

The Role of Co-operatives in the Transformation to Market Relations and in Solving the Social Problems of the Countries of the Commonwealth of Independent States

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Introduction

This article is concerned with co-operative development in the Commonwealth of Independent States (CIS), the group of countries that has replaced the old Soviet Union. It focuses mostly on those countries that are not part of the Russian federation (Georgia, Armenia, Azerbaijan, Kazakhstan, Tadjikistan, Kyrgystan, Uzbekistan, Ukraine, Belarus, Turkmenistan and Moldova). Over the last decade dramatic changes have taken place in the region. The most important of these were the political disintegration of the USSR, the formation of a group of the New Independent States (NIS), and various multi-dimensional reforms in the Central and Eastern European countries (CEEC)¹. Initially, there was euphoria caused by the ending of the Cold War, by the prospects of democratisation of new states and their inclusion in a global process of development. This has gradually given way to fears concerning the threats and challenges the new countries face, in the context of wider political and economic crises and regional conflicts. The globalisation of world development has not yet led the international community to make concerted, efficient steps aimed at sustainable human development, rational use of natural resources, and protection of the environment. Nor has notable success been achieved in the eradication of poverty and economic disparity².

The world co-operative movement's concern about the future development and role of co-operatives on the threshold of the third millennium was a main subject for discussion at the International Co-operative Alliance (ICA) General Assembly and Special Congress held in Québec in August 1999. This concern is shared by many co-operators in different parts of the world. One important way of defining such a future development in Eastern Europe may be an analysis of the situation in the NIS with regard to co-operative institutions. This article is devoted to this particular subject and is based on a study undertaken recently on the co-operative

movements of 12 States affiliated to the Commonwealth of Independent States (CIS)³. The study reveals that these states, which are on a difficult road of transition from a centrally planned to a free-market economy, have done very little for the renewal and strengthening of their respective co-operative sectors⁴.

Perhaps the most difficult problem creating a serious obstacle to a progress in this direction is a negligent attitude on the part of authorities towards the need for an official acknowledgement of, and the raising of public awareness about, the role of co-operatives. It is manifested in the fact that commonly accepted definitions in countries of Western Europe, such as "co-operative sector" and "social economy", are not even used in the official and legal documents of the CIS countries⁵. Governments and parliaments of the CIS countries react very little to statements from the United Nations (UN) and from the European Union and Parliament, aimed at creating a supportive and favourable climate for co-operatives and emphasising their role in economic and social development⁶. In the CIS mass media, with the exception of some rare professional publications, the International Co-operative Day instituted by the ICA is not commemorated and publicised, despite the fact that since 1995 it has been marked under UN auspices.

Very few people are aware of the most important International Labour Office (ILO) documents regarding co-operatives: Recommendation 127, Convention 141 and Recommendation 149 which recognise the role of co-operatives and provide for the organisation of co-operative enterprises for their members and the wider local society⁷. The ICA Statement on Co-operative Identity of 1995, together with the reformulated co-operative principles adopted by the 31st (Centennial) World Congress in Manchester, has not received much publicity in the CIS either. In a number of the CIS countries quite a few development programmes and strategies have been so far elaborated and adopted: a middle-term programme of Russia "Structural Perestroika and Economic Growth for 1997-2000"; a long-term programme "Kazakhstan-2030"; a programme of Turkmenistan "10 years to Welfare", and so on. None of these documents contains even a reference to co-operatives, not to mention considering them as a significant factor in the on-going economic and social reform, moving their economies towards pluralistic and diversified modes of production. Unfortunately, even some international organisations that provide technical and financial support to the CIS countries and assist them in elaborating their development strategies show very little interest in supporting co-operatives. On the contrary, sometimes they even propose the privatisation of enterprises belonging to co-operatives. Surprisingly, such proposals have recently been made by missions of the

International Monetary Fund in Tadjikistan and in Moldova.

This prevailing economic thinking about the restructuring of the NIS countries demonstrates that there is an urgent need for joint efforts by co-operators to achieve official acknowledgement and public recognition of the special character of co-operative enterprise. They need to ensure that due consideration is given to the potential of co-operatives in future economic and social development. The authors of this article, having been involved for several decades in co-operative development in the region as well as in other parts of the world, believe there is a need immediately to raise public awareness about the situation regarding co-operatives in the CIS. There is a need also to draw the attention of national, European-wide, and international authorities directly concerned by this disregard for, and neglect of, co-operative institutions⁸.

Specific features of co-operatives and controversial historical trends

The co-operative movement of the CIS originates from common historical roots. Its beginning dates back to the 19th century when serfdom was abolished in Russia. As early as in 1831 the deported Russian families of the "Decembrists" (the first Russian revolutionaries) created a consumer co-operative whose by-laws reflected similar values and rules to those of the Rochdale Pioneers, who historically came afterwards. Later, other specific forms of common action appeared in Russia, such as the 'artels', artisanal fellowships and market-and-supply partnerships. By the end of 19th century consumer co-operatives of the Russian Empire (introduced from England in 1898) held a leading place in trade both in cities and in the countryside. In 1903, the Moscow Union of Consumer Co-operatives, which at that time played the role of all-Russian apex organisation, joined the ICA, and became an influential member of it throughout the 20th century. Before the revolution of 1917, it was transformed into Centrosoyus of Russia, and after the Great October Socialist Revolution into Centrosoyus of the USSR. By 1917 there were 47,000 co-operatives in Russia with a total membership of 17 million people. The majority of them were consumer co-operatives, along with credit, agricultural and industrial co-operatives.

