



A Volatile Present and an Uncertain Future

Mapping cooperative and social
economies in the Visegrad countries

A Volatile Present and an Uncertain Future

A Volatile Present and an Uncertain Future

Mapping cooperative and social
economies in the Visegrad countries

Eva Riečanská et al.

Edited by: Eva Riečanská

Authors: Judit Fleischer, Jiří Guth, Martin Hadbavný, Magdalena Hunčová, Martin Jankovič, Erika Kármán, Attila Katona, Réka Mihály, Mária Nemcová, Jana Pokorná, Dominika Potkaňska, Eva Riečanská, Tomasz Schimanek, Josef Smrčka, Peter Vittek, Kateřina Vojtišková

Book design: Dana Vitteková

Printed by: Ivan Šebesta

Publication was prepared in cooperation of:



INSTYTUT SPRAW
PUBLICZNYCH



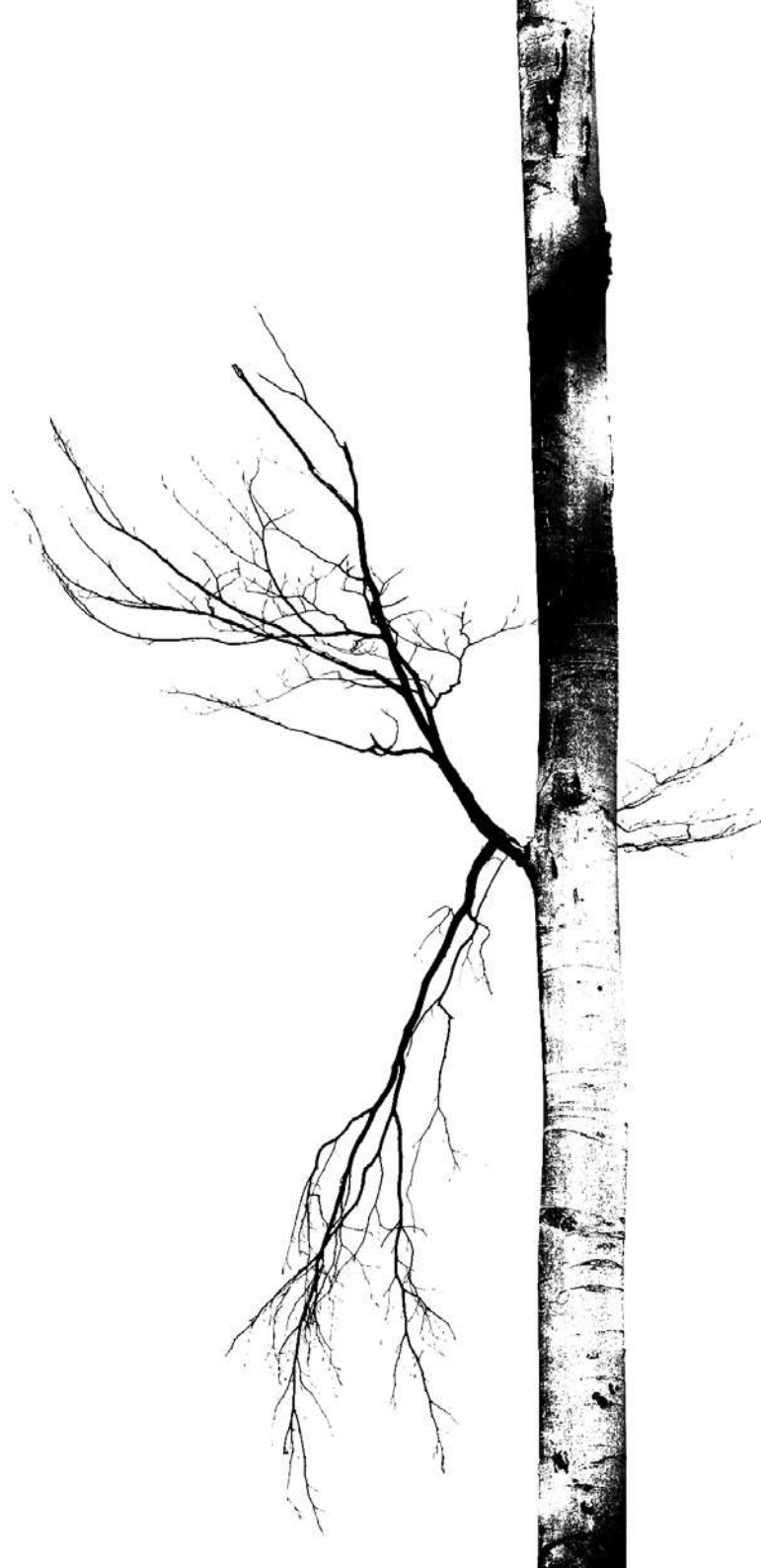
© 2015 Authors

This publication was supported by International Visegrad Fund as part of the project “Inclusive local economies through cooperatives development”.



www.visegradfund.org

ISBN 978-80-89737-13-0



CONTENTS

Introduction <i>Peter Vittek and Eva Riečanská</i>	8
---	---

HISTORY

A Brief Overview of the History of Czech Cooperatives <i>Magdalena Hunčová</i>	14
---	----

The Cooperative Movement and Social Cooperatives in Hungary: a Historical Overview <i>Erika Kármán and Attila Katona</i>	20
--	----

An Overview of the History of the Cooperative Movement in Poland <i>Dominika Potkańska</i>	26
---	----

An Overview of the History of Cooperativism in Slovakia <i>Martin Jankovič in collaboration with Peter Vittek and Eva Riečanská</i>	35
--	----

MEDIA

Cooperativism in the Czech Media in the time period from the 1 st of January 2012 until the 15th of May 2014 <i>Jana Pokorná and Jiří Guth</i>	48
---	----

Availability of Information on 'Social Cooperatives' in Hungary: a Brief Overview of the Main Sources <i>Erika Kármán</i>	54
---	----

Availability of Information on 'Social Cooperatives' in Poland: a Brief Overview of the Main Sources <i>Dominika Potkańska</i>	57
--	----

Cooperativism in the Slovak Media in the time period from the 1 st of January 2012 until the 31 st of January 2014 <i>Peter Vittek</i>	60
--	----

LEGISLATION

An Overview of the Current Cooperative Legislation in the Czech Republic <i>Jiří Guth</i>	66
Social Cooperatives in the Hungarian Legislation <i>Erika Kármán</i>	80
An Overview of the Current Legislative Framework and Performance of Social Cooperatives in Poland <i>Tomasz Schimanek</i>	84
Cooperatives in the Legislation of the Slovak Republic <i>Mária Nemcová and Martin Hadbavný</i>	90

IN THE FIELD

Exploring Cooperatives in the Czech Republic: Research Findings <i>Kateřina Vojtíšková in collaboration with Jiří Guth, Magdalena Hunčová and Josef Smrčka</i>	108
A Possible Model for Resilient Community Business? Insights into the Situation of Social Cooperatives in Hungary <i>Réka Mihály, Judit Fleischer, Attila Katona and Erika Kármán</i>	136
Social Cooperatives in Poland: a Probe into the Current Situation and Challenges <i>Dominika Potkańska and Izabela Przybysz</i>	154
On the Margins of Interest: A Probe into the Situation of Cooperatives in Slovakia <i>Eva Riečanská and Peter Vittek</i>	172
Conclusion <i>Peter Vittek and Eva Riečanská</i>	190

Introduction

Peter Vittek and Eva Riečanská

In Central Europe, the cooperative movement and social economy have a long, rich and turbulent history. Especially all four Visegrad countries share many similarities and common experiences, and have recently walked similar paths of economic transformations and often unforeseen changes.

