

Studies and Reports

Twentieth in the series

CO-OPERATIVES IN EASTERN & CENTRAL EUROPE

Hungary

by János Juhász
Co-operative Research Institute
Budapest, Hungary

(Edited by Margaret Prickett)

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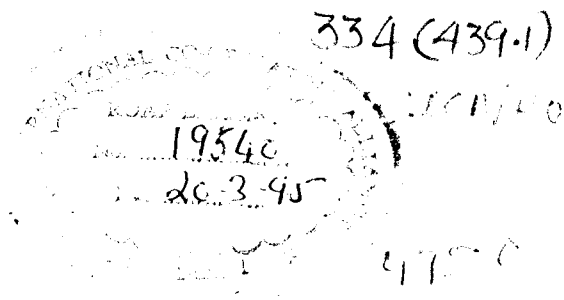
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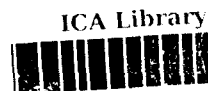
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János' most recent position in an ICA capacity has been as member of the Advisory Committee for the Basic Values of Co-operation study. He also was an active participant in the work of the COPAC Secretariat in relation to the Co-operative Movements and similar organizations in developing countries during the 1970s.

With first and second degrees in Economics, the author has a PhD. from the Hungarian Academy of Sciences.

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Preface

Like other institutions in Eastern and Central Europe, co-operatives have been profoundly affected by the dramatic changes which have occurred in the region during the last three years.

In order to present an accurate view of the current situation of the co-operatives, the ICA has commissioned a series of national studies by authors who are knowledgeable, but still independent, of the co-operative sector.

This report, on Hungary, is the first country study to be published in the series. Following the approval of new co-operative and transformation legislation in January 1992, the framework within which co-operatives will operate has now been clearly established.

The author, Dr. János Juhász, has lengthy experience in studying, and working with, the co-operative movement in Hungary. This report reflects his personal analysis of the situation, and does not necessarily represent the views of ICA or its member organisations.

We hope that this report will provide useful information to all readers who are interested in knowing more about the role which co-operatives have played, and are likely to play in the future, in Hungary. It analyses both the strengths and weaknesses of the different co-operative sectors in an unbiased manner.

The treatment of co-operative property and capital under the new Hungarian legislation should be of interest to co-operative practitioners and students in all countries in light of the current international review of co-operative values and principles.

This study should remind readers that co-operatives in Eastern and Central Europe have grown from the same nineteenth-century roots as their Western European counterparts. The fact that the sixth ICA Congress was held in Budapest in 1904 reflects the strength of the Hungarian movement at that time. Even during the years of Communist dictatorship, as Dr. Juhász describes, the co-operatives lived in a period of continuous reform.

Now able to return to their original roots as voluntary, member-owned business organisations, Hungarian co-operatives have an important role to play in bringing economic democracy back to their country. The task will not be easy but, as this study demonstrates, the bases for success are in place.

Bruce Thordarson
Director-General
International Co-operative Alliance

1. Main Characteristics of the Present Co-operative Structure

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

Hungarian co-operatives can be grouped into the following categories: agricultural, industrial, consumer, savings, and housing co-operatives. The most important quantitative information about their structure is given below :

The Co-operative Movement in Hungary (31.12.1990)				
Co-op type	Number	Number of members	Number of employees	Significance in economy
General consumer & marketing co-ops (AFESZ)	273	1,300,000	100,000	33% of retail trade and catering
Hangya co-ops	116	20,000	500	HUF ¹ 50 mil turnover in 2nd half of 1990
Agricultural co-ops	1,335	316,900 ²	153,700	60% of total agricultural output
<i>(of which:</i>				
<i>-Farming co-ops</i>	<i>1,268</i>			
<i>-Specialized agrico-ops</i>	<i>67)</i>			
Fishery co-ops	16	1,700	50	-
Agricultural associations	1,780	200,000	-	HUF ¹ 6 billion total sales
Industrial co-ops	3,450	180,000	110,000	8% of total industrial output
Savings co-ops	260	2,000,000	10,000	17% of total deposits
Housing co-ops	1,421	410,000	4,500	provide housing for 1 mil people

Source: Tájékoztató a magyar szövetkezeti mozgalom helyzetéről, OSZT, Budapest 1991
¹ - 1 US Dollar = 75.5 HUF; ² - Members of active age.

Farming Co-operatives

Farming co-operatives in Hungary belong to the agricultural workers production category of co-operative. In the 1960s and 70s, members were obliged by law to turn over their land to the co-operatives for joint cultivation. However, they retained the ownership of the land, at least in legal terms. Initially, other means of production were also contributed by the members against symbolic compensation. Nowadays, farming co-operatives own and use a high-value stock of assets accumulated from their production activity over the course of many years.

Although the original function of the farming co-operatives was to create a uniform structure of large-scale common farming, members' individual small-scale activities have always been present. From the very beginning members were allowed to keep a small plot of land for family cultivation. The size of this plot was limited to about half a hectare. Similarly, the livestock reared by individuals was also strictly limited in the early years of collectivization. Together, these constituted the so-called 'household plot' of farming co-operative members. The institution of household plots was meant to be a temporary gesture to facilitate the transition to an entirely collective way of farming. However, the household plots survived, and currently receive political support as an important form of small-scale farming.

Correspondingly, the ideal type of farming co-operative has also adopted new features which differ from those of the original model. Instead of exclusively large-scale farming they have come to be considered as production organizations combining both large- and small-scale activities. The model of farming co-operatives has therefore been composed of two parts: namely, the joint or common farm and a great number of household plots or, to use the better term, household farms.

Both are commodity-producing organizations, and it is the duty of the common farm to "integrate" the activities of the small-scale family-

based household farms. Assistance in terms of use of machinery (e.g. ploughing, spraying, etc.), transport, provision of inputs, extension, marketing, etc. has been provided to small-scale farmers in many farming co-operatives. Collaboration between the common and household farms has taken various forms. The general concept prevailed that a particular type of “symbiosis” should and could develop between them. This symbiosis was the basic characteristic of what used to be called the “Hungarian model” of agrarian structure.

The farming co-operatives have grown to become rather large enterprises in all respects. Today the land area cultivated by the average farming co-operative amounts to some 4000 hectares. The number of those who have a full time job in the co-operative is 377, of whom 282 do manual work. Not all of them are members of the co-operative, however, 263 are co-operative members and 114 are employees. Clearly, farming co-operatives utilize a significant amount of hired labour. On the other hand, they have a considerable number of retired members who retain their full membership but no longer participate in the joint work. Their relationship to the co-operative in the field of farming is limited to the household farm, which remains theirs after retirement. This link, however, may be quite important from the points of view of both the co-operative and its member. The average farming co-operative has a total membership of 551 people, of whom as many as 288 are pensioners and annuitants, and put in 78 thousand ten-hour working days in 1989, i.e. 227 working days per capita.

In the same year, an average farming co-operative reared the following livestock: 794 cattle (298 cows), 1,936 pigs (147 sows), 934 sheep and 5,055 poultry. Its machinery included 32 tractors, 19 lorries and 7 combine harvesters with a total hauling power of 5,301 kW. The total gross value of its fixed assets amounted to HUF 230 million, and it had a gross production value of HUF 239 million. In this sector, losses have

been more frequent than profits in recent years. In 1989, the per-co-operative profit came to HUF 17 million, while the respective figure for losses reached HUF 22 million.

Specialized Agricultural Co-operatives

Specialized agricultural co-operatives are different from both the promotion and the production co-operatives, representing a kind of intermediate type between these. They are considered specialized for two reasons. On the one hand, they focus on some special crop, most often grapes. On the other hand, their membership relations are also special. These co-operatives have maintained not only private ownership but also the family cultivation of the land. Only a small part of the members' land is pooled to create large-scale joint plantations. Primary production is carried out individually by the members and the main function of the co-operative is joint processing and marketing of its members' produce. Accordingly, members are not obliged to participate in the cultivation of the common plots, though specialized agricultural co-operatives were also intended to create a gradually-increasing joint farm. Indeed, the long-term economic political objective concerning specialized agricultural co-operatives was to transform them into farming co-operatives.

However, the model of specialized agricultural co-operatives has survived and at present it has the following main quantitative characteristics: the specialized agricultural co-operatives are much smaller enterprises than the farming co-operatives. The average co-operative has about 1,100 hectares, and 582 members. It has 207 full time employees, some of whom are also members. The number of manual workers is 167, and the total man-hours performed in 1989 amounted to 460,000, i.e. 221 working days per capita. Since specialized agricultural co-operatives are mainly involved in crop production their animal husbandry is

of less significance. In 1988, the average was 129 cattle (44 cows), 99 pigs (7 sows), 1,566 sheep and 1,810 poultry. As to their machinery, the average was 13 tractors, 12 lorries and 3 combine harvesters in 1989. Together these represented 2,196 kW hauling power. All these figures refer, of course, to the common farm of the specialized agricultural co-operatives.