In early Soviet history, the potential of the co-operative sector was most prominent during the so-called New Economic Policy (NEP) carried out in the 1920s, when private ownership was encouraged by the State. By 1928 the share of consumer co-operatives in national retail turnover was 60 percent. Agricultural co-operatives produced from 40 to 70 per cent of the most

important crops, and their share in exporting agricultural products reached 80 per cent. Later on, when the totalitarian regime established itself in the 1930s, the position of co-operatives weakened dramatically. By the mid-thirties consumer co-operatives were forced out of the cities and were allowed to operate only in rural areas. In fact more than 78,000 shops, restaurants, bakeries and other enterprises belonging until then to consumer co-operatives were nationalised and became State retail-shops, worsening the previously high quality supply of services and foodstuffs to the urban population⁹. In the 1960s all industrial producer and artisanal co-operatives were abolished and their assets handed over to the state enterprises of local industries¹⁰. By that time, the remaining co-operative sector – as a matter of fact, the consumer co-operatives – had been put under strict State control and was subordinate to the rigid administrative-command system which was by then fully established in the country.

However, it must be noted that in the absence of the right of private ownership and entrepreneurship in the USSR, consumer co-operatives operating in rural areas still retained some autonomy and freedom of action on the consumer market. This is why the rural population had better conditions in purchasing foodstuffs, catering services and fresh fruits in co-operative shops than in urban centres where shops were run by the state. In the period of Gorbachev's Perestroika (1986-1991), some attempts were made to introduce free-market elements for entrepreneurship in the "socialist economy". In particular, in 1986 a law "On State Enterprises" was passed, allowing the creation of "co-operatives" by State enterprises, aimed at raising workers' earnings and creating additional productivity incentives. However, very soon it became obvious that such attempts could not create a supportive environment for genuine co-operatives, but on the contrary, led to the formation of a stratum of "fat pigs" enriched by exploiting workers' labour and cheap raw materials. Various other decrees on specific co-operative activities, adopted during 1987, proved to be from an institutional point of view equally negative¹¹.

Then, a very positive step in favour of co-operatives was made when, in 1988, the Law on Co-operation in the USSR was adopted. For the first time in its history the USSR requested from one of the UN Specialised Bodies, the ILO, an external scientific aid to finalise the text of the Law. This field advisory consultancy was provided by an ILO mission headed by one of the authors of this article (then Chief of Legislation, and Studies, Human Resources, Co-operative Branch of ILO in Geneva). This was also the first law in Soviet history that was based on internationally recognised normative provisions, with external advice. However, the life of this law was

not a long one, owing to the dramatic political changes which led to the disintegration of the Soviet Union three years afterwards¹².

To evaluate the legacy with which co-operatives approached the start of the transitional period, it is expedient to consider some figures relating to the co-operative movement of the USSR on the eve of its disintegration. These figures show that, despite many limitations and direct interference from the State, the co-operatives still played an important role in the economy. They provided multiple services to their members and customers, certainly limited in comparison to countries of West Europe, but much better quality than services provided by the State retail trade and its shops. In 1990 the share of **consumer co-operatives** in retail turnover of the urban sector was 27 per cent, but for the countryside it was 82 per cent. Consumer co-operatives rendered services to their members and customers not only through organising trade and through deliveries of everyday commodities to the remotest parts of the country, but also through purchasing agricultural produce from individual rural households. Their share in purchasing vegetables, potatoes and fruits was 40 to 45 per cent, in tan raw materials, over 50 per cent. Functioning in the rigid administrative-command system, consumer co-operatives still enjoyed the right to dispose their profit, which allowed them to develop their capital investments, to modernise processing industries, and to carry out professional training through their own specialised educational network. Furthermore, in the various spheres of their activity consumer co-operatives had created 3.5 million jobs¹³. Consumer co-operatives and their unions carried out their economic activity on the principle of self-finance and self-support, while still getting some financial and other benefits from the State. Those benefits helped strengthen their financial situation on the one hand, but increased their dependence on the State on the other.

Agricultural co-operatives, both before and after 1998, were mainly (except for the state-farms) represented by the so-called "kolkhozes", or collective farms, which in reality were deprived of the classical co-operative identity. The efficiency of their business activity was very low in comparison with that in industrially developed capitalist countries, with regard to productivity of cattle breeding, level of crops, productivity of labour, and so on. According to the Law on Co-operation of 1988, the "kolkhozes" were classified as a kind of co-operative association, provided that their individual enterprises were organised in a co-operative form. In practice, however, the attempts to transform "kolkhozes" into real co-operatives proved to be unsuccessful, owing to the intellectual bankruptcy of the theories of "collective property" dominant at that time, with vague rights of "members" or "owners" and unsolved

issue of land ownership. However, historically "kolkhozes" were more productive than State-Farms, allowing their members to develop initiative and both, individual and group-responsibility. On the other hand, sociological study of the institution shows that the initial "kolkhozes" have progressively shifted from their productive function into administrative management. In the case of the initial "kolkhozes" seven or eight out of every ten people were in the fields and only two to three in the administration. In the 1980s the distribution of the productive and administrative roles was quite the contrary.