Although the authors of this publication came from diverse backgrounds – the academic sphere, non-governmental sector and cooperative business, and from different countries – the Czech Republic, Hungary, Poland and Slovakia, they had a common intention: to map the situation in their respective countries and piece together a mosaic of different perspectives on cooperative and social economy through the lenses of history, the media, legislation and lived practice.

The aims of our work were both practical and theoretical, but first and foremost we saw them as a starting point of building a platform for further exchange of various types of experiences – from success stories to failures, as first steps in our larger effort to revive and empower the cooperative movement in the Visegrad countries and as an attempt at opening a space for wider recognition of actors of social and cooperative economy.

This publication came into existence as part of the project INECON (“Inclusive local economies through cooperatives development”) which arose from the need to cope with destructive effects of corporate-led globalisation by tracking effective solutions of local cooperative economies development to help those left behind.

Social economy, and cooperativism as its specific form, operates on a different set of principles and values than institutions and economic structures seeking profit maximization or investor’s yield. This set of values and principles enables the people not willing to participate on or excluded from globalised economy to create a more democratic economic space where they have a more significant say in the economic processes and therefore more democratic control over the distribution of access to livelihood. Social and cooperative economy is usually connected to such values as mutuality and solidarity, membership, social good and public benefit, redistribution or democratic self-government, gender equality or fight against any form of discrimination. Its institutions contribute to the fulfilment of important goals in the communities in which they operate.

They play a role in creation of employment and social cohesion, foster local development, social security or environmental protection. Social economy encompasses various formal and informal institutions such as foundations, self-help groups, cooperatives, mutuals, non-profit and community organisations, solidarity networks, social enterprises and others. Our research focused on the current situation of cooperatives and their links with social economy, also given the fact that cooperatives are a well-known and wide-spread form of a social economy institution in the World with about a billion members and creating more than 100 million jobs.

According to the United Nations Research Institute for Social Development, cooperatives and other social a solidarity economy entities are more resilient against external shocks and economic crises than other forms of conventional enterprises due to democratic decision-making, long-term strategies of capital accumulation and ties in local communities.¹ Similarly, the European Parliament in its report from 2013 on the contribution of cooperatives to overcoming the crisis highlights the fact that cooperatives are good tools for creating more stable jobs as they operate independently from global financial markets and their democratic nature anchors them more firmly in local communities. This diminishes the danger that the enterprise will move out of the community after its operation has reached a regional or global scale, while the specific nature of cooperative ownership has a potential to keep the enterprise in business even during the times of uncertainty. Cooperatives can provide collective solutions to shared problems and enable – especially in remote and disadvantaged areas – the direct participation of citizens in order to meet their needs.²

Hence, if properly implemented, social economy organisations in general and (social) cooperatives in particular can become important instruments of economic and social revival in regions with high levels of social exclusion and poverty, and of creating sustainable employment in developed regions as well. Various institutions and forms of social economy and cooperativism can be viable alternatives to the declining role of the state in providing social security and pursuing social good.

This publication is an attempt to further the discussion on whether there is an enabling environment for promoting the values of social economy in the Visegrad countries. All country teams applied a slightly different angle of looking at the situation in their country. They approached its mapping from their own perspective, reflecting their particular interests, and highlighting what they deem the most relevant to study and analyse. Nevertheless, the common conceptual framework guiding the inquiry was the focus on the theme of cooperatives and their linkages with social economy.

According to the internationally accepted definition, **a cooperative** is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Cooperatives put their values of democracy, equity and equality into practice by adhering to cooperative **principles**:

1. Voluntary and Open Membership

Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of cooperation.

6. Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.³

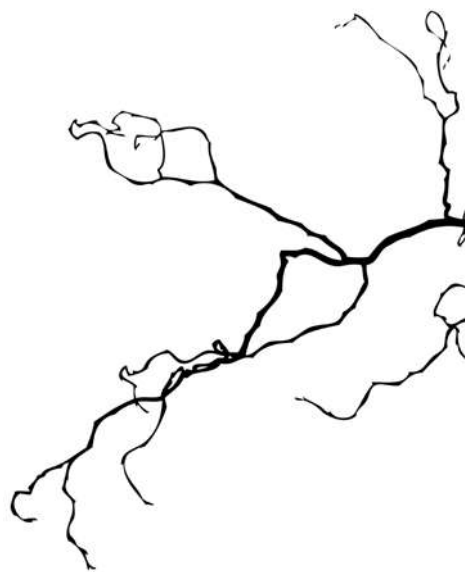
Following this framework we strove to broaden the knowledge of the “cooperative terrain” in Central Europe. We hope that our findings, presented in this publication, provide insights into how well cooperatives are able to navigate the volatile currents of emerging social economies in this part of the World.

Notes:

¹ Peter Utting, Nadine van Dijk and Marie-Adélaïde Matheï, *Social and Solidarity Economy: Is There a New Economy in the Making?*, Occasional Paper 10. Project *Potential and Limits of Social and Solidarity Economy*, United Nations Research Institute for Social Development (UNRISD), August 2014. Available at: <http://www.unrisd.org/utting-et-al>

² 'Report on the contribution of cooperatives to overcoming the crisis,' European Parliament, Committee on Industry, Research and Energy, 12th of June 2013. Available at: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A7-2013-0222+0+DOC+XML+V0//EN>

³ *Co-operative identity, values & principles*, International Co-operative Alliance. Available at: <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>





HISTORY

A Brief Overview of the History of Czech Cooperatives

Magdalena Hunčová

The first cooperatives associating people to provide living, earnings or competitiveness of their business on the market in Bohemia were established already in the late 19th century, pursuant to the Imperial Act No. 70 passed in 1873. Cooperatives emerged spontaneously, associating craftsmen and artisans such as book printers, furriers, bakers, butchers, small metal workshops, etc.¹, and also cooperatives of other professions including theatre or symphony orchestra cooperatives. In general, the Czech cooperative movement reached the top of its activities before World War II when cooperatives in Bohemia created very sophisticated and rich networks that included also trade centres, chains of retail shops and savings and credit unions to finance the movement. The first Czech cooperative was the “Prague Food and Savings Fellowship” (*Prager Viktualien und Spaarverein*) founded upon cooperative principles and values in 1847. In the following ninety years, the cooperative movement in the Czech lands flourished.²

After 1938, when Czechoslovakia was dissolved and Bohemia and Moravia were occupied by Germany, all Czech cooperatives were obligatory subordinated to the “Third Reich” organisational system of war-planned economy and subjected to unification. After 1945, the cooperative network was renewed quickly. This situation can be demonstrated on some figures about credit unions in the Czech region:

1920	3,820 credit unions	409 thousands of members
1925	4,006 credit unions	506 thousands of members
1930	4,269 credit unions	646 thousands of members
1945	3,625 credit unions	1,070 thousands of members
1947	4,248 credit unions	1,306 thousands of members

Source: (Hunčová, 2006)

After 1948, the new totalitarian regime in Czechoslovakia started to use the cooperative form of economy as a tool of political supervision over small producers and craftsmen, and to ensure mass production within the central planning system. The state also decided to establish new cooperative associations to create employment, e.g. the restaurant services cooperative (*Jednota*), cooperative of barbers and hairdressers (*Hygie*), repairs of clocks and precision mechanics (*Mechanika*), goldsmiths' cooperative (*Soluna*), cooperative of plumbers (*Instala*), and others. Each small producer or artisan was obligated to join a cooperative. These cooperatives often operated countrywide. Around 1955, the state started to establish production cooperatives of people with disabilities (e.g. *KARKO*, *INVA*, etc.) to integrate them in the production process and get them involved in the centrally planned economy. This way the people with disabilities were given an opportunity to obtain skills in handicrafts.³ In that time period, cooperatives were subordinated to their centralized umbrella associations controlled by the state (starting as early as in 1938, i.e. at the beginning of World War II).

