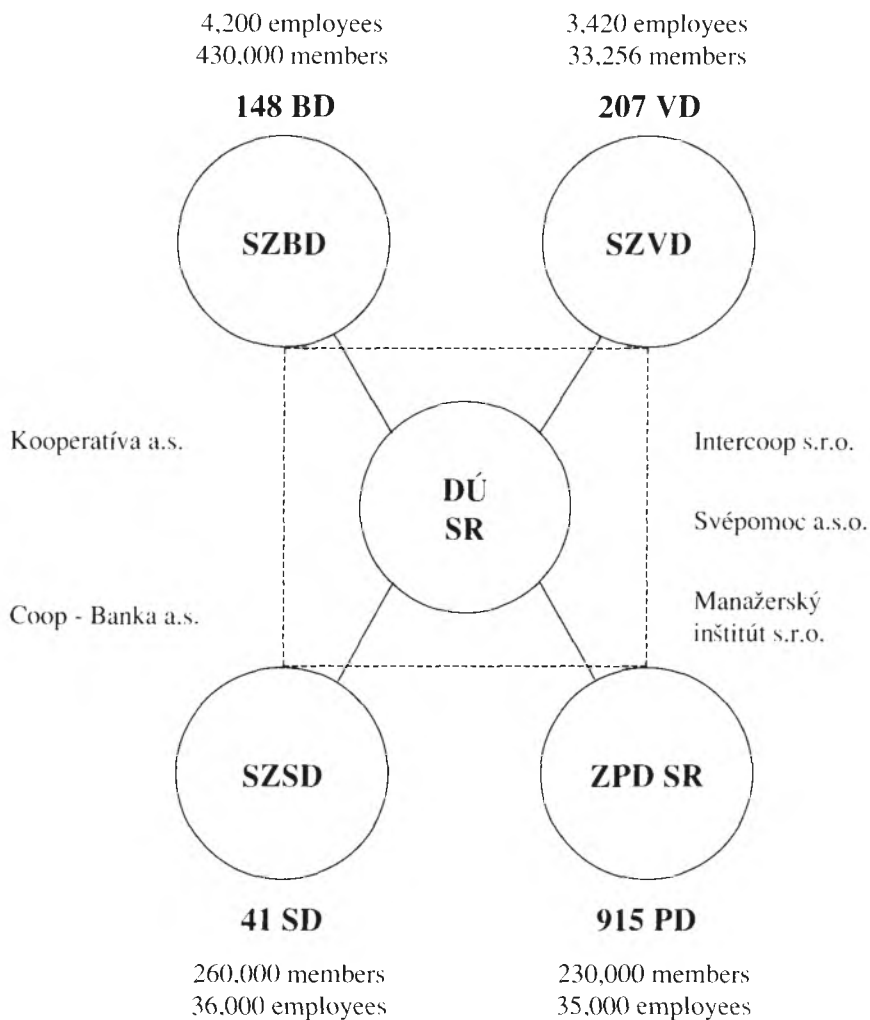
Explanations to the statistical table:

- Sk Slovak crown, monetary unit of the Slovak Republic. The Slovak crown is not yet freely convertible currency. At the beginning of November 1993 the Slovak National Bank valued USD 1.00 at 33 Slovak Crowns.