Producers' co-operatives, named from 1987 onwards as "co-operatives in the sphere of production and services", were functioning in the field of production of commodities, utilisation of secondary raw materials, open-to-the-public catering, daily services, and so on. They played a certain role in providing people with goods and services but their "co-operative" identity was also rather dubious. Quite a few among this kind of co-operatives were formed at State enterprises using their machinery and cheap raw materials for making quick profits. Very often members of these "co-operatives" were chief administrative personnel, exploiting the labour of hired workers for their own personal benefits. After the recognition of the right for private ownership in the early 1990s, a major part of these co-operatives were transformed into limited or joint-stock companies, since then stepping out of the co-operative family.

Co-operatives in the transition from a centrally planned to a market economy

The CIS countries are now facing a systematic crisis that is deeply rooted in the problems and contradictions of the Soviet era. Two-thirds of the USSR budget was formed through the exploitation of its rich natural resources. Perhaps this was one of the main factors in the regime's capability of retaining an inefficient political and economic system for quite a prolonged time. Before the disintegration of the USSR, the economic situation worsened sharply. In 1991, the drop in GDP was over 13 per cent. Hard currency incomes from the export of oil and oil products dropped by several times because of a dramatic fall of oil prices on the world markets. In parallel the same year consumer prices doubled. A card system for control of food consumption was introduced in many big cities. A critical situation in the economy was aggravated by political instability, growth of conflicts, fall of communist regimes in Central Europe, and a rapid development of disintegration processes. All this led to the disintegration of the USSR and to the formation of the

New Independent States out of the 15 former USSR Republics, 12 of which (with the exception of the Baltic States) later formed the Commonwealth of Independent States (CIS)¹⁴. These countries began their independent existence in the hardest conditions of the transition from a centrally planned to a market economy.

The initial programmes of reform included sets of priority measures aimed at stabilising macro-economic conditions, filling in the consumer markets, developing competition, and privatising of State property. Certain results were attained in the course of reforms. All the CIS countries denounced the old political and economic system in which they had lived for more than 70 years. They stepped on to a "civilised" path of development associated with democracy and market economy. But this path turned out to be extremely difficult to go down. The reforms were accompanied by a very sharp drop in industrial production, the growth of unemployment, and a dramatic fall of living standard for numerous strata of the population. In 1998, the GDP of the countries affiliated to the CIS averaged 59.5 per cent of what it had been in 1991, industrial output was down by 50 per cent, agriculture by 64 per cent, retail turnover by 72 per cent and the ratio of investments to main assets was down by 28 per cent.

Much hope was put in vast privatisation programmes aimed at the creation of a favourable environment for the quick development of free entrepreneurship, which was regarded as a panacea from all the evils of the past. The speed of the process of privatisation was impressively high. During 1992-1998 in the CIS countries over 300,000 former State small and medium size enterprises were privatised (this process was called small-scale privatisation). In the middle 1990s and onwards a "big-scale" privatisation embraced larger industries. By 1998 the share of the State industrial sector in the CIS had dropped to 36.6 per cent. Despite the impressive pace of privatisation, its consequences turned out to be very controversial. Its main objective - the formation of a stratum of efficient, medium-level private owners - has not been attained. The basic idea was to give every citizen a free share of the state property in the form of a privatisation coupon with a certain value in the stock exchange market. However, in practice this idea was not viable. One common feature was a real bacchanalian orgy of the seizing of State enterprises by their senior administrative personnel and by local authorities. An ugly market element, characterised by greedy disposal of valuable materials at dumping prices, illegal assets manipulations, speculations, and so on, established itself on the post-Soviet scene.

Instead of the expected middle-class stratum, nouveaux-riches predators began to grow in big numbers, using easy-earned money

for mad lavishness. Another privatisation objective - raising efficiency of enterprises - has not been achieved either, mainly because a joint-stock form of ownership was selected as the basis for privatisation. Big enterprises owned by small shareholders, whose interests are not aimed at a long-term perspective but rather at getting immediate benefits in the form of dividends, have very little chance for successful development. It was also expected that, with the start of the market reforms, resources would flow from loss-making to profitable enterprises. Better, alternative options for new jobs and entrepreneurship would develop, and investments would flow to industries both from domestic and foreign investors. However, these expectations turned out to be illusory. In fact, in most CIS countries a deformed, quasi-market economy has evolved, characterised by an irrational structure of production and ownership, by a shadow economic sector and by corruption. With little attention paid to social issues, broad masses have been pauperised. The hardest financial crisis that broke out in August 1998 in Russia has had an even more devastating effect on the economies and living standards of people in the CIS.

Today, the mass media are overwhelmed by heated discussions about the causes of these failures and about how to find the way out of the crisis. The present economic situation may be described as a stagnated transitional period, stacked half way from a previous centrally planned economy to a future market economy. The CIS countries are facing an alternative: either to return to the system of the discredited centrally planned economy of the past, or to continue advancing with reform. Although there is no public consent with regard to a choice for action, there is still a hope that in the long-term strategies of many CIS countries the latter option will be chosen and seriously followed up. And such a development also gives a chance for the revival of co-operatives and for enhancing their role in the reform and in solving the social problems of the society, and reversing the previous negative climate of opinion. Since 1991, planners of privatisation campaigns in the CIS countries have never taken into account the important role of the social economy, in which co-operatives have a most significant place.