In the period after 1954, individual farmers were compelled to become members of cooperatives and their land was put at disposal of these newly formed collective farms (in Czech: *jednotné zemědělské družstvo*, *JZD*). However, their immovable property (including farm land) continued to be registered as the original owners' property in the land registration system, but the owners – members of the collective farms – lost their right to freely dispose of this property. Previous agricultural service cooperatives (such as ploughing, machinery or produce processing cooperatives) including supply and marketing centres were liquidated by the state after 1954. The state imposed by law the work obligation for all citizens, agriculture was subject to the central planning and agricultural cooperatives in their new form became similar to worker cooperatives.⁴

Credit unions as savings and loan cooperatives were dissolved in the 1950's by the state and their property and liabilities were taken over by *Česká národní spořitelna* (Czech National Savings Bank) without any compensation. Hence, cooperatives lost their autonomous financial sources. The previous laws related to cooperatives and reflecting the fundamental principles of cooperative identity were repealed and replaced with laws of centrally planned economy. However, cooperative ownership in the Czech lands never lost its private nature, but throughout the totalitarian period it was regarded as "a specific type of socialistic ownership."⁵

Once the initial problems were overcome, production and agricultural cooperatives reached high productivity thanks to their professionalism and a sophisticated system of management. After 1990, there were political attempts to dismantle the whole cooperative sector as part of "return to the market economy"

and the onset of the neoliberal ideology. In the eyes of the public, the cooperative movement became a “shady” relic of the totalitarian past. Cooperative laws were repealed and cooperatives became subject to the Commercial Code. Individual ownership was preferable to cooperation. The so-called transformation act was passed, by which the state privatised especially the property of agricultural, production and consumers’ cooperatives. It compelled agricultural cooperatives to identify the original land owners and to offer them to take back their land. Impacts of this transformation can be illustrated by the fact that e.g. up to 40% of agricultural cooperative property was spent on notarial services. In the transformation process, many cooperatives fell apart, many were abolished, and others transformed into joint stock companies or limited liability companies. Due to that, the number of cooperatives in the Czech Republic declined dramatically. Many cooperatives lost the principle of mutuality. Many of cooperatives’ production facilities were “taken over in a hostile manner” by the state and privatised. Today, many cooperatives are struggling to survive on the free market, including cooperatives of the disabled, which are supported by the state through the Employment Act. However, even after January 2014 the new laws have not established better conditions for the operation of cooperatives, and the negative impacts of the legislation on the cooperative sector continues.

Nevertheless, some new cooperatives initiated by members associated in them have been established, such as *Fontes Retrum* (social research), *Lékárenské družstvo* (pharmacists), *Templářské sklepy* (wine production), *Kulturní noviny* (cultural magazine). Nowadays, also new “social” cooperatives arise in order to increase employment of the disabled. They were initiated by EU-funded projects (2007 – 2013) to support development of social and local economy. The range of “traditional” activities of cooperatives – as they were known from the times of centrally planned economy – has been extended to include new activities, such as counselling, rentals, IT services and others. Thanks to high professionalism, good management, and the ability to find their market niche, some cooperatives have eventually become very successful, for example *Granát, družstvo umělecké výroby Turnov* (jewellery), *Vývoj oděvní družstvo v Třešti* (garment), or the already mentioned *Templářské sklepy Čejkovice – vinařské družstvo* (wine production). Many of typical cooperatives as associations of artisans, tradesmen and workers – especially production cooperatives of the disabled or cooperatives in areas with high unemployment – have a wide portfolio of activities. This way the cooperatives ensure their ability to employ their members under the conditions of the open market. However, being pressured by the market, they often switch from qualified work to simple and monotonous work, usually assembling: see the example of *Výrobní družstvo nevidomých Karko, Ústí nad Labem* (cooperative of the visually impaired), once famous for their skilful basket-makers and brush-makers. Such cooperatives have preserved the membership principle and democratic decision-making, but they pay their price for

it. Today, more successful on the market are those cooperatives that have been able to develop a specific production programme requiring high-quality work and a top-quality management. In such cooperatives the membership principle is often suppressed (the number of real members is low, the number of employees is growing), and sometimes, even the socio-economic purpose of the association and non-for-profit principle fade away. The present-day legislation also allows for establishing “cooperatives” that do not fulfil the ideas and principles of the cooperative movement (for instance a cooperative of developers-owners of agricultural land which they bought in order to use it for “green field” building of logistic centres and other business facilities etc.).

Nowadays, in the Czech Republic there are also many agricultural cooperatives where members (both owners and non-owners of land) collectively farm on their own or rented land. These cooperatives are either successors of transformed socialist agricultural cooperatives or associations that use privatized land of former state-owned farms. In the totalitarian period, most agricultural cooperatives were also running so-called “subsidiary production” (repairs and manufacture of agricultural machines, construction, carpentry and joinery, blacksmithing and locksmithing, accommodation and boarding services, and so on). Some of the current agricultural cooperatives continue in these types of activities. In areas with high unemployment, this creates more opportunities for cooperative members to earn their living.

The following table presents the current portfolio of activities of Czech cooperatives – artisanal associations and production cooperatives. The cooperatives presented in the table are rather successful on the market or react to current challenges (esp. employment issues).

Table: Czech workers’ and production cooperatives in 2010

<i>Basic line of business</i> (number of cooperatives)	<i>Examples of successful and otherwise interesting cooperatives</i> (incl. the year of foundation)
Metal working and machinery, manufacture and repairs of electrical appliances, instruments and devices, and precision mechanics. Metal workers, cutlers, gunsmiths, watchmakers (48) . Car repairs and sales, measuring emissions, manufacture of car parts, etc. (17) .	<ul style="list-style-type: none"> – DUP družstvo Pelhřimov (including Pelhřimov brewery), 1945; – Lověna - družstvo, Praha, 1920.