Agricultural Associations

The third important co-operative model existing in Hungarian agriculture is that of the agricultural associations. Although they are not independent legal entities, these represent an autonomous model of agricultural co-operatives. Agricultural associations came into being as a special activity of consumer co-operatives aiming to promote the agricultural production of part-time producers. They have been organized mainly according to the commodities with which they deal. Most of them deal with a specialized area of animal husbandry. Many are involved in pig breeding, but there are a lot of poultry breeding and crop producing associations, too. Among the latter, the fruit and vegetable producing ones are of significance on the national level. It is a very specific feature of the agricultural associations that the production of small animals such as pigeons or rabbits, of which remarkable quantities go to export markets, is done almost exclusively in their framework. The basic data for the agricultural associations is given in the table on the following page:

Agricultural associations operating in the framework of consumer co-operatives (1987)			
	Number of associations	Number of members	Value of joint sales, mil HUF
Animal husbandry			
Pig breeding	234	45,274	2,381
Rabbit farming	722	29,784	613
Poultry and egg production	65	2,129	634
Goose fattening	28	2,446	630
Pigeon breeding	52	1,469	11
Rearing of other small animals	64	3,847	187
Bee keeping	438	17,750	610
<i>Sub-total</i>	<i>1,603</i>	<i>102,699</i>	<i>5,066</i>
Horticulture			
Wine, fruit and vegetable production	180	22,340	263
Other	472	47,583	1,131
<i>Sub-total</i>	<i>652</i>	<i>69,923</i>	<i>1,394</i>
TOTAL	2,255	172,622	6,460

The agricultural associations aim to assist the production of their members. In addition to purchasing members' products they provide production materials, seeds, pesticides, fertilizers, etc. They have no common land area, but do have joint property in the form of machinery, equipment and buildings. Various services, mainly the use of machinery, are provided to the members at favourable rates.

It is very important to note that the agricultural associations have extended their activities. Associations belonging to consumer coopera-

tives no longer limit their membership to those who are full-time farmers. Members may, and do, join them in the capacity of household farmers, i.e. with part-time farms. Agricultural associations have been established by farming co-operatives, specialized agricultural cooperatives and, indeed, by state farms, too. The membership of the associations is not restricted to the members or employees of the mother organizations. As a result, agricultural associations nowadays operate within the framework of all large-scale farms and consumer co-operatives and have mixed membership. It is also worth mentioning that a large part of the agricultural associations' production would appear in official statistics as large-scale operations. The reason, beyond the technical difficulties of keeping accurate records, is the fact that large-scale enterprises look upon agricultural associations as special forms of work organization.

Industrial Co-operatives

Industrial co-operatives are workers' co-operatives and, as such, their characteristics are similar to those of the agricultural production co-operatives. They carry out joint production in common workshops, are involved in all types of industry and work in a wide range of activities. However, they are predominant in light industry, in the various fields of the engineering industry and in industrial services. An important and rapid transformation process has been going on in the industrial co-operative sector. In the course of the 1980s more and more "traditional" industrial co-operatives have converted themselves into so-called "small co-operatives". While output and the numbers employed in the sector have not changed significantly, the number of small co-operatives grew from nil to over 3000³. More detailed data are given in the table below:

³ - Due to the change in the system of statistical observation, no precise data are available after 1988.

Industrial co-operatives (1988)			
	Traditional co-ops	Small co-ops	Total
Number of co-operatives			
Industrial	258	1,224	1,482
<i>of which:</i>			
<i>Mining</i>	-	1	1
<i>Metallurgy</i>	2	5	7
<i>Engineering</i>	66	655	714
<i>Chemical industry</i>	9	93	102
<i>Light industry</i>	161	362	523
<i>Food production</i>	-	11	11
Construction industry	45	989	1,034
<i>of which:</i>			
<i>Architectural design</i>	-	85	85
Transport	2	64	66
Trade	8	98	106
Water management	-	1	1
Services	30	427	457
TOTAL	343	2,888	3,146
Active members and employees (thousands)	124.2	158.6	282.9
Total output (HUF billion)	55.9	95.9	151.8
Source: Az ipari szövetkezetek gazdasági fejlődésének főbb adatai, OKISZ, Budapest, 1988			

The traditional industrial co-operatives tend to be large-scale operations, although they were intended to be small- and medium-scale enterprises within the centrally-planned economy. The typical traditional industrial co-operative employs some 350 people, which includes

both the active members and the employees of the co-operative. Of them, 300 are blue-collar and 50 white-collar workers. Its annual production comes to HUF163 million. The typical small industrial co-operative has 60 active members and employees, of whom 50 are blue-collar and 10 white-collar workers. Its total output is some HUF 34 million.

Consumer and Marketing Co-operatives

The general consumer and marketing co-operatives (AFESZ) aim to provide retail and catering services to their members. In addition, they purchase agricultural produce from small-scale, mainly part-time, producers and organize and promote agricultural associations. Most of the general consumer and marketing co-operatives run various production and service plants and workshops involved in industrial, food processing and repair activities.

General consumer and marketing co-operatives (1989)	
Number of co-operatives	273.0
Number of members (thousands)	1,546.0
Number of full-time employees (thousands)	100.6
Share capital (HUF million)	921.0
Number of retail shops	14,781.0
Number of catering units	6,655.0
Sales (HUF billion)	
Retail trade	192.7
<i>of which: Catering</i>	<i>21.6</i>
Wholesale trade	14.7
Purchase of agricultural produce	9.3
Industrial production and construction	9.6
Other activities	2.9
	=====
TOTAL	229.2

A typical general consumer and marketing co-operative covers a geographical area of 10 villages and has 78 outlets, of which 54 are shops and 24 are catering units. In addition, it has 2 or 3 department stores, which generally operate in the same locality as the co-operative's head office. In the field of non-commercial activities, a typical consumer co-operative runs a fruit or vegetable processing plant (e.g. a canning plant producing traditional, local products with low-tech methods) and a small industrial or repair workshop.

In international terms the typical Hungarian consumer co-operative may be considered to be medium sized. It has about 6 thousand members and employs some 360 people. These figures are much greater than those for similar co-operatives in Denmark or Finland, but are far below those in Switzerland or Great Britain. As to its business activity, the "average" consumer co-operative has an annual total turnover of HUF 800 million, of which its surplus comes to HUF 17 million. It has assets of some HUF 127 million, including HUF 3 million share capital. The co-operative purchases 1200 tons of various agricultural produce, mainly potatoes, fruit and vegetables, and the value of its industrial products is about HUF 25 million.

Savings Co-operatives

The savings co-operatives are financial institutions that aim to provide the widest possible variety of financial services to their members. They operate mostly in villages and country towns, but there are savings co-operatives in urban areas as well. Since 1991, the minimum capital requirement for the establishment of a savings co-operative has been HUF 50 million. This may be reduced to HUF 25 million if the co-operatives join a mutual insurance fund.

Savings co-operatives

Co-operatives	260.0
Members (thousands)	2,000.0
Employees (thousands)	10.0
Share capital (million HUF)	1,456.0
Deposits (million HUF)	53,226.0
Loans (million HUF)	34,225.0
Share (in total resources) of banking sector, %	5.0
Market share (in terms of total deposits of the population), %	17.4
Number of branch offices	1,800.0
<i>of which:</i>	
<i>in rural settlements</i>	<i>1,500.0</i>
<i>in urban settlements</i>	<i>300.0</i>

In Hungarian savings co-operatives, open and voluntary membership prevails. No common bond is observed: any Hungarian citizen may join any savings co-operative. Full membership is gained by the purchase of one co-operative share of HUF 500. In the co-operative, the one member - one vote principle prevails and all forms of democratic self-government may be seen. As a special provision of the savings co-operative legislation two thirds of the board of directors should be elected from co-operative members not employed by the co-operative. The operation of the savings co-operatives includes active and passive banking transactions, non-financial services and other activities made on commission. As of 1990, savings co-operatives are entitled to do business not only with individuals but also with legal entities. This is quite in line with the objective of savings co-operatives to become the predominant banking structure in rural areas. Some of their main activities are listed below:

- collection of deposits (it should be noted at this point that savings deposited with savings co-operatives are protected by state guarantee).
- provision of credit and loans to individuals (this also includes small-businesses).

- provision of credit to legal entities
- issue of, and trade in, securities (the first needs special authorization on a case-by-case basis and the latter includes the handling, deposit and negotiation of securities, e.g. bonds etc.)
- investment activities
- issue of cheques and credit cards (this is, as yet, a theoretical possibility rather than reality)
- various financial services provided on commission (e.g. purchase and sale of foreign currencies; marketing of insurance products; sale of lottery and soccer pools coupons, etc.).

The typical savings co-operative has 7700 members, and 5 or 6 branch offices. Its total assets amount to HUF 260 million and its capital is some HUF 16 million including share capital and accumulated capital. The average savings co-operative collects HUF 210 million deposits from individuals and has some HUF 30 million additional resources such as deposits from legal entities, surplus, etc. Fixed assets, including real estate, come to about HUF 8-9 million. A typical savings co-operative provides HUF 95 million in loans to its members and another HUF 15 million to legal entities.