A non-supportive environment for co-operative development

With the start of market reform, co-operatives faced difficult problems of their own in adapting to the new conditions. Their problems were aggravated by a negative public attitude to co-operatives, based on distorted ideological approaches common to all the former communist regimes. Quite often, in the mass media

and in parliamentary debates, co-operatives were referred to as adepts of communist ideology and as a rudiment of the past regime. Dissemination of knowledge about true co-operative values and principles has never been given a priority. A destructive blow was inflicted on consumer co-operatives by normative provisions, adopted in most of the CIS countries, aimed at the so-called "commercialisation" of State enterprises, to which category co-operatives were automatically referred. The idea of this commercialisation was to de-merge large commercial enterprises and to create smaller and more efficient businesses with the status of a separate legal entity. Unfortunately, the dual nature of co-operatives, as democratic organisations of members on the one hand and as business enterprises on the other, was just ignored.

Unfavourable conditions for the development of agricultural co-operatives in particular are closely related to a failure of agrarian reforms in practically all the CIS countries. At the first stage, normative documents were issued envisaging the division of land, and of state farms' and kolkhozes' assets, for private ownership. But when such measures were started, they were met by strong resistance from "red directors" in the agricultural sector and from the agrarian lobby in parliaments. For a prolonged period the issue of private land ownership was thus blocked and the adoption of codes on land was postponed indefinitely.

Another important factor hindering co-operative development, is a chaotic situation on the consumer market, characterised by unfair competition that seriously impedes consumer co-operatives. These have traditionally in the past been law-abiding organisations with a transparent system of transactions and payment of taxes. Unlike them, most of the numerous new small trading firms engage in illegal operations and smuggling, concealing their real incomes from taxation, and thus keeping lower prices and enticing potential customers from co-operative shops. Co-operatives are also facing difficulties because of a loss of substantial operational resources as a result of a powerful wave of hyper-inflation during the period 1992-1995. The possibility of using bank loans was drastically reduced because of too high interest rates. Such unfavourable conditions for consumer co-operatives' economic activity have therefore caused a noticeable decrease in their share of the consumer market. In Armenia, for example, in 1991 the share of consumer co-operative retail shops on the market was 39.9 per cent, while in 1998 it was 11.6 per cent. The share of catering units for this period decreased from 42.3 per cent to 21.7 per cent. In Georgia, the share of co-operative shops during this period dropped from 57.3 to 15.8 per cent, catering units from 52.2 to 20.2 per cent. In Kyrgyzstan, market share of shops fell from 58.7 to 21.5 per cent, and of

catering units, from 51.9 to 12.2 per cent. In Uzbekistan, the figures are from 64.8 to 22.3 per cent, and 55.3 to 23.5 per cent respectively. A similar situation prevailed in the rest of the CIS countries. The drop of consumer co-operatives' share in national retail turnover was still more noticeable. In 1990 this share for the Soviet Union was 27 per cent. In 1998 an average figure for six CIS countries (Georgia, Armenia, Azerbaijan, Kazakhstan, Tadjikistan and Kyrgyzstan) was less than 4 per cent and for the remaining countries (Uzbekistan, Ukraine, Belarus, Turkmenistan and Moldova) it was about 14 per cent.

Danger of self-destruction

Threats to the co-operative movement are posed not only from outside, but also as a result of some unfavourable developments inside co-operatives and their societies. One of the most threatening developments is that some co-operative leaders and managers regard their co-operatives as business enterprises where they are the sole masters, with members who have no say in decision-making. Some of them are even making attempts to "privatise" co-operative enterprises in the same manner as was done with State enterprises, despite the fact that it is not allowed by the existing legislation. In other cases, the assets and property of co-operatives are managed by the senior staff as if they were the private owners. There have been cases where co-operative societies have been deliberately destroyed by senior management, who have forced members to exit from their co-operatives by paying out a conditional "compensation" to them for their shares, and have acquired those shares for themselves. This way they become sole owners of a co-operative that at a later stage could be re-registered as a co-operative of employees. Such machinations have an obvious objection: it is wrong to gain personal benefits by getting hold of the assets accumulated by several generations of co-operators.

The self-destruction of co-operatives has also been caused by some other "innovative" practices, such as when senior management, jointly with local administrative bodies, initiates the issue of so called "share certificates" to the members. Sale of these is then encouraged at specially arranged "privatisation" auctions, at which stocks of shares are bought out by the "organisers" themselves. They thus became new owners of co-operative assets with a later transformation of their legal status to limited companies. In Uzbekistan, consumer co-operatives were transformed into joint-stock companies on the initiative of the Central Union of Co-operative Societies. Co-operative principles were rudely

violated. The assets of former consumer co-operatives were simply taken from their lawful owners. In accordance with new civil legislation in most of the CIS countries, enterprises belonging to co-operative societies had to change their legal status to limited companies. It was thought that co-operative societies would efficiently manage them, while retaining control of stocks of shares. However in practice many of these enterprises became an easy prey for predators, who took them over and alienated them from co-operative societies. Another factor of self-destruction is a continued practice of managing co-operatives "from top to bottom", that is by orders from central unions to their affiliated members. The rhetoric has changed, but the essence of behaviour remains the same as it used to be in the past: apex organisations regard themselves as a higher echelon of power, whereas primary societies are viewed as subordinates¹⁵.