<p>Computer technology, measuring and imaging systems (3).</p>	<p>– Tetronik výrobní družstvo, Terezín, 1990.</p>
<p>Garment and other textile production, footwear, haberdashery, hat making, leather and fur products, folk handicraft, folk costumes, toys (36).</p>	<p>– Vývoj oděvní družstvo v Třešti, (sewing professional uniforms for fire-fighters, army, police, hunters, etc.), 1931; – Znovoz sociální družstvo, Znojmo, 2006.</p>
<p>Upholstery and furniture manufacturing, wood working and joinery, carpentry (21). Goldsmithing and jewellery, artists (4). Bookbindery, printing, publishing houses, publishing activities, optics and photography services (9). Barbers and hairdressers (5). Pharmacists (1).</p>	<p>– Granát, družstvo umělecké výroby, Turnov (incl. stone quarrying), 1945; – Do & Do Orlová, družstvo umělců, 2004 (arts); – FONTES RERUM, družstvo pro ekonomická, politická a sociální studia, Praha, (economic, political and social studies) 2002; – Kulturní noviny - vydavatelské a mediální družstvo, Brno, (publishing and media) 2009. – Družstvo lékáren, Jihlava, (pharmacies) 2002.</p>
<p>Chemical products, cosmetics (7); plastics, rubber, plastic moulding (9); glaziers and glass processing (1); technical ceramics and earthenware, stone quarrying and stone cutting (5).</p>	<p>– Sociální družstvo BENNA Žďár nad Sázavou, 2007.</p>
<p>Building and plumbing, transport, metal structures, decorators and painters, designing and engineering, turnkey buildings (14).</p>	<p>– D R I S – Družstvo inženýrských služeb, Nový Bor, (engineering) 1989; – Profesmont družstvo, Bruntál, 2008.</p>

<p>Wine production incl. distribution (1); food production (1).</p>	<p>– Templářské sklepy Čejkovice – vinařské družstvo, (wine production) 1992; – ČOKO Klasik družstvo, Česká Třebová, 1997.</p>
<p>Other services: security, cleaning, property management, rental services, real estate agencies, counselling, accounting, publishing (12). Miscellaneous products and services, inc. assembling, small jobs, as well as high qualified jobs (20). Car camping site (1); ski resort (1). Purchase and sale of recycled materials (1).</p>	<p>– AIM.CZ družstvo, Ostrava, 2003; – Andělka sociální družstvo, Troubsko, 2008; – AKSTA družstvo, Brno, 2009; – Dřevotvar.com družstvo, Hradec Králové, 2005; – Podané ruce sociální družstvo, Zubří, 2008; – Senza družstvo – CHD, Prostějov, 2000; – Autocamping Břeclav, družstvo, 1993; – SKI Pěnkavčí vrch, družstvo, Hradec Králové, 2008.</p>

Source: websites of the Union of Czech and Moravian Production Cooperatives (www.scmvd.cz) and selected cooperatives that are not members of the Union, especially, (<http://www.firmy.cz/detail/599262-druzstvo-lekaren-ostrava-moravska-ostrava.html>; <http://www.fontes-rerum.cz/http://www.kulturni-noviny.cz/>; (Visited on 28 February 2010)

The history of cooperatives in the Czech republic is rich and long, and as also the data from our current research suggest, the cooperative movement lives on and even brings to life many innovations, despite numerous obstacles mostly related to the lack of enabling environment in the form of state support or legislative provisions.

Notes:

¹ In 1892, *První výrobní družstvo cvočkařské* (the First cooperative of hobnail makers) was established in Věšín pod Třemšínem to become the first production cooperative in the Czech territory. It celebrated 120 hundred years of continuous operation in its present-day form as the cooperative *Kovo Věšín*. Two years later two other cooperatives were established: *První výrobní družstvo dělníků kloboučnických* (the First production cooperative of hat makers) in Prague, and the printers' cooperative *Grafika* in Plzeň. (See: M. Hunčová, *Družstva a jejich role v tržní ekonomice* (Cooperatives and their role in the Market Economy), Ústí nad Labem, AUP UJEP, 2006)

² Ibid.

³ M. Hunčová, 'Success Factors of Czech Producer and Workers' Cooperatives'. In: *Alls: Le Grande Magasin*, Kulturamt Neukölln, 2010

⁴ Ibid.

⁵ M. Hunčová, op. cit., 2006

The Cooperative Movement and Social Cooperatives in Hungary: a Historical Overview

Erika Kármán and Attila Katona

The beginnings

Cooperatives are the products of the past 150 years. In Hungary, just like elsewhere in Europe, the first cooperatives were established as a protection mechanism to tackle social and economic challenges caused by the industrial revolution in the second half of the 19th century. The first credit unions were formed. The very first of this type of cooperative was the credit union *Besztercei* founded in 1851. The first law that regulated cooperatives in Hungary was the Act XXXVII passed in 1875. It defined cooperatives as 'unions of individuals established for economic purposes'. Károly Sándor, who was the leading figure of cooperativism in Hungary, advocated for the first consumer and credit cooperatives such as *Hangya* (Hungarian Farmers' Consumer and Sales Cooperatives, 1898) which dealt with the purchase and sale of agricultural products. Cooperatives were regarded as the school of democracy. The financial interests of their members were connected to the cultural life of communities. The success of cooperatives was largely dependent on charismatic leaders.¹

Strategic principles of the *Hangya* cooperative were to shorten the path of goods and services, to keep money in its own system and by this to improve living conditions of individuals and positively impact social welfare of the region. These values and virtues were established in *Hangya* already before World War I and they helped to cope with the national trauma of Trianon, when after WWI Hungary had to cede a great proportion of its territory to Czechoslovakia and Romania and with that it lost a significant number of its population. *Hangya* was really impactful in Transylvania and 'Felvidék'² where the movement was renamed to *Hanza* and it helped to keep the cohesive strength of Hungarian communities living over the new state borders. In 1920, during Bethlen's leadership, the *Hangya* cooperative was strongly supported by the government. It was one of the most successful pooling in Hungary almost for a half a century that started from the bottom and later scaled up to almost all societal layers – it literally was present in all localities in Hungary and also in the Carpathian Basin region. In 1940 it had more than 2,000 cooperative branches and 700,000 members, 20 industrial plants and more than 400 shops. It combined production and commercial activities and provided financial services (loans). It helped its members in both villages and towns not only financially but also socially.

Situation after 1945

The *Hangya* cooperative and other powerful cooperatives in Hungary were nationalised after 1945 without any compensation.³ The emerging socialist dictatorship absorbed the well-operating cooperative movement and introduced the new co-operative law that led to forced collectivisation. During the period of socialism, cooperatives not only violated the cooperative principles of Rochdale, but also the Leninist ones. They did not follow the principles of a step-by-step growth, voluntary membership and sponsorship.⁴ By the 1960s, almost the entire agricultural sector was managed by agro-production cooperatives (*termelőszövetkezet*). Their members produced on their own land, but for the cooperatives.

Between the two World Wars, producers' marketing and sales cooperatives movement was significant. Several dairy production cooperatives, wine cooperatives, fruit and brandy sales cooperatives were active. *Hangya* was still one of the most significant cooperatives and it operated till 1949. In this period, farmers' cooperatives started to form. After World War II these cooperatives were reformed – often by force – into agricultural cooperatives and peoples' cooperatives. Under political pressures of the new regime, the government closed down the *Hangya* cooperatives, credit unions and students' cooperatives. In the same period the National Union of Cooperatives was established.

From 1949-1950, the purchasing, sales and trading activities of cooperatives were gradually weakened and rural cooperatives essentially became a state-regulated chain of retail stores. Their activities became part of a larger state commercial system that was far from what these organizations had been initially established for. These cooperatives were no longer connected to and relied on the local production, but they were organised from the outside and directly run by the Communist Party and government.