School Co-operatives

There are some 900 school co-operatives in the country. These are not independent legal entities but function within the organizational framework of either the general consumer and marketing co-operatives or the savings co-operatives, which also provide professional assistance and

guidance for their operation. School co-operatives are involved in retail trade, the provision of textbooks and other training aids, agricultural production (mainly small animal husbandry and flower growing) and the service industry.

Housing Co-operatives

The housing co-operative sector comprises several co-operative models, the most significant of which is the “home maintenance co-operative” that takes care of the privately-owned homes of its members. The minimum number of apartments is 12 in a home maintenance co-operative. Mention should be made of the car garage co-operatives (their number is 211), recreation co-operatives (23) and “workshop co-operatives” (11), which all belong to the housing co-operative sector. Their operating principles are similar to those of the home maintenance co-operatives.

Production, Consumer and Marketing Co-operatives

Finally, the Hangya (Ant) production, consumer and marketing co-operatives aim to assist small farmers and the owners of small businesses by supplying inputs and consumer goods. The Hangya co-operatives run retail outlets, primarily in villages. Since it is a movement in the process of re-establishment, its market share is not very large. However, the number of newly established or re-established Hangya co-operatives is increasing rapidly.

1.2 Brief historical background

The co-operative movement has a long and rich history in Hungary. The first co-operative initiatives were made as early as the first half of the

nineteenth century and the original co-operatives were formally established in the 1850s, i.e. at the same time as in other European countries. The very first co-operatives provided either financial services (credit co-operatives) or consumer goods (consumer co-operatives) to their members. The first co-operative legislation was passed in 1875, as part of the Commercial Law. By the turn of the century, a significant co-operative development occurred in terms of both numbers and membership. The trend continued throughout the first years of the 20th century: by 1915 there were more than 6000 co-operatives in the country. Of them, 1800 were consumer co-operatives and 1853 credit co-operatives. The entire co-operative structure continued to expand, whilst retaining its basic character, until World War II.

1.2.1 Co-operatives in the central planning system

Throughout the period of “socialist central planning”, co-operative development was determined, as was the entire economic and social life of the country, by a totalitarian policy based on communist ideology. In spite of this, co-operatives did not remain unchanged over the period. Indeed, even co-operative concepts and policies have gone through various stages of development. On the one hand, the changes have always reflected the state of affairs in the political hierarchy. On the other, they have acted as a “catalyst”, influencing the overall economic and social policy of the country. In a way, the Hungarian co-operative movement has been in a continuous reform process.

In the early 1950s, alongside increasing economic problems, the organization of co-operatives faced serious difficulties. By the middle of 1953 the prevailing approach to economic development became impossible and a political decision on a new approach was made. However, it could not be implemented: primarily because the old power group succeeded in regaining strength. Finally, this situation led to a popular revolt,

culminating in the revolution of 1956. Most of the farming co-operatives closed down, but some of them survived. It is an important feature of the period between 1957 and 1959 that a large variety of promotion-type agricultural co-operatives began to mushroom to assist individual farming.

As part of the reform process, the farmers' co-operatives changed their names to general marketing and consumer co-operatives (AFESZ). This more accurately reflected the activities in which they had long been involved. From 1968 on, consumer co-operatives have been permitted in urban areas as well. During these years a new type of consumer, or rather promotional, co-operative appeared: the housing co-operative. Two subtypes were introduced: the house-building co-operatives, and the "home maintenance co-operatives". The latter were more significant and larger in number since, in the early stages, they were organized mainly for the use of large urban apartment blocks constructed and allocated by the state administration, the first of which were in the capital city.

1979 marked the beginning of a new phase in the development of economic policy. From a co-operative point of view the most significant event was the amendment of the co-operative legislation which allowed for the organization of so-called "small co-operatives". According to this modification, a small co-operative was one in which the number of members did not exceed 100 people. Compared to the traditional "large" co-operatives, the small ones enjoyed a number of advantages. In fact, the purpose of their introduction was to facilitate the transformation of the old co-operatives into genuine ones. In order to pursue that aim the law allowed groups of 15 to 100 members to separate from their existing co-operative to establish a new "small" co-operative. Small co-operatives became most widespread in the industrial co-operative sector.

1.3 Membership relations in the existing co-operatives

The principle of open and voluntary membership is observed by all types of co-operatives. There now exists no discrimination of any form and no one is forced to join a co-operative. Voluntary membership now has significance in the opposite sense, in that the question arises as to whether members are free to leave their co-operative. The theoretical answer is affirmative. Any co-operative member has the right to resign his or her membership. In practice, however, the problem is not that simple, as we shall see later.

All instruments of democratic control now exist in the co-operatives. The principle of one member, one vote prevails and co-operative statutes provide for the functioning of co-operative democracy. However, members' democratic control is far from perfect, which is the result of more than one factor. One of them is the status of the co-operative chairman. Chairmen have a dual position in most of the Hungarian co-operatives. They are elected leaders, but they are also full-time professional managers employed by the co-operatives. Furthermore, in practice, other professionals also tend to be on the elected boards. But apart from such overlapping, professional management dominates the co-operatives' elected leadership. This results in a technocratic type of management.

Some additional factors contribute to weakening members' democratic control in the co-operatives. First of all, the magnitude of the operation should be mentioned in the context of agricultural and consumer co-operatives in particular. These are not only large-scale enterprises, but carry on many-sided and, in terms of technology, highly complicated activities, as well. This makes members' access to the necessary information difficult, thus the whole business is impossible for the ordinary member to survey. The typical Hungarian co-operative also has many members, thus the general assembly of all members cannot be convened and the system of representative democracy does not function properly.

The existing system of incentives is also responsible for the shortcomings of members' democratic control in the production (workers') co-operatives, such as industrial and the farming co-operatives. The basis of membership relations is work in the production co-operatives. Members are obliged to participate in the joint work, and the co-operative is obliged to provide employment for its members. In accordance with this, the income of the co-operative is distributed among the members according to the work performed. In practical terms, remuneration takes the form of monthly wages complemented by year-end bonuses. Income used for joint developmental (investment) purposes augments co-operative assets. Co-operative property was almost entirely indivisible in the production co-operative model. Therefore no direct property-motivated incentive existed between the co-operative and its members.

In the context of self-management, the problem of autonomy is worth mentioning once more. Co-operatives have been fighting for their autonomy for the last 30 years. They have now become autonomous organizations. Due to the problems of members' democratic control however, the autonomy is that of the co-operative managers. Furthermore, the joint farm and industrial co-operatives are hierarchically organized. Over the past decades a highly professional management has evolved to dominate decision-making processes at all levels.

1.4 National co-operative organizations, associations, federations

In the course of the whole post-war period a strong central influence was characteristic in the Hungarian co-operative movement. This holds true in spite of the fact that secondary and tertiary co-operative organizations were established at an early stage. In 1948 the National Federation of Industrial Co-operatives (OKISZ), and in 1949 the National Federation

of Co-operatives (SZOVOSZ), came into being. Both functioned as substitutes for government authority. Their main function was to act as intermediary between the state and the co-operatives. In other words, they passed on state commands regarding almost every detail of their activities. The practice of compulsory association prevailed: hence all industrial and farming co-operatives were, by definition, members of their respective federations.

In the sector of agricultural production co-operatives, the system of direct command by the Ministry of Agriculture prevailed until 1967. In that year, the first supporting system of the agricultural production co-operatives was established. This was composed of National Council of Agricultural Production Co-operatives and 51 regional, “territorial”, federations. The whole system represented a completely new approach to co-operative interest organizations.

The structure was set up by the First Congress of Agricultural Co-operatives, held in 1967. The Congress created the National Council of Agricultural Co-operatives (TOT) and expressed its support for the establishment of territorial federations by the agricultural co-operatives. The most important new feature of both the TOT and the territorial federations was that they had no authority of any kind over the co-operatives. Membership was voluntary and the main emphasis was on services provided for member co-operatives.

The National Council of Agricultural Co-operatives played a kind of “avant-garde” role. Existing co-operative federations were still deeply involved in “directing” co-operatives as substitutes for ministries. In the course of the economic reform, TOT served as a model for their reorganization. The process progressed significantly: both the National Federation of Farmers’ Co-operatives and the National Federation of Industrial Co-operatives re-structured their activities and started to operate according to the new concept. They changed their names as well. While maintaining acronyms, SZOVOSZ became the National Council

of Consumer Co-operatives and OKISZ took up the name of National Council of Industrial Co-operatives. At the same time, a new nationwide umbrella organization was established: the National Co-operative Council. The latter was meant to operate as the consultative body for the entire co-operative movement in Hungary.

The above federative system prevailed until very recently. TOT was first to try to adapt to changing requirements. In December 1989, an extraordinary congress of agricultural co-operatives was convened, with the main objective of renewing the entire federative structure of agricultural co-operatives. As an example, the congress created a new national organization called the National Federation of Agricultural Co-operatives and Producers. (The Hungarian acronym is MOSZ.) In the name of the federation, “producers” indicates the intention to include private farmers. Although their number is rather low for the time being, it is expected that this will increase considerably as a consequence of the change in the political system and of the new co-operative legislation.