One of the most serious internal factors of the crisis situation in co-operatives is that there are a considerable number of top leaders of the "old guard", who retain their posts but are not capable of adapting their thinking to the changing conditions. These leaders are convinced (and consistently pursue their policy towards that end) that the only way of solving the present crisis is to return to the past practice of monopolistic privileges under the State protectorate. Such a position leads to their unwillingness and inability to seek for challenges and opportunities, to develop entrepreneurial skills at a local level with the active participation of members. Poor management of co-operatives is another big problem which co-operatives in most CIS countries are facing. There are very few dynamic managers in co-operatives capable of organising competitive entrepreneurship that makes full use of a co-operative's potential.

Possibilities of enhancing the role of co-operatives

The threats to co-operatives must not, however, cause doubts about their ability to occupy a more important place during this transitional period, and to carry out long-term economic and social tasks in the CIS countries. At present, there are real opportunities for co-operatives to participate in market transformations and solve social problems. There are several avenues of activity where co-operatives can make a notable contribution. They can fill a natural niche in the agricultural sector where they have traditionally been important actors. In the post-Soviet scene, individual agricultural producers hold a considerable share of overall agricultural output; in Russia, for example, in 1998 this share was over 50 per cent of total output, for meat and milk products 49.8 per

cent, vegetables 80 per cent, and potatoes 91.1 per cent.

Small producers badly need an established system of marketing. In the past, this function was performed by consumer co-operatives, but that infrastructure was destroyed with the start of the reform. Instead, a great number of middle-men have appeared, who dictate unfair prices on the market. This practice creates artificial shortages of food products, as wastage is great because of the difficulties in the distribution of food products. The development of agriculture and the raising of its efficiency are regarded as a long-term priority in all the CIS countries. In a short-term perspective, the food supply can be radically improved by resuming the practice of purchasing agricultural produce from individual producers and by organising a network for its distribution through consumer co-operatives. This activity could have great social significance, as the majority of individual producers are members of the consumer co-operatives. Emerging agricultural and credit co-operatives can also play a significant role in supporting individual producers. It is expedient that special programmes are elaborated in the CIS countries, envisaging the following practical steps aimed at creating a favourable environment for the development of the co-operative sector:

- Development of marketing-and-supply co-operatives servicing individual agricultural producers;
- Restoration of the system of an agreed relationship between consumer co-operatives and agricultural producers for marketing products through consumer co-operatives;
- Expansion and modernisation of a network of processing enterprises by consumer co-operatives;
- Creation of co-operative supply centres in rural areas, providing agricultural producers with fertilizers, implements, small agricultural machinery, as well as with renting, agrotechnical and leasing services;
- Creation of an urban network by consumer co-operatives for the realisation of the produce purchased from individual agricultural producers;
- Development of export-import operations by different types of co-operative.

Opportunities in entrepreneurship and human resource development

Economic history has demonstrated that co-operatives have many opportunities in the development of small and medium enterprises (SMEs). There are quite a few examples of various development

projects successfully carried out by co-operatives in different parts of the CIS. Moscow Regional Union of consumer co-operatives, for example, used vacated capacities of their enterprises, formerly engaged in constructing shops, for providing diversified services to their members, like repair, production of building materials, housing construction, and so on at equitable and competitive prices. In Tatarstan, consumer co-operatives in collaboration with Hungarian partners have developed high-tech pedigree goose production, growing up to 80,000 adult geese annually and opening up adjacent profitable enterprises for producing quilts, pillows and cosmetics from goose down and fat. In Kazakhstan, consumer co-operatives have successfully developed a network of enterprises for the production of combined seeds, sunflower oil, and articles from raw wool. Some consumer co-operatives, in the process of adaptation to specific local conditions, have developed their own cattle-breeding farms. In Moldova, a network of purchasing and processing enterprises was successfully developed by consumer co-operatives, with the use of modern technologies and know-how, thus considerably strengthening their competitiveness in the market. In Turkmenistan, consumer co-operatives opened a water-bottling factory, which turned out to be a highly profitable enterprise, providing extra jobs and serving an important social function in the community. There are many other examples showing great opportunities for co-operatives in the development of SMEs, in the interests of their members.

It is important that co-operatives should be taken into account in national development programmes concerning the labour market, employment and social integrity, where they can provide jobs and self-employment for poorly protected population groups - women, youth, handicapped people, pensioners, refugees and forced migrants. Co-operatives themselves must pay more attention to the need to provide information summarising positive national and foreign co-operative experiences. They need to raise the awareness of co-operators and of the general public about their significant role and potential, and to convince the planners and legislators about co-operatives' potential to develop human resources.

Harmonisation of co-operative legislation

When it came to writing their own independent legislation, the CIS countries faced serious difficulties. The accumulated experience in this field reflected the realities of the past social-economic order and did not correspond to norms of civil society, based on the principles of democracy, of market economy, and of pluralism.

Foreign experience and the recommendations of international organisations needed to be adapted skilfully to concrete local conditions. Very often new legislative acts were prepared and adopted in haste, which affected their adequacy. Co-operative legislation could not avoid a similar fate. In a few countries no new co-operative legislation was adopted after 1991, while the new legislation that was enacted tends to cover exclusively consumer co-operatives¹⁶. It is well understood that co-operative legislation is not restricted to specific laws stipulating the status and activities of co-operatives; there are a number of normative legislative acts of a general character which affect co-operatives as well. Of special significance for the formation of the civil legislation in the CIS countries has been a model Civil Code, elaborated by a joint commission of the Inter-Parliamentary Assembly under the guidance of the Scientific Centre of Private Law of the CIS. Its provisions have been embodied in the civil legislation of all the CIS countries. A serious step has thus been taken towards the systematisation of inter-relations among all market actors, and towards a civilised market.