After the fall of “communism”

After the political changes at the beginning of the 1990s, new voluntary economic cooperative entities were not formed and serious technical degradation of the old facilities started to take place. Instead of family-run farms – as it was planned – capitalist entrepreneurs and small-scale producers stepped in. Large scale assets (livestock farms, dryers, storages, large machines and infrastructural facilities) could not be converted into small-scale farms and productions. The main objective of the former managers of socialist cooperatives who stepped down from their positions was to sell these assets rather than use them in their own farming.

Later, despite the crisis in the agricultural sector, bottom-up (recently called the new type) cooperatives were set up and started their operation on the basis of the classical cooperative principles. The widening of the cooperative movement is still inhibited by several factors. One of these is that farmers do not have a positive attitude and trust towards this type of operation and also that they lack key information and awareness of the advantages of cooperating with other farmers. Another obstacle of further spread of the movement is the lack of financial resources.

In Hungary, the memories about the cooperative system forced on people by the communist regime have resulted in the negative connotation that the word 'co-operative' bears nowadays. The negative undertone is connected to the whole cooperativism as a phenomenon despite the fact that around the World, and especially in Southern and Western Europe, cooperativism is a progressive, modern economic and social model that has gone through an organic and deep development process.

From the 1990s onwards, numerous world organizations such as the UN, the International Co-operative Alliance, the International Labour Organisation and the European Union have put forth recommendations and made decisions supporting the cooperative movement. Cooperatives are considered to be organisations based on values such as self-help, autonomy, cooperation, responsibility, democracy, equality and solidarity, and governments are encouraged to create an appropriate regulatory environment for their development and operation.

More recently, public bodies have recognised the employment-related goals of cooperatives and also their added value to the economy, therefore they have provided necessary legal conditions and various subsidies that are fundamental to cooperatives' development. This was also the result of the pressure of international organizations as well as of the need to develop social economy. A number of measures and structures have been implemented because of the effort of the European Commission that widely disseminated the grass-root based Italian social cooperative model.⁵ In 2004, the European Commission called the attention of its member counties – including Hungary – to modernize the laws on cooperativism and create a supportive environment.

Social cooperatives

Social cooperatives have a special place among other types of cooperatives as they are organised to create employment possibilities and necessary working conditions for their members with social disadvantages and by this improve their social situations and welfare.

The Act X of 2006 about cooperatives was a significant milestone in the history of this form of cooperative organisations as it introduced the concept of social cooperatives. Until 2013, the participation in any activity of a cooperative had to be based on employment, entrepreneurship contract or individual work contract. After the new regulation in certain cases the membership in the cooperative was sufficient to take part in its economic activity.

Social cooperatives satisfy the needs of local communities, create alternative economic cooperation, operate as community driven alternative businesses, and work towards the integration of disadvantaged people. Specific forms of social cooperatives are school cooperatives and employment cooperatives.

- 1.** Social cooperatives that provide employment integration to disadvantaged groups in the labour market: The proposed composition of membership of this type of cooperatives is 70% of members with a stable financial and social background and 30% of the members who are socially disadvantaged and are planned to be integrated.
- 2.** Social cooperatives that satisfy the needs of the local community: This type of cooperatives takes into account the interests of the local community and social economy and prefers local solutions. Cooperatives of this type are designed on the basis of local conditions and activities.
- 3.** Social cooperatives operating as community-run enterprises: This type of cooperatives is founded by members of the community who find cooperative principles important and base their business model on alternative forms of economic cooperation and sustainable development.
- 4.** School cooperatives: This type of cooperatives operates under special rules. It supports full-time students helping them find employment. To form this type of cooperatives, founding members of the educational institution are required to take part.
- 5.** Employment cooperatives that have at least 500 individuals and at least one person who is also a member of the national/ethnic minority self-government.⁶ This type of cooperatives provides services to their members such as improving their value on the labour market and providing temporary employment.

International experiences and practice clearly show that support programs are essential for the start and sustainable operation of social cooperatives, especially if they work in the framework of the for-profit sector like in Hungary. There are good examples that when it is thoughtfully done (Italy, Spain, France, Belgium, UK, etc.)

there is a significant multiplication effect. Evolving organisations operate well at the small community level, improve the employment rate and local performance. Instead of burdening the state budget, they contribute to it with their tax revenue and increase the national GDP.⁷

In Hungary, several support programmes were introduced after 2006 when the law about cooperatives came into force. The National Employment Foundation (*OFA*) announced a grant scheme for the period of 2007-2009 named *Cooperate 2007!* The aim of this support programme was creation of social cooperatives and their long-term operation. As a result, after a selection process 36 social cooperatives were supported (out of 444 applications) and started its operation on a trial basis from 2008.⁸

The next wave of public support was, unlike the *OFA* scheme, aimed at the already officially registered social cooperatives. The *TÁMOP 2.4.3.B-2-10/1.2* programme co-financed by the European Union provided 20 and 50 million Hungarian forints to support atypical forms of employment. As a result of this call, hundreds of social cooperatives were registered but only 57 of them got financial support. Related to this support program, a new application process started entitled *TÁMOP 2.4.3.B-1-09/1* or *Co-operation*. This program was aimed to create a country-wide network of professional support to social cooperatives between 2010 and 2011. The program funded events for knowledge and experience sharing, professional trainings, site visits, different workshops and forums and leadership development. The previous period (2007 to 2009) provided sufficient amount of experiences for this work. The program also supported online consultancy, networking, electronic professional and methodological publications and community development materials.⁹

Under the first two support schemes (*Cooperate and Co-operation*) a total of nearly three billion Hungarian forints of state resources were used. In the same time period, the *OFA* also made a promotional campaign for social cooperatives as a result of which nearly 250 of new social cooperatives were established by 2011.

In the meantime, a number of other independent professional networks also began to support social cooperatives, such as the *Swiss-Hungarian Civic Fund*. Its application call was for social cooperatives that were in operation for at least 2 years in Northern Hungary and the Northern Great Plains regions with the aim to further develop these cooperatives.¹⁰ *NESsT* (an international social business support organization) opened its social entrepreneurship support program for social cooperatives as well.

Social cooperatives as an alternative social business form has been becoming a more desired and popular way of entrepreneurship, partially as a result of the

Hungarian and the EU support systems, but also as an opportunity to address the needs of communities – even if it is just a first part of a lengthy process. Considering the social and environmental changes of the past years, these local community cooperative organisations show resilient and long-term solutions of the unseen and challenging local and global crisis. Social cooperatives could play a significant role in the future economic processes both in Hungary and European countries.¹¹

Notes:

¹ A. I. Petheő, Z. Győri, B. Németh, N. Fekete, F. Simon, *A szociális szövetkezetek működési modelljének kidolgozása a foglalkoztatás elősegítése érdekében*, (Promoting Employment – Carrying Out the Operational Model of Social Cooperatives), Budapesti Vállalkozásfejlesztési Kutató Intézet, Budapest, 2010 http://amikonyhank.files.wordpress.com/2011/10/foglalkoztatás_elosegitese.pdf (Accessed on May 7, 2014)

² *Felvidék* (Upper Hungary) is the Hungarian term for the area that was historically the northern part of the Kingdom of Hungary, now mostly present-day Slovakia.