According to its statutes, MOSZ operates as the “federation of federations”. Its members are the regional or professional federations of all types of agricultural co-operatives, and other associations and organizations of small-scale farmers. Its actual membership, however, is composed of the territorial federations of agricultural co-operatives and of the National Federation of Fishery Co-operatives.

The main objectives of the Federation are the following:

- i) to assist the co-operatives and other agricultural producers belonging to its member organizations in:
 - carrying out profitable farming that provides satisfactory income;
 - safe marketing of their produce;

- obtaining high quality production methods and inputs for their farming;
 - getting government recognition and subsidies for farming;
 - developing their social security rights, status, living and working conditions;
- ii) to promote and disseminate the co-operative idea, to make the best use of co-operative property and to support co-operation which serves its members' interests;
- iii) to promote the association of agricultural producers;
- iv) to assist and coordinate its members' activities in representing and safeguarding their interests.

The Federation may also carry on economic activities. It may, on its own or in association with its member organizations, establish business and service companies. Finally, the Federation participates as a member in the activities of appropriate international organizations.

The National Council of MOSZ has 138 members at present. The overwhelming majority (87.7%) are chairmen of agricultural production co-operatives. Among the rest are several co-operative chief executives (comptrollers, engineers, agronomists) and directors of co-operative joint ventures.

Until 1990 the National Council of Consumer Co-operatives (SZOVOSZ) functioned as the highest organization representing three types of co-operatives: the general consumer and marketing co-operatives, the savings co-operatives and the housing co-operatives. In the spring of 1990 all these co-operative branches convened congresses of their own

co-operatives and established independent national federations. Thus, the National Council of Consumer Co-operatives (SZOVOSZ) ceased to exist. The three new national organizations are the following:

- National Federation of General Consumer Co-operatives (AFEOSZ)
- National Federation of Savings Co-operatives (OTSZ)
- National Federation of Housing Co-operatives (LOSZ)

The National Federation of General Consumer Co-operatives (AFEOSZ), according to its statutes, is the national interest organization of the general consumer, marketing, supply and other consumer-type co-operatives. Membership of the Federation is voluntary and its members are primary co-operatives. The main objectives of the Federation are to safeguard and represent the interests of its member co-operatives. In pursuing those objectives, the Federation considers its particular duties are:

- to promote the competitive operation of the general consumer and marketing co-operatives in the fields of commerce, services and other economic activities;
- to help member co-operatives meet their members' needs in accordance with the social and economic objectives of co-operation;
- to promote the development of a favourable economic environment and equal opportunities for its member co-operatives;
- to participate in the dissemination and popularization of the idea and practical achievements of co-operation;
- to provide efficient services to its member organizations.

Each member co-operative sends a delegate to the National Council of the Federation. In practical terms it is the chairmen who represent their co-operatives in the National Council.

The National Federation of Savings Co-operatives (OTSZ) is the national organization for all those saving co-operatives and other financial co-operatives which voluntarily enter the federation and are willing to make the financial contribution determined by the Statutes. Here, too, the primary co-operatives are the members of the Federation. The Federation aims to protect and represent its member co-operatives and, through them, their individual members. As its main tasks, the Federation:

- takes a stand on all issues affecting the economic and financial conditions of its member co-operatives;
- represents its members in relation to government, community organizations, financial institutions and other economic organizations;
- safeguards the interests of its member co-operatives and their individual members;
- promotes the democratic operation and the autonomy of its member co-operatives and mobilizes public opinion in support of co-operation;
- keeps in contact with the regional and professional associations of its members and with international co-operative and financial organizations;
- provides services to its member organizations in the fields of education and training of officers, flow of information, organization of national meetings and publications.

The National Council of OTSZ is composed of a president and 69 members, delegated by the regional groups of the National Congress of Savings Co-operatives. The overwhelming majority of the Council members are savings co-operative chairmen.

The National Federation of Housing Co-operatives (LOSZ) is defined by its Statutes as the national organization of home, garage, holiday home, and commercial premises building and maintenance co-operatives and their associations. Its main objectives include the promotion of its members' interests, provision of services and organization of social activities. Its duties include the following:

- **representation of the interests of member co-operatives to government, state administration and other organizations in the fields of economic, planning, financial and housing policies;**
- **initiation of, and participation in the preparation of, legislation affecting housing co-operatives;**
- **organization and running of a system of information for housing co-operatives, with particular reference to the flow of information between the housing co-operatives and their federations;**
- **contribution to the establishment and running of a network of services covering business, technological, legal, organizational and educational activities;**
- **promotion of collaboration between co-operatives, including the establishment of economic associations;**
- **management of the Security Fund of Housing and Recreation Co-operatives;**

- co-operation with other interest organizations;
- maintenance of international relations;
- fostering the idea of co-operation; promotion of democratic operation and the development of co-operative autonomy.

The National Council of LOSZ has 66 members, who represent the regional housing co-operatives.

In 1989 the traditional co-operative movement - the Hangya (Ant) co-operatives - were re-established, after some 40 years of inactivity, by 29 smallholders and private entrepreneurs. In October of that year, the Hangya Co-operative Centre Co. was established, and in October 1990 this became the Hangya Federation of Co-operatives and Entrepreneurs. The movement aims to continue the traditional Hangya activities based on the following principles:

- to revive the values of the old Hangya movement, which vanished during the period 1947-49;
- to restore genuine co-operation in Hungary;
- to promote the organization of co-operatives based on private property and to assist the co-operative transformation;
- to help develop a fair business approach, serving the interests of producers and consumers alike;
- to create the internal marketing system of Hangya;
- to represent its members' interests;

- to develop production and consumer cultures through press and publishing activities;
- to promote up-to-date vocational training;
- to maintain international relations.

In the course of the past three years a significant number of local Hangya production, consumer and marketing co-operatives have been organized. In 1991 the Hangya Federation became the sixth Hungarian member of the ICA.

1.5 Strengths and weaknesses of the existing co-operative system

The co-operative sector has made undeniable achievements and has shown remarkable strength, particularly in certain periods of postwar development. On the other hand, the various co-operative branches and models have experienced significant shortcomings and have shown considerable weaknesses as well. Among the consumer co-operatives' main achievements the following can be mentioned:

- Consumer co-operatives succeeded in building up a wide network of retail trade in rural Hungary. In many villages consumer co-operatives are the only institutions providing commercial services. They maintain their shops in very small settlements where retail trade is not profitable, and therefore unattractive to profit-oriented businesses.

- Similarly, an extended network of catering services has been organized by the consumer co-operatives. Most of the rural catering trade (restaurants, cafes, snack bars etc.) is in the hands of the consumer co-operative sector.
- Purchase of the produce of small-scale, mainly part-time, agricultural producers has traditionally been done by the consumer co-operatives. At the same time, supply of inputs to small producers has also been a successful activity of consumer co-operatives. By providing these services, the consumer co-operatives helped small-scale farming to survive in the country, particularly in periods of large-scale reorganization drives.
- Some important services (repair activities) have been organized by consumer co-operatives. Similarly, their industrial and food processing plants have provided both employment and indispensable services to the rural population.
- The consumer co-operatives promoted the idea of co-operation more than the agricultural and industrial co-operatives because less political pressure was involved in their creation.

However, the Hungarian consumer co-operatives have also had to face all the negative developments experienced by many movements. As they have become larger, relationships with their members have become less close. This has resulted in both poor service to members and low member participation. Particular weaknesses are:

- The capital accumulated from rural operations has, to a great extent, been “creamed off” and invested in urban areas.
- Generally speaking, the technological level of co-operative trade has remained very low.

- The consumer co-operative sector has not been able to establish its own wholesale network. As a matter of fact, consumer co-operatives were not allowed to become involved with wholesale trade in the past.

The industrial co-operatives' greatest strength is that they have remained small- and medium-scale enterprises and, as such, they have been able to adapt flexibly to the changing environment. They have always been more market-oriented than the large centrally-managed state-owned factories. As a result, industrial co-operatives have always belonged to the vanguard of technological development in Hungary. In certain periods, the most significant technological innovations were made in the industrial co-operative sector. However, the co-operative character of their operation has always been rather weak. As in the agricultural production co-operatives, waged workers' attitudes dominated membership relations in the industrial co-operatives, mainly because members did not feel they had a stake in their co-operatives.

For many years, savings co-operatives were the only financial institutions that operated in villages. As real rural organizations they were particularly successful in:

- Building up a broad network of financial services and branch offices covering the entire country. (The only financial network larger than this belongs to the Post Bank, which began operation a couple of years ago and is based in post offices all over the country.)
- Gaining a considerable amount of expertise and acquiring a professional staff in the field of consumer lending and services to members.
- Achieving gradual and steady growth with no state subsidy.