However, the drafters of this Model Code, while aiming at the creation of equal conditions for all actors in the market, did not take into account the specific character of co-operatives. This was due to very poor knowledge of the essence, values and principles of co-operatives which are recognised internationally, as well as of co-operative practice as experienced for the last hundred years by the developed countries of West-Europe and of North America. One of the stipulations of the above Model Civil Code, and later of national codes, was a mandatory division of business organisations into the two categories: commercial and non-commercial. Co-operatives were also squeezed into this Procrustean bed. Producer co-operatives were classified as commercial, and consumer co-operatives as non-commercial, organisations¹⁷. According to the Model Civil Code, commercial organisations are the ones with profit as their main objective. Unfortunately, this provision cannot be applied to co-operatives of any kind, as co-operatives, by their nature, have a different main objective: to satisfy their members' needs through a jointly owned and democratically managed enterprise. On the other hand, classifying consumer co-operatives as "non-commercial organisations", the Model Code just ignores the economic side of their activity. Moreover, there is an additional provision that stipulates that "income of a consumer co-operative shall not be distributed among its members". These contradictory provisions have caused similar inadequacies in normative definitions of national codes as well. Besides, the national legislator seems to

forget that consumer co-operatives in all CIS countries themselves produce at least 50 per cent of the products they sell in their shops. Thus, in spite of their "consumer" nature, they are also producer co-operatives and cannot perform this additional activity without a "commercial" character.

The Model Code and national codes of a number of countries contain a few more normative provisions concerning the formation of share capital and indivisible funds, the right of a member to exit from a co-operative, and conditions of exiting. The codes also limit the role of co-operative unions and associations. For instance, there is a stipulation in the Model Code saying that "commercial and non-commercial organisations can form unions or associations between them by agreements, which shall acquire a status of non-commercial organisation". If a newly founded co-operative organisation is supposed to be engaged in entrepreneurial activity it must be transformed into a limited company and so lose its co-operative identity. There are therefore no clear definitions of the right of co-operatives to set up co-operative unions at a secondary level, or national apex bodies. These legislative gaps greatly hinder the activity of co-operative unions aimed at the creation of general co-operative infrastructure, the setting up of competitive retail networks, the establishment of partnership relations with other actors in the market, and so on.

Late in 1997, an important step was taken towards the improvement of co-operative legislation, when the Inter-parliamentary Assembly of the CIS adopted a model law on co-operatives. General normative definitions pertaining to all kinds of co-operatives were formulated, based on internationally accepted co-operative principles. It is very much hoped that this model law will be instrumental in the process of the creation of an adequate co-operative legislation in the region¹⁸. The present situation, however, is not that promising. The existing laws on various kinds of co-operatives have not been unified anywhere. Co-operative legislation has not yet been tied in with adjacent laws. There is no clear understanding of the role of social economy and of co-operatives as an integral and significant component of the national economy under transition. For a successful development of co-operatives, it is necessary besides to harmonise their legislative background, based on commonly accepted international norms and practices. Each of the CIS countries should form special commissions of scientists and experts representing the co-operative sector, for the drafting of amendments to civil codes and other laws directly or indirectly affecting the interests of co-operatives. Based on the recommendations of international organisations, it is also important that each country of the CIS should adopt a General Law

on co-operatives as well as sectoral laws reflecting the specific features of co-operatives of different types. Proposals on amendments to the adjacent laws should be made, aimed at the elimination of discrimination against co-operatives and other forms of social economy.

Conclusion

In the conditions of globalisation of the contemporary world, the problems of the development of the CIS countries have not just a regional, but a European and even global significance. The UN Secretary-General's Report 'Integration of countries with transitional economies into the world economy' (UN Document A/51/285 of August 13, 1996) notes that, considering the character and the scale of external assistance which is required, the UN should co-ordinate efforts to create reliable human and organisational potential for managing the transition process¹⁹. The authors of this article believe that similar action should be undertaken by other most directly concerned agencies, such as the ICA and the ILO with regard to the co-operative movements of the CIS. It would be also helpful if the co-operators of the industrially developed countries could find ways to support the co-operators of the CIS in their efforts aimed at strengthening the role and significance of co-operatives. The objective is to transform them to democratic, economically efficient and competitive organisations, serving the interests of their members and helping to solve the critical economic and social problems of the population. Because the state cannot guarantee an underpinning of social welfare to the working population, the people themselves must be given the opportunity to create their own economic security; through the setting up of individual and co-operative businesses involved in production, processing, marketing and retailing.