³ L. Németh, *Szociális szövetkezetek: Magyarország helyzetkép* (An Overview of Social Cooperatives in Hungary), Szekszárd, 2012 http://igyk.pte.hu/files/tiny_mce/File/kari_projektek/european_manager/Nemeth%20aszlo%20-%20Szocsozov%20Mo%20helyzetkep%202012_Szekszard.pdf (Accessed April, 27, 2014)

⁴ A. Petheő et al., op. cit.

⁵ J. Simkó János, O. Tarjányi, *A szociális szövetkezetek és a támogatásukat célzó programok vizsgálata. Összefoglalás és javaslatok* (Examination of Supporting Programmes of Social Cooperatives), 2011

http://www.szocialisgazdasag.hu/uploads//pdf/szocsozovkutatasitanulmany_osszefoglalo.pdf (Accessed on: May 11, 2014)

⁶ The national or ethnic minorities self-governments such as the Germans, Bulgarians, Slovaks or Roma

⁷ J. Simko, O. Tarjányi, op. cit.

⁸ J. Simko, O. Tarjányi, op. cit.

⁹ J. Simko, O. Tarjányi, op. cit.

¹⁰ S. Máté: *A szociális szövetkezetek működésének tapasztalatai, pályázati lehetőségek* (Operational Results and Supporting Systems of Social Cooperatives) X. Hungarian Transi-employment Conference: X. Országos Tranzitfoglalkoztatási Konferencia „A civil szervezetek szerepe a munkaerő-piacon hátrányos helyzetű emberek képzésében”, Debrecen, 2012 http://www.orszagostranzit.hu/doc/kiadvanyok/X_OTE_konferencia/Mate_Szilvia_-_A_szocialis_szovetkezetek_mukodesenek_tapasztalatai_palyazati_lehetosegek.pdf (Accessed May, 11, 2014)

¹¹ Additional resources on social cooperatives in Hungary:

Publications:

Review of Hungarian social entrepreneurship, Nesst Handouts Series 2012, Authors: Laura, Tóth, Éva Varga, Péter Varga, Nicola Etchart. Budapest, 2012

A. I. Petheő, *A vállalati társadalmi felelősségen túl: a szociális vállalkozás* (Beyond Corporate Responsibility: Social Entrepreneurship), PhD dissertation, Budapesti Corvinus Egyetem, Budapest, 2009. http://phd.lib.uni-corvinus.hu/398/1/petheo_attila.pdf

P. Péntek, *A társadalmi vállalkozások hatásmérésének gyakorlata Magyarországon* (Measuring Impact of Social Entrepreneurships in Hungary), Budapest Corvinus Egyetem, Budapest, 2013

Websites

Social economy in Hungary <http://archiv.szocialisgazdasag.hu/cimoldal.html>
NESST www.nesst.org/mission

Research Institute of Cooperatives www.szovetkezetikutato.hu

National Alliance of Social Cooperatives www.szocsozov.hu

An Overview of the History of the Cooperative Movement in Poland

Dominika Potkańska

The history of the cooperative movement in Poland goes back to the middle of the 19th century. Poland was torn and divided between three imperial powers of Russia, Germany and Austria. The Polish nation was deprived of its independent national existence and subjected to political and social oppression in the three parts of the partitioned country.¹ This was the time period when the cooperative ideas reached the Polish territory. They became the foundation for organising economic self-defence and mutual aid among the Polish population, and the cooperative idea became, with time, a very important factor in the defence against national and social oppression.²

In Poland, Stanisław Staszic (1755-1826) is regarded as the father of the cooperative movement – an outstanding scholar, and at the same time one of the greatest reformist minds and social and political activists of his time. Throughout his entire life, he fought for progressive social reforms. He was particularly adamant in his struggle for freeing peasants from serfdom. To this end, in 1811 he purchased some land referred to as the *Hrubieszów* estate. He then divided this land among 329 peasants. The area of land which each of them received could not exceed 60 morgens.³ The beneficiaries became members of the *Hrubieszów Agricultural Society to Offer Mutual Help in Misery*, created by Staszic. They also had to pay 2 zlotys from a morgen for common purposes. All members had to pay taxes jointly and help one another in case of a disaster. The Society also founded the first loan fund and organised educational activities. It was the first mature self-help organisation of peasants in the Polish territory.

The cooperative movement in the Prussian partition

The Prussian partition, where political and economic conditions were particularly difficult, was the area where the true cooperative movement was the earliest to develop anywhere in the Polish lands. In the Poznań province and in Pomerania the first cooperatives were formed in the years 1861 - 1865. They accompanied farmers' associations, established and managed by large landowners. At that time, farmers' associations played an important role in promoting agricultural

education in rural areas, teaching peasants new approaches to land cultivation and livestock farming, and, at the same time, initiating establishment of the first agricultural and trading/marketing cooperatives.

The first loan and dairy cooperatives were also formed alongside the mentioned farmers' associations. The Union of Profit Earning and Economic Societies played a major role in the development of popular banks, its role included promoting the cooperative idea in rural and urban areas, experience sharing among the already existing cooperatives, granting loans as well as facilitating currency circulation among cooperatives and publishing cooperative magazines. However, the scarce resources of the cooperative credit unions made it impossible to develop any wider credit activity. Only when in 1885 the Bank of the Union of Profit Earning Societies was formed, new, better prospects emerged for the development of the cooperative movement and the credit assistance for farmers.⁴ Thanks to the activity of the Societies' bank and the Union itself, the entire credit system functioned very well, and the financial resources were transferred where they were particularly needed.

In the Prussian partition also consumers' and savings and loan cooperatives were formed. The first workers' cooperatives in the Polish territory were also formed in the Poznań province.

The cooperative movement in the Austrian partition

The cooperative movement in the Austrian partition began to develop in 1880s and 1890s. Three types of cooperatives emerged and became popular there: credit, agricultural-trading and dairy cooperatives. Later, also in cities, consumers' cooperatives developed. The lack of assistance on the part of the partitioning government to crafts, industry and agriculture created the need for cooperation and self-defence. Lviv and Cracow were the main centres in this partition. It was there that the first books and booklets promoting the cooperative movement were published. Already in the 1860s, various social enterprises operated there, such as: credit unions, workers' cooperatives, farmers' associations or consumers' cooperatives, however the best known in Galicia were the "kasy Stefczyka" - Stefczyk credit unions, named after their founder, Franciszek Stefczyk.⁵ He was a philosopher and historian by education, and he taught history, the German language and economic subjects at the National Secondary Agricultural School at Czernichów near Cracow. At the turn of 1889 and 1890, he established the first credit union based on the Raiffeisen model in Czernichów. He also formed

agricultural-trading cooperatives, and promoted the dairy cooperative movement. Agricultural production cooperatives were formed in Galicia only after 1905, and they developed more widely after 1909. They focused on supply and sales. Dairy cooperatives, following Danish models, were also developed. In 1912, there were 73 dairy cooperatives, counting approximately 14 thousand members.

The cooperative movement in the Russian partition

The cooperative movement in the Russian partition - the "Congress" Kingdom of Poland - developed relatively early, because as early as in 1864 the first consumers' association *Mercury* was formed in Warsaw. At that time, political conditions made it difficult to form associations, as the partitioning government perceived them as dangerous to the State.