However, the saving co-operative movement proves weak in some fields:

- Savings co-operatives have had no experience in small-business lending. Generally, this is becoming more and more important, and in agriculture it is particularly vital.
- The technological level of clients' services is very low in most of the savings co-operatives. In fact, no electronic information and data processing system exist, and teller services are performed manually.
- The savings co-operative sector has not succeeded in creating an efficient central finance facility serving the primary co-operatives' interests.

The housing co-operative sector's most important strength is that it includes a large variety of co-operative models. In addition to house building and home maintenance, the sector is becoming more and more involved with garage construction, the building and running of recreational facilities, and the construction and maintenance of workshops. Membership relations are perhaps the closest and most satisfactory in the housing co-operatives. They have also succeeded in achieving certain tax benefits, and in establishing a gradually increasing Joint Security Fund. However, the scope of members' services is not yet broad enough in the housing co-operatives.

The fact that Hungary became not only self-sufficient but also a net exporter of food is, to a great extent, the result of the farming co-operatives' operation. They proved an appropriate means for a rapid quantitative development extensively carried out between the mid-sixties and mid-seventies. Further strengths of the farming co-operative system include the following:

- The large-scale operation of the farming co-operatives made it possible to benefit from economies of scale. Several branches of agriculture have become highly cost effective and competitive on the world market. A good example is the production of cereals, particularly wheat;
- The structure of farming co-operatives has facilitated relatively rapid technological development in agriculture;
- As a response to the demand for professional management in the large-scale co-operative farms a new, highly-trained group of agrarian intelligentsia has developed;
- Throughout the centrally-planned economy the co-operative system has succeeded in gaining and maintaining increasing autonomy concerning the pattern of activities, income distribution and investment. In doing so it also maintained the highest possible level of economic democracy under the conditions of a non-market oriented system;
- Unlike most other centrally-planned countries, the individual members of farming co-operatives were able to retain the legal ownership of their land. This contributed to the co-operatives' autonomy and to a more flexible co-operative-member relationship;
- Co-operative farming allowed for a rapid rate of increase in farmers' incomes. As a result, peasants' incomes have reached the national average in Hungary. It should be noted, however, that this is primarily due to the considerable amount of extra hours worked, mainly on the household farm;
- Farming co-operatives have played a very important role in creating employment possibilities in rural Hungary. In addition to their primarily agricultural production, they have always been

autonomous enough to diversify their activities. Food processing has formed a natural part of their activities but, beyond that, a wide variety of non-agricultural activities have been embarked upon. These include commercial, service and industrial production activities;

- In the field of social security the farming co-operative has played a significant role. Based on self-help principles, farming co-operatives have provided various social services (e.g. kindergartens) and financial aid to their members. Old-age annuities had been given from their own resources before the state pension scheme was extended to peasants. It is also the result of the farming co-operatives' contribution that a uniform retirement age has been applied in agriculture and other sectors alike.

In spite of all the achievements and strengths of the co-operative farming system it has become obvious by now that the large-scale collective farms have exhausted their development reserves and, in their present form, are not suitable for the requirements of a market economy:

- The farming co-operatives were not designed to be profit oriented. Their chief economic role was to meet the requirements of central planning and act as local units of a nation-wide mechanism;
- Property rights are not clear in the farming co-operatives. The assets are controlled by professional managers rather than the ordinary co-operative members. Since there is no return on capital, members are more interested in their immediate personal incomes than in making investments. Furthermore, personal incomes are not always closely linked to performance, and this has a negative impact on incentives and, in the final analysis, on efficiency;

- Farming co-operatives have become too large. Their development has not been a natural one. It was determined by political objectives favouring organizational concentration. The centrally-initiated concentration process created a whole structure of oversized co-operative farms. As a consequence, farming co-operatives are slow-moving and rigid and cannot respond quickly to the challenges of the market;
- In addition to being too big, the farming co-operatives constitute a uniform system in the agriculture of Hungary. The system is composed almost exclusively of large-scale enterprises of more-or-less the same size. Medium and independent small-scale farms are missing from the structure. This is because, for quite a long time, only the farming co-operative model was considered viable;
- The development of professional management not only facilitated technological development, but also contributed to the spread of a technocratic approach;
- In some branches of production farming co-operatives have not proved able to match the expected level of efficiency. Generally speaking, most livestock breeding is not sufficiently cost-effective and therefore is not competitive on the export market;
- Because of a combination of circumstances, such as over-extended size, dominance of professional management, members' lack of control over capital, lack of incentives, lack of genuine co-operative functioning, etc. farming co-operative members have developed a waged-worker's attitude towards their co-operative instead of an owner's attitude;
- Parallel with performing their socio-political and social security functions, farming co-operatives created a hidden unemployment as well.

The model of specialized agricultural co-operatives is closer to a genuine co-operative than to that of a farming co-operative. This is one of its greatest strengths. The other one is its economic performance. Specialized agricultural co-operatives have always been more profit-oriented. That is why they did not really fit in with the system of socialist redistribution. Membership relations are clear in the specialized co-operatives, at least of those members who do not participate in the joint work. However, these co-operatives also have some weaknesses. Their joint farms have become very similar to the joint farms of the farming co-operatives. Therefore their problems are similar, too. Property rights, hierarchic work organization, technocratic management, the system of interests and incentives all need fundamental transformation.

2. The Co-operative Reform Process

2.1 Government co-operative policies

In the government's assessment the existing co-operatives, the production and workers' types in particular, were not established to serve the development of their members' private property and bear only formal co-operative features. For that reason the fundamental transformation of the structure is necessary.

The basic concept is that new co-operatives can only be established on the basis of private property. To that end the common property of existing co-operatives has to be made divisible. Employment obligations and other socio-political responsibilities of co-operatives should be abolished. Furthermore, the members' rights and responsibilities should be made clear, and should include members' financial responsibility for the co-operative and its assets.

The transformation of co-operatives is foreseen as a gradual process based on social consensus. Any kind of campaign-like drive is to be avoided. The process should include the establishment of new forms of co-operatives, the main function of which is the promotion of their members' businesses.

The co-operative transformation process will obviously entail a certain degree of decentralization, above all in agriculture. The over-large co-operative farms will most likely separate to form smaller more localized enterprises. Some areas of the large-scale farming co-operatives' work are also expected to become independent, or to convert into other company forms. Such processes are also promoted by the agricultural policy. As to the transformation of the existing structure of institutions in general, government policy puts an emphasis on privatization and on the establishment of company forms. Co-operatives are looked upon as one of the types of potential economic business organizations needed in the development process. However, no special privileges are to be given to them and they should be able to stand competition.

The fact is that no co-operative promotion programmes exist in the country. Several factors would explain this. Above all, co-operatives have a rather bad image in Hungary, just as in other Eastern European countries. Their bad image is the result of at least two factors. Co-operatives are identified by the general public as a means of communist-forced collectivization. This view, of course, is very simplified and focuses on one single type of co-operative, neglecting both the promotion co-operatives in Hungary and the achievements of the international co-operative movement as a whole. It also goes to show the low level of knowledge about co-operatives outside the co-operative sector.

There is, however, another factor which contributes to the unfavourable image of co-operatives. A direct business mentality has been developing that hopes the market economy will remedy all economic problems within the shortest possible period of time and to the fullest possible

extent. The market is considered an “omnipotent” power capable of overcoming all the ills of economy and society alike. This approach has no room for the concept of co-operation and does not believe in those co-operative values which go beyond business efficiency.

This is not meant to say that there is an oppressive climate for co-operatives. No political power would declare an anti-co-operative policy. In present day Hungary this applies to both the ruling and opposition political parties. All have, in one way or another, declared their appreciation of a genuine co-operative movement. Co-operatives are considered a necessary sector of the economy and enjoy full moral support. However, they are looked upon first of all as business organizations and are expected to be economically viable and profitable. Equal chances and equal conditions are promised them, but no special treatment. Therefore no particular incentives and no special promotion programmes are to be introduced. Co-operatives, at least according to the present state of affairs, are not going to have extra subsidies, tax exemptions or tax reductions. This is partly the reaction to a policy which upgraded co-operation to the level of state policy and failed. It is also an indication of a pointedly normative and neutral approach to various forms of economic activity.

This is not a permanent situation, of course. Intensive lobbying, mainly on the part of co-operative managers and co-operative federations, has already succeeded in easing some of the scheduled provisions. For example, the first draft of the banking law contained the same minimum capitalization requirement for both business banks and savings and credit co-operatives. This has now been reduced to half for co-operatives. Similar examples however, cannot yet be given for other co-operatives.

2.2 Co-operative legislation

Until the beginning of 1992 a great number of laws and regulations controlled the operation of co-operatives. The basic law was Act No. III. of 1971 on Co-operatives. In addition, co-operatives' business activities were regulated by a number of relevant regulations. The whole co-operative sector was, in fact, "over-regulated". The rules and regulations, of course, reflected the approach of the old socialist (communist) regime to co-operatives. Indeed, there were certain legal measures that contained provisions which put co-operatives in an unfavourable position. The introduction of a new co-operative legislation has therefore been supported by all parties concerned, and is considered a precondition for the change to a social and economic paradigm.