It is obvious that for successful co-operative development a favourable environment is required, including legislation and various forms of support both from inside and outside the CIS. However, the most important issue remains the recognition by co-operators themselves of the internal factors hindering their development and threatening their existence²⁰. It is important for the CIS co-operators to realise that the time when they could rely on their monopolistic privileges on the market has gone, and they have to adapt to the new conditions of hard market competition. They have to give up the mentality of the past epoch, based on dependence and on expectations of benefits from a state that could afford to subsidise loss-making enterprises. Co-operative leaders and members should be forced to become self-critical, and to develop initiatives in the

practical implementation of acute economic and social tasks. There are quite a few competent honest and devoted men and women among the co-operators of the CIS who view the situation from the position of the present, not of the past epoch. This gives hope that the co-operative movements of this region will find strength to adapt to the new conditions, to become a strong force in the process of democratic transformation, and to help create favourable conditions for a worthy life for people and society.

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Notes

1. Several reviews and periodical publications have followed-up the conditions of privatising the centrally planned economy and of transition to the market economy and to the pluralist and open society of the countries of the region since 1992. Among them we consider that the monthly review *Le Courrier des Pays de l'Est* published by *La Documentation Française*, Paris, is providing regularly information and factual analysis on the various topics of reforms.
2. The last UN Report on Social Development depicts, as was the case with similar Reports of previous years, the negative results of the Programmes of Technical Co-operation in this matter and the aggravated poverty hitting not only the populations of the poor countries of Third World, but even large segments of population of the otherwise rich countries of West Europe. The negative effects of the rapidly globalising world economy seem to reach, without exception, all countries, poor and rich, countries of market economy and regions of transition to market economy conditions.
3. The co-author of this article Dr Altshoul has elaborated during last years several articles and studies concerning conditions of re-definition and of development of the co-operative movement in the CIS countries. Worth mentioning is the Study-Report elaborated and submitted in 1998 to ILO, Geneva, for information and eventual follow-up action of this Specialised Agency of UN, responsible among others since 1920 for co-operative statistics, studies, education, legislation and development.
4. The main gap and institutional deficiency is being observed in the field **first** of legislative policy and **second** of the national economic programmes. First of all, due to the recent identity crisis about the place of co-operatives in the centrally planned economy (the well-known example of Poland and the cancellation by law of January 1990 of 14 national and of hundreds of regional co-operative unions, is still fresh in the memory of all European co-operators), none of the CIS countries has dared to introduce in its Constitution any provision about co-operatives. Certainly, countries such as the RF have filled in that gap by

adopting decretal texts and Presidential Declarations in favour of consumer co-operatives. But it is not the case of other CIS countries. Beyond that, the short and medium-term economic programmes nowhere refer to any development of and through co-operatives. All more or less concerned countries are keeping silent in this matter.

5. CIS countries feel somehow "guilty" as far as co-operative experiences of the communist period are concerned. And the co-operative movements of West Europe countries do not help to regularise the situation. In this respect, it should be remembered first that not all categories and all levels of co-operatives of the communist period were an integrated part of that political regime and of that rigid economy, and second that international co-operative principles and practices, based on human values and behaviour and not only on economic rules, cannot be "repatriated" into countries under transition without sincere and sustainable assistance from abroad.
6. There is a reminder here of two important Recommendations of ILO in relation to co-operatives and co-operative economy and development. The first one is R. of 1966 adopted and largely used since then for developing countries. The second is R. 149 of 1975, concerning the socio-economic and co-operative activities of rural women's organisations. Since we are all studying co-operative problems of CIS countries, some of which are European countries, it is natural to recollect a growing concern of the European Union and of the European Parliament about the identity and use of Co-operative institutions inside and outside Europe itself. Since 1989, in the Council of European Ministers a proposal for a European Co-operative Society has been discussed, without success. If industrialised countries of the EU cannot agree on the adoption of such a European Co-operative Law, how can former communist countries proceed to the elaboration and use of a modern, "privatised", "civilised" and pluralist model of a co-operative institution?
The European Parliament (which as every body knows, has a strong "will" but a feeble "executive") has, since 1982, adopted five Resolutions on co-operative history, co-operative identity and principles, and on co-operative perspectives in solving the serious economic and social problems prevailing within the 15 members of the EU. If these initiatives were to have an impact on the European Union, then there would be hope that these important documents would extend their voice and values to other regions and countries of Central and Eastern Europe.
7. Consumer co-operatives of communist countries, whatever was their fate under the then regime, never forgot the ICA's co-operative principles and, to the extent of their capabilities they supported the ILO's co-operative norms. They hung on to these few documents of the international community and always looked forward to seeing restored in their respective countries the co-operative values and principles that had been in place before 1917 and 1948.
8. Except ICA, ILO, the World Bank (Poland), WOCCU and the Scandinavian countries, very little has been done in the field of co-operatives in Central and Eastern Europe. The EU focused on the process of privatisation, and neglected the co-operative and social economy sector that could have taken in-charge some crucial problems such as food production, the creating of paid jobs, and the organisation of elementary social services. By insisting in providing external food and suchlike, they prevent the CIS and other neighbouring countries from building up their own institutions and productive infrastructure and ensuring the perennial development of their national economies and societies.
9. In the 1930s, while consumer co-operatives of the Soviet Union had succeeded in feeding the population during an economically critical period for the Soviet regime, Stalin seized illegally consumer co-operatives' shops in his cities and ordered them to function as State retail shops, with the well-known devastating results until 1986. The lack of foodstuffs between the 1930s and 1980s was

mainly due to that foolish and disastrous decision of the Soviet regime. Otherwise, the big cities of the USSR would not have experienced that severe lack of food and commodities. Consumer co-operatives, in spite of their confinement to the rural areas only, organised and reinstated previous services to the population during the Second World War and immediately afterwards.