A more wider development of the cooperative movement in the territory of the "Congress" Kingdom of Poland took place after 1905 - 1907, i.e. only after the revolution. The revolution, even though crashed by the tsar, brought certain achievements, which included the possibility to form associations for cultural and educational purposes. The post-revolution period also saw the re-birth of the earlier social and political movement aimed at organic, i.e. cultural and educational as well as economic work. Domestic industry, craft, development of science and agriculture were promoted. Some supporters of this movement became promoters of the formation of cooperative associations, particularly in large industrial centres. One of such promoters and founders of the cooperative movement was Edward Abramowski (1868-1918) who in 1906 founded *Towarzystwo Kooperatystów* (the Society of Supporters of Cooperativism). At that time, several dozens of consumer cooperatives had already been formed. Since the movement was fragmented, it required swift unification, as well as organisational, economic and financial assistance and the central level supply and audit organization. Those tasks were performed by *Towarzystwo Kooperatystów*, whose aim was to promote the idea and the practice of cooperation in the Polish society.⁶ *Towarzystwo* provided guidance, legal advice, by-laws templates and instruction to the members and management boards of cooperative associations. It also organised talks, lectures on consumers' and agricultural cooperatives as well as trade cooperatives or credit unions. It published the magazine *Spółem* (Jointly), whose name had been suggested by Stefan Żeromski.⁷ In 1911, the Union of Consumers' Associations was formed. Apart from consumer cooperatives, also other types of cooperatives developed in the territory of the "Congress" Kingdom of Poland after 1906, mainly credit, dairy and production cooperatives.

The cooperative movement during the 20-year inter-war period

The inter-war period was very good for the cooperative movement. A number of factors contributed to this fact: sensitivity to social needs, activity of a number of committed activists, but first of all, on the 29th of October 1920 the adoption of the Act on Cooperatives considered, at that time, to be one of the best and the most modern legal regulations concerning cooperatives in Europe. In order to better pursue their goals, cooperatives formed associations of various sectors, which were, to some extent, a continuation of such organisations from the partitions period. The highest body of the whole cooperative movement became the State Cooperative Council – an institution of a specific cooperative-government character. There was also the Cooperative Scientific Institute. Cooperative education thrived, cooperative press was published. It is estimated that before the outbreak of the World War II, every fifth citizen of Poland was a member of some cooperative. In the retail trade sector the share of cooperatives reached 5%, in the area of procurement of agricultural produce it was up to 12%, whereas 20% of savings deposits were placed in cooperative banks and credit unions. Housing cooperatives gave shape the newly built districts of cities (e.g. Żoliborz or Ochota in Warsaw) and often, as was the case of the Warsaw WSM, carried out an ambitious social programme. Polish activists played an active role in the International Cooperative Alliance, taking part, for instance, in developing the Cooperative Principles adopted by the Paris Congress of the Alliance in 1937.

During the inter-war period, agricultural-trading cooperatives, consumers' cooperatives and housing cooperatives thrived. The loan granting operations of savings and loan cooperatives were revived, craft cooperatives were formed, along with workers', home production, publishing and healthcare cooperatives. The fact that deserves mentioning is the emergence, at that time, of cooperative folk houses, the *Journalists' Cooperative*, the workers' *Cooperative of Stage Artists* or the tourist-recreational cooperative *Gromada* formed in 1937.

The Second World War put a stop to this rapid development and brought huge losses to the economic potential and human resources of cooperatives. However, a lot of them continued their activity, often cooperating with the Polish independence underground movement.

The occupation forces completely liquidated the Polish cooperative movement in the areas incorporated into the Reich, whereas in the area under the General Government cooperatives played the role of an economic and trade apparatus. They were burdened with the duty to collect quotas of agricultural production and distribute rationed goods. Cooperative associations were subjected to the super-

vision of German commissioners and local administration. Yet, efforts were made to enable the best possible supply of goods, including those goods which were not officially allowed to be a subject of free trade. The cooperative movement also helped the resistance movement and conducted broad educational activity via courses and seminars.

The cooperative movement during the period of the People's Republic of Poland

After 1945, the conditions of operation for cooperatives changed radically, the cooperative movement was completely subordinated to the State. Within several years after the War, the cooperative movement was subjected to processes imposed from above: statism, centralisation and bureaucratisation, monopolisation of certain spheres of social and economic life was forced on the movement (housing, retail trade, farmers' supplies and procurement of agricultural produce); furthermore, at the turn of 1940s and 1950s, it was made part of the attempts at forced collectivisation of agriculture (through collective farms). All that was the reason that, in spite of the unprecedented development of its economic potential (its share in the GDP at the end of 1980s reached 12%), the cooperative movement lost its autonomous and social character, its members lost control over what happened in their cooperatives, most of them stopped identifying with the cooperatives, treating them as an element of the Communist Party and state apparatus. During the era of the Polish People's Republic, the idea of the cooperative movement was distorted, which negatively impacted the perception of the cooperative movement after the political transformation of 1989.

It is also worth adding that an important moment in the history of the Polish cooperative movement was the adoption, on the 16th of September 1982, of the Cooperative Act, which was in force since then. Since the moment of its adoption, the Act was amended more than 40 times, which was caused by the need to implement changes resulting from the transformation of the social and economic system in Poland.

At the beginning of the 1990s, a rapid restructuring of the cooperative system took place in Poland. In 1990, the law regulating the organisation and operation of cooperatives came into force, which liquidated all centralised cooperative unions. Individual cooperative sectors formed their cooperative unions afresh. In 1991, cooperatives grouped in this sector, during a founding congress in Warsaw, decided to form the Polish National Union of Consumers' Cooperatives *Spotem*, which took over the assets of the liquidated Union of Consumers' Cooperatives in Warsaw.

The cooperative movement today

At present, the Polish cooperative sector consists of more than 17 thousands cooperatives registered in the REGON system. According to calculations of the National Cooperative Council, almost 9 thousand of them are economically active. They group over 8 million members and give work to about 400,000 employees, including 265,900 in cooperatives employing 10 persons or more.⁸ It is an extremely diversified sector. The majority of cooperatives operating today were established before 1989 (62%). According to the REGON, in the years 2006 - 2012, the number of registered cooperatives fell from 18,200 to 17,153.⁹ The production cooperative sector consists of traditional workers' cooperatives, disabled and visually impaired people cooperatives, the folk arts and crafts cooperative *Cepelia* and social cooperatives (discussed below). According to the data as of the 1st of March 2012 there were 648 active workers' cooperatives, 224 disabled and visually impaired people cooperatives and 9 folk handicraft cooperatives, which amounts to the total number of 881 active economic entities.¹⁰ The majority of workers' cooperatives are united in the National Auditing Union of Workers' Cooperatives (over 200 entities), whereas the second largest union in this sector is the Cooperative Audit Union *Wspólnota Pracy*, which unites 84 cooperatives. The Auditing Union *Cepelia* groups 18 cooperatives, the Association of the Polish Craft states that there are 168 cooperatives in its own structures and in the structures of the craft chambers.¹¹ The cooperatives associated with the employment-promoting function give work to approx. 60 thousand people, including 45 thousand cooperative members.¹² An interesting form within the cooperative sector is student cooperatives. The statistical data of the Foundation for the Development of Student Cooperatives indicate the existence of as many as 5 thousand such entities, although there is still a lack of accurate data. Student cooperatives, often operating under the aegis of cooperative banks, workers' cooperatives or the consumers' cooperative *Spotem*, constitute a practical form of shaping entrepreneurial attitudes among students and, what is more, socially responsible attitudes.