After a long preparatory work two acts were passed by Parliament on 16 and 17 January 1992: The Unified Co-operative Act and the so-called Co-operative Transition Act. The first is meant to provide a legal framework for future co-operative action embracing all types and models of co-operatives, while the latter deals with the transformation of the existing co-operative structure.

Preparatory activities to draft the acts were carried out by the Ministry of Justice on behalf of the Government. However, the Ministry relied, to a great extent, on the contribution of the co-operative movement itself. It requested the National Co-operative Council to set up a special drafting committee composed of the representatives of various co-operative branches, the co-operative federations and co-operative researchers. Each version of the Unified Co-operative Act and the Co-operative Transition Act was discussed and commented on by the drafting committee of the National Co-operative Council.

2.2.1 The unified co-operative act

The unified legislation for future co-operatives was prepared with the active involvement of the existing co-operative structures. With some simplification, it can be stated that whatever is included has the support and agreement of at least the leaders of the movement.

The government - and the drafting committee - has taken a characteristic approach to the new legislation, which has been followed throughout the preparatory procedure and is reflected in the text of the law. This approach includes the requirement of non-interference of the state and the full authority of co-operative self-government. In addition, it aims to provide opportunities for the establishment of various entrepreneurial and working contracts and agreements between the co-operatives and their members. Co-operatives are looked upon as joint enterprises based on the private property of members and, as such, legislation should, to the largest possible extent, make them similar to other economic associations. Thereby, the Hungarian co-operative legislation would be closer to European practice.

The basic features of the Unified Co-operative Act can be summarized in the following:

The law defines co-operatives as societies established in accordance with the principles of free co-operation and self-help, carrying out entrepreneurial and other activities that serve the interest of the members and use the property and personal contribution of members within the framework of democratic self-government. Co-operatives are independent legal entities. One of the new provisions of the law is that, although it states that the members of co-operatives are individuals, it allows for the membership of legal entities as well. The rights and duties of the 'legal entity' members are equal to those of individual members, except for some special provisions such as personal contribution and eligibility for office. The reason given for this possibility is that the

membership of legal entities may be needed, and useful, for the co-operative's operation in various respects, first of all from the point of view of capital formation. The involvement of legal entities must not change the basic nature of co-operatives as associations of individual members.

A co-operative can be established by a minimum of 5 people. Only the establishment of school co-operatives and credit co-operatives requires at least 15 members. It is a further new feature of the law that the co-operative will be represented not only by its chairman or the designated member of the board of directors but also by the "managing chairman" and/or managing director. Legal supervision of co-operatives will be done by the Court of Registration just as in the case of other economic associations.

The law puts a very keen emphasis on the autonomy and self-government of co-operatives. In accordance with the principle of self-government the co-operative membership will decide on

- all questions of operation, business and any other activities serving the members' interests;
- establishment through election of its corporate bodies;
- creation of its own statutes and rules;
- supervision of the operation of its organs, the activities of its office bearers and employed managers.

It is an important provision that any restrictions regarding the co-operatives, their membership relations and property rights in particular, can be made by legislation only.

The general assembly remains the highest organ of self-government of the co-operative. However all decisions belonging to its sphere of authority can be relegated to the delegates' meeting by the statutes. The only exception in this respect is the decision on merger, separation, transformation and cessation. The law maintains the institution of the so-called partial general assembly. This means that, for example, a co-operative that covers several villages may have partial general assemblies in each village. Partial general assemblies have the authority of the full general assembly.

In the field of membership relations the law provides for the application of the principle of open and voluntary membership. No discrimination is allowed by race, colour, gender, language, religion, political or other opinion, ethnic or social background, property or other position. It is worth mentioning that, among the rights of members, the law lists the sharing of the income of the co-operative by the members according to their contribution to capital as well, and not only according to personal contribution. However, all the organizational and personal rights of members are independent of the size of contribution in terms of property.

An independent chapter of the law is devoted to the provisions regarding the property relations between the members and the co-operative. The act maintains the institution of co-operative shares as well. Members joining the co-operative will be obliged by law to buy at least one co-operative share. The maximum number and value of co-operative shares will be determined by the statutes. The shares are of the same value, and are not negotiable. A dividend is due to the members on their co-operative shares, and is payable from the net surplus of the co-operative.

The law introduces the so called 'business share' as a new and significant form of property relations between the members and the co-operative. The business share is different from the co-operative share.

It is not purchased by the members, but allotted to them from the proceeds of the co-operative's business activity. The general assembly is to decide annually on the distribution of net surplus (profit) of the co-operative for dividends, reserve fund and business share capital. The amount allocated for the augmentation of the business share capital should be distributed among the members in the form of business shares. Members are to be provided with a certificated business share made out in their names. In cases where the business share capital is used to cover losses the nominal value of shares will be decreased proportionately. It is a very special provision of the law that the business shares of co-operative members are not only inheritable but fully negotiable as well. In addition, a dividend is paid on them, but no interest is payable. If the business share is going to be sold to a non-member, the co-operative and its members will have the right of option. Furthermore, where the new owner of the share is not a member of the co-operative, he/she will have no voting rights at the general assembly. If a membership relation ceases, the former member, or his/her heir, will be eligible to receive the value of his co-operative shares only, provided that the co-operative's share capital was not used to cover loss. Only business shares existing in the form of securities can be sold either to the co-operative or to outsiders.

The law retains the possibility for the co-operative to provide financial support to its retired, disabled or sick members. Conditions for this are to be defined in the statutes of the co-operative. The agricultural and industrial co-operatives are obliged by law to form a "solidarity fund", the amount of which should make up 10% of total assets. It is a new provision that members' fledgling enterprises may be supported by the co-operative through the use of real estate and/or means of production under certain conditions.

As to the economic activities of co-operatives, any kind of business may be carried out with the exception of those that are the exclusive sphere of activity of other organizations or institutions. Co-operatives are otherwise entirely free to do their business and have full independence in the disposal of their net profit i.e. the surplus after meeting their tax obligations. However, for safety reasons the law makes it possible, but not compulsory, for them to establish a reserve fund. At least 10% of net profits should be allocated to this until the reserves reach the amount defined by the statutes as a proportion of the co-operative share capital.

There are new provisions regarding the working relationship of the members and the co-operative. Above all, the obligatory employment requirement of the co-operative has been abolished. Since this was a unified act the provision applies to workers' co-operatives, and also to the agricultural production co-operatives. However, the law specifies two types of working relations for the co-operative members. One of them is the so called "entrepreneurial" type of work, which in practical terms, means a contractual relationship between individual members, or groups of members, and the co-operative. The other one is the waged worker relationship, which is known from past experience and from the experience of other enterprise forms. Both require the written agreement of the co-operative and the members concerned.

The co-operative is liable for its debts, with its property composed of the co-operative share capital, the business share capital, the reserves and the free assets. Co-operative members' liability does not extend over their private property and salaries, i.e. it is restricted to their co-operative and business shares. Liabilities for damages between the co-operative and its members is regulated by the Civil Code. An exception may be the case of the waged worker relationship, which is dealt with by the Labour Code and may mean a more limited liability in the case of the employed members.

Finally, the law confirms the right of co-operatives to establish secondary organizations on regional or professional grounds, and national

organizations for safeguarding their interests. Co-operatives have the right of merger, separation, transformation and cessation as well. Co-operatives can be transformed into both limited liability companies and share holders' companies. However, savings co-operatives, credit co-operatives and insurance co-operatives may be converted into share-holders' companies only. Precondition for a transformation into other company forms is the total division of the co-operative's property among its members in the form of securities. In case of cessation, the property should be divided after having settled the co-operative's accounts.

2.2.2 The co-operative transition act

The Co-operative Transition Act is at least as important as the Unified Co-operatives Act. All co-operatives should be re-established in accordance with the provisions of the unified act. This takes time and requires special rules for the period of transformation. The transition law allows for a 6-month transition period (until 30 June 1992) in general, and a 12-month transition period (until 31 December 1992) in the case of agricultural co-operatives and industrial co-operatives.

In the course of these periods each co-operative is supposed to submit its new statutes to the Court of Registration. Those who fail to do this will be liquidated by force of law and deregistered. In the course of the transition period four important tasks are to be accomplished: personalization of the property, organizational transformation, voting in of new (or modified) statutes and election of leaders and officers. All these areas are regulated by the Act.

The term "personalization" of property has been created in connection with the transformation of the existing co-operatives, particularly the production (workers') co-operatives. It is the conversion of joint co-operative property into the private property of members. In other words, it represents the means of privatization in the co-operative sector, the

major purpose of which is to make co-operative joint enterprises based on the private property of members. According to the concept of the transition law, this requires the return of property to those who contributed to its accumulation. Distribution of the property should be done in the form of business shares. The whole process of dividing the property of the “old”, i.e. existing, co-operatives is called property personalization.

As a general rule, the transition law provides for the personalization of 100% of the co-operative’s property. However, this applies only to the production co-operatives, i.e. the agricultural and industrial co-operatives. In the general consumer co-operatives only 70% of the property must be personalized, while the property of housing co-operatives, savings co-operatives and school co-operatives should remain indivisible.