10. Kroutsev, jealous of Stalin's devastating policy against consumer co-operatives, abolished in the 1960s artisans' (artels) and producers' co-operatives and further integrated in the State economy all the remaining segments of co-operative organisation and management. This Soviet move towards full centralisation of the economy is not well known in co-operative history.
11. In fact, first (1986) Gorbachev tried to re-organise Socialist enterprises and boost the volume and the quality of their production. In 1987, he realised that the Socialist enterprises alone could neither perform productive activities such as food nor other delicate tasks from a technological point of view. He therefore issued a series of decrees allowing individuals and family-members, as well as sections of workers of Socialist enterprises, to establish "individual" (private) businesses of food and bakery production, as well as production for State industries on the basis of sub-contracts. These ensured higher and better production against the realisation of individual income or of complementary income, besides salaries obtained in the State enterprises. In March 1988, Gorbachev, in his speech in the Congress of the Agricultural Co-operatives, highlighted the potential of co-operatives for furthering perestroika and of the human factor and called-upon co-operatives for the renewal of the values of the initial social system. The strata of "fat pigs" came out of those non-controlled and so-called "new co-operatives".
12. In that very moment, consumer co-operatives initiated a General Co-operative Law, the first in the history of the Soviet era, and invited ILO, Geneva, to provide them with the necessary consultancy in services. ILO's consultant, Prof Dionysos Mavrogiannis, studied the situation in Moscow, in Lithuania and in other Republics and formulated, in agreement with the then Vice-Mayor of Moscow and current Mayor Mr Luzkov, a series of suggestions and of proposals of ILO, improving the Law of 1988. That Law had introduced, among others, the principle of a co-operative sector of the economy, without geographic and other restrictions, equal and competitive to the other sectors, state and municipal. The Co-operative Law of 1988 was the initial and decisive act that led as a legal and economic tool to the privatisation of the economy during the next two years.
13. We remember with pleasure, in today's Russia and in other CIS countries, that during the Soviet regime consumer co-operatives were allocating profits to support several Co-operative Universities, Institutes, hundreds of professional Schools, besides social schemes, sanatoria and other similar services provided to members, and employees of co-operatives. After 1992, in the RF the former three Co-operative Universities of Moscow, of Siberia and of Belgorod (South Russia) became State Universities.
14. The CIS was created in 1992 and was re-organised in 1994. The Inter-Parliamentary Assembly, Supreme Organ, is composed of an equal number of MPs of the 12 countries. It is convened in two annual sessions in different cities of member-countries.
15. The proposal of the model "from top to bottom" for the co-operative management were the subject of a study of Grigori Altshoul, elaborated in 1997 in the context of the Project of the Scandinavian countries in favour of CIS countries, other than the RF.
16. This is the case of all CIS countries except the RF which has adopted several sectoral legislative texts since 1993 covering consumer, agricultural, producers' and credit co-operatives. Since 1998, Centrosouyus, in collaboration with the Greek Institute of Co-operative Research and Studies (ISEM, members of ICA),

is elaborating a new and General Co-operative Law, the ultimate objective of which is to create incentives and basic rules for all types of co-operatives, to update existing sectoral laws and to harmonise the co-operative legislation with the common law of the country. In this respect, Prof Dionysos Mavrogiannis, following his explanatory mission to Moscow in 1998, was commissioned by Centrosouyus to elaborate and propose to the Russian Drafting Committee, a Pro-Project of Law under the chairmanship of Mr Alexander Belashov, Dty-President. A 9-member Russian Delegation composed of three MPs, the Director of the International Dept and Board Member, the Rector of the Siberia Co-operative Institute and other Civil Servants and Co-operatives, visited Thesaloniki in June 1999. They were hosted by ISEM (Prof D Mavrogiannis), the Consumer Co-operatives, the Cigarettes Co-operative Enterprise (SEKAP) and the Co-operative Enterprise of Tobacco Growers (SEKE).

17. All Model Civil Codes of CIS countries were elaborated and adopted since 1993 on the basis of old European Civil Codes of Germany and of Italy. Most of their provisions are almost out of date and they do not fit the social and economic reality of the respective countries. There is a move towards updating them in the near future.
18. Its main concern, authority and activity is to co-ordinate economic, legal and other related subjects. In 1987, the J-PA decided to proceed to the elaboration and adoption of a Model Co-operative Law for all CIS countries.
19. The most significant contribution of the UN Agencies as well as of NGO and co-operative organisations, would be to assist CIS countries in creating legal, judiciary and similar institutions for onward independent and autonomy action in the future by each of the concerned countries.
20. In 1997, the CIS's Inter-Parliamentary Assembly, the Russian Government and Consumerter requested ISEM's advisory services in elaborating a Co-operative Model Law, and in assisting in creating an adequate legal infrastructure for co-operative action in the CIS countries, other than the RF. In 1998, Dr Grigori Altshoul and Mr Viatcheslav Ouglev, with Prof Dionysos Mavrogiannis, Secretary-General of ISEM, worked out a project proposal for two years' activities in the region. National co-operative institutions and other NGOs from developed countries are welcome to participate in the realisation of this difficult but challenging project. Please contact Prof D Mavrogiannis at the Institute of Co-operation, 16 Neotitos Str, Athens 141.22, Greece.