Organisation of the Co-operative Union of the Slovak Republic

Joint-Stock Co-operative Companies
with substantial capital participation

Co-operative Companies
with substantial capital participation

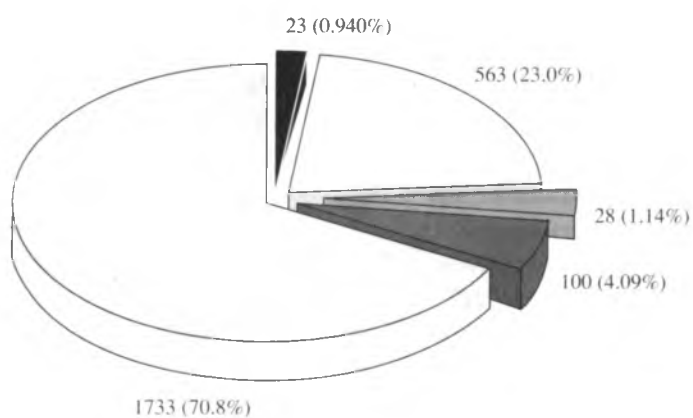


Basic statistical table

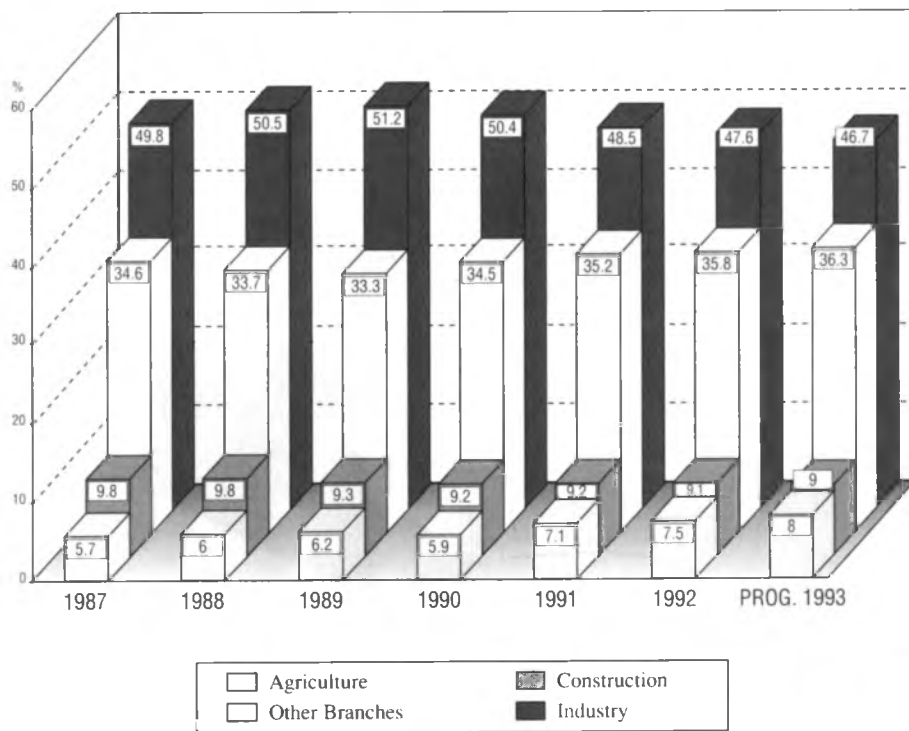
	1989	1992
1. Number of co-operatives	865	1,336
- agricultural co-operatives	635	969
- consumer co-operatives	37	41
- housing co-operatives ^(b)	80	130
- production co-operatives	113	196
2. Number of members	1,766,606	971,558
- agricultural co-operatives	392,000	300,000
- consumer co-operatives	969,266	263,132
- housing co-operatives ^(b)	352,600	377,700
- production co-operatives	52,740	30,126
3. Assets (Millions of Sk)	(a)	162,032
- agricultural co-operatives	(a)	90,300
- consumer co-operatives	17,678	12,615
- housing co-operatives ^(b)	46,658	55,000
- production co-operatives	5,436	4,117
4. Output (Millions of Sk)	568,502	304,264
- agricultural co-operatives	519,500	271,600
- consumer co-operatives	39,636	27,448
- housing co-operatives ^(b)	811	1,000
- production co-operatives	8,355	4,216
5. Profit(+) & Loss(-)		
(Millions of Sk)	4,938(+)	10,180(-)
- agricultural co-operatives	3,170(+)	10,530(-)
- consumer co-operatives	916(+)	125(-)
- housing co-operatives ^(b)	39(+)	50(+)
- production co-operatives	813(+)	425(+)

(a) Data is not available; (b) Housing co-operative data are for 1990.

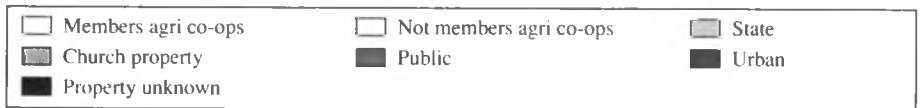
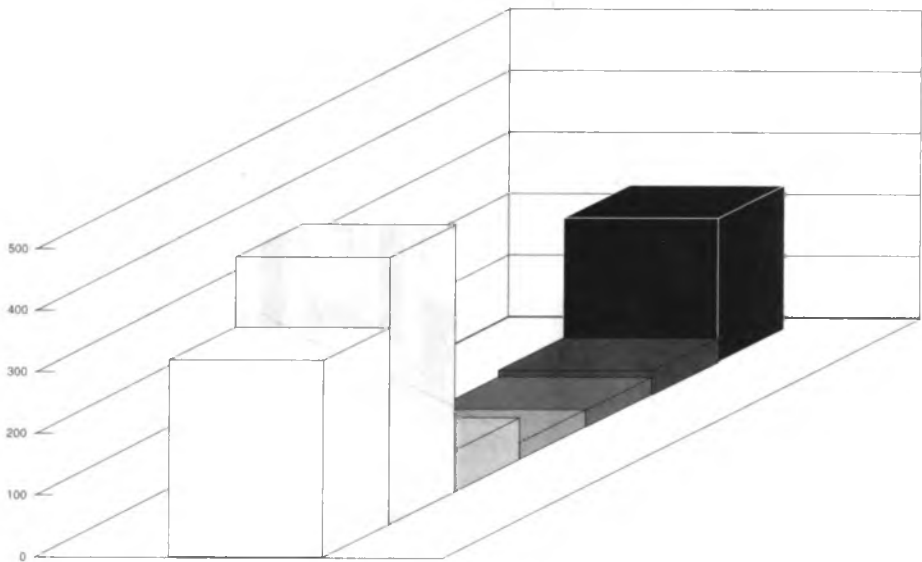
Agricultural Land in Slovak Republic January 1993 (thousand hectares)



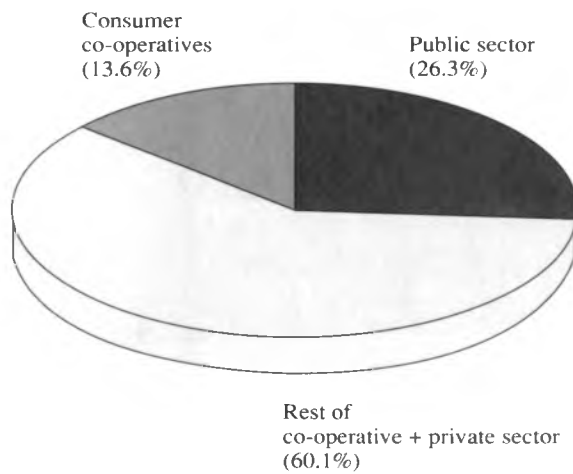
Gross Domestic Product in the Slovak Republic



Agricultural Land as at 1 February 1993 (thousand hectares)



Goods and service sale turnover in 1992



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