People eligible for restitution are those who:

- were members of the co-operative in question on 1 January 1991 and were members on the day of the Co-operative Transition Act coming into force,
- had been members of the co-operative for at least 5 years before the law came into force, or are heirs of people who were, or
- have restored their membership, or are the heirs of those who would be eligible to restore their membership, with the co-operative.

Furthermore, the general assembly may decide to provide business shares in the framework of the personalization process to its employees, and to those family members who participate in the work of agricultural co-operatives on a regular basis. The quantities will be decided upon by the general assembly taking into consideration the contribution of the members to the accumulation of property. In practice, it is usually the

time spent in the co-operative, the position in the work organization (salary) and the original property transfer which are taken into consideration.

The rules of property personalization in agricultural co-operatives do not apply to land. The problem of the privatization of land is much more complicated, and requires different solutions for different groups of people. The solutions, of course, should also be in harmony with related legislation, above all with the compensation law.⁴

The first type of land is that which is owned by the co-operative members but is in the common use of the co-operatives. This is considered full private property and should be surrendered to the members if requested. The second case is that of those who are entitled to purchase land on the basis of the provisions of the compensation law. This land will be sold by auction to those who have such entitlement and should be made available to the new owner at his/her request. However, in both cases, owners have a free choice to maintain the common use of the land, to cultivate it privately or to join the co-operative as members and utilize the co-operative's services. Both cases are regulated by the compensation law.

The third type of land is owned by the co-operative and is also in the common use of the co-operative. This land, after having met all compensation claims, should be distributed among the members of the co-operative. The members' share in terms of proportion and Golden Crown⁵ value is to be entered in the cadastral land register. The land allotted in this way should be surrendered to the member on leaving the co-operative. During the maintenance of membership, rent is due to the member if the land is under co-operative farming.

⁴ - Act XXV/1991 on the Partial Compensation for Damages Caused Unjustly by the State in the Property of Citizens in Order to Settle Property Rights.

⁵ - Golden Crown is a traditional unit of measure of the quality of the land. At the time of its introduction, the number of Golden Crowns corresponded to the net profit of a land area of one yoke, i.e. 0.56 hectare.

The transition law aims at an organizational transformation of the existing co-operative structure. It is intended to give an opportunity to the co-operative members to revise and correct all those organizational developments which were unnecessary and occurred without the support of the members, or even against their will. This process is to be facilitated by easing the conditions of merger, separation, transformation and cessation during the transition period. During that time all the listed motions can be decided upon by a two-thirds majority of votes cast by members present at the general assembly. Of course, after the transition period, when the organizational set-up of the co-operatives has been resettled, the rules provided for by the Unified Co-operative Act will become effective.

The transition law also makes possible the separation of one single member and/or any small group of people from the agricultural and the industrial co-operatives. This measurement is also temporary. There is an important restriction, however, for the general consumer co-operatives and housing co-operatives. As to the consumer co-operatives, separation is allowed only for those groups of members who live in the same settlement. In the case of housing co-operatives, separation is restricted to those groups who have a common interest in a physically separable building or other construction unit. The proportional share of property should be surrendered to the separating individual or group.

The legislation intends also to settle the problem of the agricultural associations by the transition law. Agricultural - and other - associations are considered unsuccessful from the point of view of their legal construction. The fact that they are not independent legal entities created a lot of legal problems. Therefore, this form of co-operative association will cease to exist by the end of the transitional period. The transition law offers several options for the existing associations. Members may join the mother co-operative. Another option is that, after having settled accounts, the association is liquidated and its members establish an

independent co-operative. This co-operative may join the parent co-operative as a member. Finally, associations have the option of transforming themselves into a new company or society which, as an independent legal entity, may also join the mother co-operative. If the members' conference of the association does not decide upon any of the above options by the end of the transition period it will be liquidated by force of law.

One of the most crucial and complicated questions related to the organizational transformation of co-operatives is the division of property. The transition law provides for their division in physical terms. For that, any transformation should be preceded by at least a simplified valuation of the property. After setting the value of the indivisible part of the property, the general assembly will decide on which property items should undergo the division process individually and in groups. It is an important provision of the law that the assets and liabilities of the co-operative shall be attached to definite property items and shall be transferred to the new owner(s) in the course of the procedure. A positive statement to that effect from the potential new owner, and the approval of the creditors, are preconditions of such a division of property.

The division itself may be pursued in two ways. It can be made by the resolution of the general assembly. This presupposes a smooth and full agreement of all interested parties. If such an agreement cannot be reached the property item in question will be sold by auction. The auction itself will have three phases. First a closed auction will be held with the participation of those who have the "property bond" issued by the co-operative in question. Both individuals and groups may bid. The selling price must not go below the reserve price. If this is unsuccessful, a second auction will be attended by the same participants but the property item may be sold below reserve price. The third, and last, possibility is the open auction in which outsiders paying cash can also participate.

In order to facilitate transformation, the law deals in depth with the rules of procedure. Among other things, it enables the holding of more than one general assembly in the course of the transformation process specifying the issues to be dealt with by each of them.

In the context of procedures, one of the most important provisions is that the assignment of present co-operative office holders will cease at the time of the general assembly approving the new statutes of the co-operative. The new officers are to be elected by the same general assembly. This motion is needed because the new Unified Co-operative Law introduces a different set of management positions, and the office bearers' liability is changing, too. It is reasonable, therefore, to give the members a chance to elect new leaders and to give the managers the choice of taking or refusing responsibility under the new conditions.

2.3 Tendencies towards “spontaneous” transformation.

As yet, no dramatic changes have occurred in the Hungarian co-operative movement. The most significant tendency is the transformation of traditional industrial co-operatives into small co-operatives, as mentioned above. Another characteristic process is the “personalization” of the co-operatives' property based on previous legislation. Some 50% of the property has been “personalized” in most of the agricultural, industrial and consumer co-operatives.

Various associations and joint ventures established among or between co-operatives and other enterprises have long existed. Most recently, international capital has shown an increasing interest in creating business activities in Hungary. New joint ventures are established with the participation of Hungarian co-operatives and foreign investors. However, this process has not been very fast so far because of the lack of co-operative legislation.

The really new forms of enterprise are joint-stock companies. Both limited liability companies and share-holding companies appeared only in 1989. The legal basis for their establishment is provided by the company law. Although both are non-co-operative organizations, the establishment of one or the other indicates different processes and has a different, but very strong, impact on the co-operative structure. In the co-operative system, limited liability companies come into being in two ways. The general assembly of a co-operative may decide to transform one or more of its units (workshops, branch offices, etc.) into an independent limited company. Most often this is done with the capital contribution of individual members. The co-operative contributes the assets used by the unit. In some cases 'one-person' limited companies are established in which the co-operative, as a legal entity, is that 'person'. The other way of establishing such companies is the traditional one, when an entirely new enterprise is created with capital input from the co-operative and other legal entities or individuals. The important feature of this process is that, regardless of the means of establishment, the newly created limited liability company does not abolish the existence of the co-operative as a whole. It may decrease its size of operation, but does not aim at changing the institutional form of the entire co-operative. For example, the units of non-farming activities, such as repair shops, industrial workshops, etc., are frequently transformed into limited liability companies in agricultural co-operatives.

The aim in establishing share-holding companies is usually different. Some co-operatives or, to be more precise, some co-operative managers feel the future of the co-operative, and also their own future, would be safer in some other organizational form. Legal regulations make it possible for the general assemblies of co-operatives to transform their co-operative into a joint-stock company. In a few recent experiments the form of share-holding company has been selected for that purpose. Based on the general assembly's decision, a larger part of the co-operative property has been distributed among the members and employees in the form of fully-negotiable shares. For the purposes of social

security and social assistance, a foundation has been established by setting aside the smaller part of the co-operative property. This solution was legitimate according to the company law. However, it was expected to clash with the new co-operative legislations. For that reason a moratorium was imposed by the Parliament on all co-operative conversions into other organizational forms until the co-operative law has been passed.

3. Future Options for Co-operatives

3.1 The major trends of changes

The co-operative legislation reviewed above will obviously have a decisive influence on both the transformation process and the features of a new structure of co-operatives. The legal framework provided for by the two acts seeks to meet certain basic requirements which ensure a fair, and possibly smooth, transition and the development of a viable and efficient co-operative structure.

The business shares to be distributed among the members will probably not pay high dividends. The bulk of members is not used to having securities and lacks the necessary skills and information to be able to estimate the real value of their property shares. For these reasons, the market value of business shares is going to be rather low. This would provide the opportunity for the wealthier groups of the population to purchase a considerable amount of property at a very low price. As a consequence, a significant concentration of co-operative property in private hands might develop.

In the production co-operatives, both industrial and agricultural, a further problem may be caused by the abrogation of the employment requirement of the co-operative which may, and most likely will, result

in a wave of dismissals of co-operative members and in increasing rural unemployment. Obviously, this situation would strengthen the dependency of members on the managers of co-operatives.

The regulations contained in the unified law are pointedly permissive, rather general and loose. With these conditions there is a danger of losing the co-operative characteristics themselves. In fact, co-operatives and other economic associations alike could be established based on the provisions of the unified co-operative act. Perhaps the only real co-operative feature provided for by the law is the maintenance of one member, one

vote in decision-making. Taking into consideration the possible concentration of private property mentioned above some dangers may seem probable. The immediate danger is that the newly-established organizations will be co-operatives only in name. Therefore, the unified co-operative law should have defined the “*differentia specifica*” of co-operatives in very precise terms.

It is very difficult to foresee the changes in the structure of co-operatives but, without doubt, the most significant transformation is to be expected in the production (workers’) co-operatives. However, a couple of hundred agricultural production co-operatives and specialized agricultural co-operatives will most likely continue to operate in more-or-less the same organizational form. They will obviously reshuffle their internal relations and organizational set-up, but will fundamentally maintain their previous character as workers’ co-operatives. This group will probably consist of those co-operatives that have been performing well, are profitable and provide a safe and satisfactory income for their members. They could make a positive contribution to the reorientation of the agricultural structure. There is a significant amount of capital and expertise accumulated in these co-operatives, and this would help them adjust to the changing marketing and other conditions. Such “surviving” agricultural co-operatives could perhaps reduce rural unemployment to some extent, too, and thereby ease social tensions. Their

survival, of course, does not mean that they remain unchanged. Many members or whole groups of members will probably leave, the co-operative itself may divide into two or more or merge with some other “surviving” co-operative, etc.

A number of agricultural production co-operatives may continue as co-operatives but opt for another co-operative form. Some production co-operatives will gradually convert into specialized agricultural co-operatives. These increase the private (former household) plots of their members and offer an increasing number of services to the private farms. The services are extended to those who withdraw their land from the co-operative and start independent private farming.

Another tendency is that more and more individual, family-based or group entrepreneurial links are established within the co-operative. These small entrepreneurs are no longer waged workers and their relationship to the co-operative centre is based exclusively on mutual interests. It seems probable that the abolition of the co-operative’s employment obligations will further increase the number of this kind of co-operative-member relations.

Many co-operatives cover more than one village, and sometimes 4-5 settlements belong to the same co-operative. In such co-operatives the individual villages or parts of settlements strive to gain independence by dividing or separating from the co-operative. They endeavour to establish an independent co-operative in order to utilize their share of property for the benefit of their own village. This tendency may be particularly strong in the general consumer and marketing co-operatives. Such separations, however, are rendered difficult by the “uneven” distribution and physical indivisibility of the property.

Few co-operative members have left the co-operatives so far. Those who have done so belong to the segment of land-owner co-operative members. In other words, some of those members who had their land in

common use have withdrawn it and started private farming. Their number is expected to increase, but the extent and pace of this movement will be influenced not only by legislation but also by the technical, financial and infrastructural conditions of private farming.

There is a strong tendency in both the agricultural and industrial co-operatives to become involved in the establishment of non-co-operative economic associations. Management, in particular, endeavours to operate the property of the co-operatives within the framework of some kind of company. In this respect, too, there are various options. The co-operative may be transformed into a trustee organization with the centre of the co-operative as trustee. Its former branches and units will become independent enterprises which form part of its assets. Member-owners may invest their shares in these independent enterprises. The indivisible part of the property will be managed by the trustee. Obviously, this is not a pure co-operative association. Members are definitely interested in having the highest possible return on their capital. Indeed, within the enterprises the voting power of members will be determined by their shareholding.

A further option, of course, is that the co-operatives will be transformed into joint-stock companies. As mentioned, this process has started, though on an experimental scale only. In all likelihood, limited liability companies will be established in greater numbers by the co-operatives, and within the co-operatives alike. Various organizational units, branches or workshops belonging to the co-operatives may gain full independence this way, and lose their co-operative character. Many co-operatives establish "one-member" limited liability companies in which the co-operative, as a legal entity, is the sole owner of the company. After the personalization of co-operative property is complete, individual members will probably participate in the establishment of such companies in a greater number. The same applies to shareholding companies as well. No doubt, the personalization of co-operative property will facilitate the establishment of shareholding companies in the Hungarian co-operative

sector. In fact, the establishment of small co-operatives, particularly in the industrial co-operative sector, may prove to be only an “intermediate” phase before conversion into some form of joint-stock companies.

Some of the “old” co-operative models will certainly operate successfully under the conditions of the market economy. The model of specialized agricultural co-operatives has been successful and is unlikely to lose its significance. Indeed, there has already been an increase in the number of specialized agricultural co-operatives very recently, and more production co-operatives can be expected to convert into that form.

However, new forms and models of co-operatives will obviously appear. Without doubt, small-scale farming will gain a much larger significance in the new agrarian structure than it had in the old one. The small- and medium-scale private farms are very flexible, able to adjust to changes in the market. However, their economic strength is small and that makes them vulnerable under the hardening conditions. They are particularly weak vis-à-vis large, sometimes monopolistic, enterprises, commercial organizations, banks, service and insurance companies. The small-scale farms cannot, therefore, afford to miss the advantages of co-operation. They need to, and will, develop a new co-operative structure different from that of the agricultural production co-operatives. This is a vital precondition for the successful transformation of the agrarian structure. The new co-operatives should assist private farmers in the supply of production materials, marketing of their produce and provision of financial services, including loans and credit and insurance products alike.

Finally, the changing environment will create new conditions for the activities of co-operative federations. Representation and safeguarding interests of agricultural co-operatives will become more important than ever. Parallel with the diversification of co-operative forms and activities, there will be a need for the diversification of the setup and operation of their federations as well. Changes may occur in at least two fields:

new secondary co-operatives and national associations that specify certain functions, e.g. supply, marketing of a specific produce, etc. will come into being. The new federations will function not only as ideological and political centres, but will be involved in economic (business) activities, as well.

3.2 Need for international assistance

One of the most important fields in which international co-operative assistance would be important is in the influencing and mobilization of public opinion in favour of co-operative action. Although this is not a direct education issue, it is a learning process in which trainers, educational institutions, national and international organizations have an important role to play. The bad image of the co-operative movement referred to in this study has to be improved and the confidence of people in genuine co-operation restored. This applies primarily to those who have had experience with production co-operatives. But it also applies to the general public and to policy makers as well. There are many among them who look upon co-operatives with some degree of suspicion and reservation. That is why policies have not gone beyond general, and rather weak, statements on the support of a “genuine” co-operative movement.

In the case of the managers of “surviving” large-scale co-operative farms, special co-operative education will be necessary. The new co-operative legislation alone would be a good enough reason for that. The lack of co-operative knowledge, even among co-operative managers, provides a further motive to design and conduct special courses with international assistance.

Since independent private farming will have to keep accounts, a new phenomenon in present-day Hungary, its training needs are very wide and complex. Although there was small-scale farming, mainly in the

form of household plots, in the course of the past 40 years, entrepreneurial private farms did not exist. In addition, there has been a complete change of generations. Hence the potential private farmers have no experience or memories of real entrepreneurship of any kind. For these reasons, a full range of knowledge is to be delivered to both existing and future private farmers.

Routine training on co-operative matters is indispensable for private farmers. In this respect the country's own experiences, even the negative ones, have some lessons to teach. Nevertheless, studying and adaptation of co-operative experiences in other countries, above all European ones, seems to be a must for a successful new co-operative prosperity.

Replacing the present unfavourable co-operative image with an honest valuation of the potential and limitations of a genuine co-operative movement would make a serious contribution to the healthy development of the entire economic structure of Hungary. In this field, too, international assistance is of crucial importance in terms of providing co-operative models and management systems.

Experiences gained abroad in the field of formal co-operative education would also be useful. Furthermore, a significant improvement in the range and quality of services offered by the co-operatives in general, and the consumer and financial co-operatives in particular, is an indispensable precondition for making the movement satisfying to present members and attractive to potential members. In this respect any contribution of the international co-operative movement to the technological development of the Hungarian co-operatives would be very rewarding.

In Hungary systematic co-operative education is carried out at the University of Agriculture, in Gödöllő. This is the country's largest agricultural university and offers a one-term course on co-operative affairs to second-year students. It puts particular emphasis on the co-operative forms and models which are new to Hungary, but are likely to

gain great importance, such as supply and marketing co-operatives, credit co-operatives, etc. The course has been successful and is increasingly attractive to students. It would be useful if the university's experiences in this field could be shared with similar institutions of higher education throughout Hungary and abroad, and special co-operative courses were established in these institutions. These should go beyond general co-operative knowledge, and should focus on special target groups such as public relations workers.

4. Contact Organizations

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- No. 19. **Co-operative Values in a Changing World by Sven Åke Böök**
This study was prepared as the major paper for the 30th ICA Congress in Tokyo in October 1992. It is intended to be the starting point for a subsequent review of the co-operative principles, the last review of which took place in 1966.
Published 1992, 252 pp., CHF price CHF 35.00 Order No: ICAHO/028

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