Supporting this sector is particularly important because of the positive role that cooperatives play in providing employment to people who have problems on the open labour market. The percentage of disabled persons in the total number of those employed in cooperatives is 3-times higher than in the entire national economy (11.6% compared to 3.6%). Women constitute 59% among those employed in cooperatives (14 percentage points more, compared to the percentage of employed women in the whole national economy). Cooperatives provide long-term employment to retirement age persons (53% to 36%), they also employ more people with lower education (78% compared to 68.3%).¹³ This data is crucial in the context of increasing the retirement age, as well as because of the fact that if a cooperative is closed down, it is the people most threatened with exclusion who will find themselves on the labour market.

The main present-day barriers to the development of cooperatives

In 2006, the Central Statistical Office carried out a survey about barriers hampering the proper operation and development of cooperatives, as seen by cooperative members. They collected data from 233 respondents. The largest percentage of respondents (37%) pointed out problems with reduced demand for products and services provided by cooperatives. They pointed to, among other, the following problems:

- too great competition, especially in the context of the inflow of cheap goods from foreign countries, mainly from Asia (22% of replies);
- the lack of or limited markets for products and services offered by the cooperative (7%);
- development of supermarkets (5%);
- weak purchasing power, poverty in the region, in which the cooperative operates (3%);
- overestimating the value of zloty towards the euro and the dollar, making it difficult to develop production and export.

Another group of barriers listed by representatives of cooperatives was related to negative consequences of public authorities' failure to act (34%). The respondents indicated the following:

- poor, unstable legislation (10%);
- excessive burden of employment-related taxes (7%);
- excessive tax and fees burden imposed on small and medium enterprises, including cooperatives (5%);
- limited preferences, deductions and subsidies for cooperatives, lack of government support (4%);
- difficulties in accessing EU funds (3%);
- unofficial sector of labour and services market (2%);
- overvalued zloty (2%);
- unclear situation regarding real property ownership (1%).

The third group of problems hampering the development of cooperatives, according to the respondents include the following:

- high production costs, including the cost of raw materials (6%);
- insufficient support with regard to loans, investment capabilities (9%);
- lack of skilled workers (3%);
- financial gridlocks, lack of liquidity (3%);
- bad situation in the sector (1%).

Social cooperatives

The best known new types of cooperatives operating in Poland are social cooperatives. These enterprises operate on the basis of the 2006 Act on Social Cooperatives, which indicates that their main objective is to bring people threatened with social exclusion and low chances of employment back to the labour market and to enable unemployed people to become vocationally active by running a common enterprise. Thus a new type of legal entity has been created, whose main objective is not only to conduct business activities, but also activities promoting social and employment reintegration of members of the cooperative.

According to the data provided by the Polish National Union of Social Cooperatives, at the end of 2012 there were 601 cooperatives of this type registered at the National Court Register; at the end of 2013 it was over 850, whereas at the end of the 1st quarter of 2014 more than one thousand social cooperatives were already registered. It is, however, hard to determine, how many of them are indeed active. Findings from research studies show that some of the cooperatives ceased their operations, even though formally they have not been removed from the register.¹⁴ According to studies from 2010, 83% of social cooperatives covered by the studies were formed by unemployed people, and in 38,4% there was at least one disabled person. In 2010, among the surveyed cooperatives, small entities with 5 to 9 members definitely prevailed. Only 10% of cooperatives had 10 or more members. Over 1/3 of the surveyed cooperatives employed additional workers who were not members of the cooperative.

The cooperative is a form of ownership which has historically existed for more than a hundred years, not only in Poland, but also in other countries of the world. Although nowadays it may differ from its original form, its significance remains the same. On the one hand, after 1989 cooperatives have been perceived as regular enterprises which should aspire to make long-term profits, on the other hand, however, they are entities which provide to their employee something more than just wages. Their obligations, arising from their by-laws, distinguish them from capitalist enterprises of the 21st century. People do not form cooperatives in order to grow rich, but in order to defend against poverty. For members of cooperatives, the response seems obvious: it cannot be just another commercial enterprise. If it they were supposed to be one, there would be no need to call it a cooperative – Commercial Code and free market rules would be sufficient. In the discussion on the sustainability of this formula in the new economic reality, an opinion prevails that as long as cooperatives manage to remain competitive in a given economic sector, there are no obstacles to their stable operation. What is more, forecasts predict that a lot of those that survive the economic crisis will be able to attain the positions of industry leaders, setting the pace for innovation and development.

Through their specific system of operation, cooperatives provide diversity to the economic system, enhance the market and contribute to its balanced functioning. The cooperative formula has a lot of advantages which, under certain circumstances, may become extremely helpful for society.

Notes:

¹ F. Stefczyk, *Początki i ogólne warunki rozwoju spółdzielczości w Polsce* (Beginnings and General Conditions for the Development of Cooperatives in Poland), Krakow, 1925, p.9

² J. Gójski, L. Marshal, *Spółdzielczość. Zarys rozwoju historycznego* (Co-operatives. The Outline of the Historical Development) Warsaw, 1968, p. 38

³ A morgen was a unit of measurement of land area in Germany, the Netherlands, Poland and the Dutch colonies. See: <http://en.wikipedia.org/wiki/Morgen>

⁴ A. Galos, 'Zarys dziejów polskiego ruchu spółdzielczego w zaborze pruskim' (Outline of the History of the Polish Cooperative Movement in the Prussian Partition) In: *Zarys dziejów polskiej spółdzielczości do 1918 roku* (Outline of the History of Polish of the Cooperative Movement until 1918), Warsaw, 1971, p. 163

⁵ F. Stefczyk, *Początki i ogólne warunki rozwoju spółdzielczości w Polsce* (Beginnings and general Conditions for the Development of Cooperatives in Poland), Krakow, 1925, pp. 27-29.

⁶ Z. Chyra-Rolicz, 'Towarzystwo Kooperatystów a rozwój polskiego ruchu' (The Society of Supporters of Cooperativism and the Development of the Polish Cooperative Movement), *Cooperative Science Quarterly*, No. 4, 1989, pp. 72-80

⁷ S. Piechowicz, *Związek Robotniczych Stowarzyszeń Spółdzielczych* (Association of Workers' Cooperative Associations), Warsaw, 1963, pp. 9-11

⁸ *Polish Statistical Yearbook 2012*, GUS, Warsaw 2012, p. 228

⁹ *Structural changes of groups of entities of the national economy in the REGON 2012*, Warsaw 2013, p. 37

¹⁰ *Proceedings of the V. Congress of Cooperatives*, the National Council of Cooperatives, Warsaw 27-28th of November 2012. p. 55

¹¹ Data based on <http://www.zrp.pl>

¹² *Report on Polish cooperatives*. Document approved by the Interministerial Team on the 19th of January 2010

¹³ Ibid.

¹⁴ J. Kobielska, 'Image of social cooperatives in the light of studies carried out in the framework of the project Wykluczenie społeczne: diagnoza i mechanizmy przeciwdziałania w województwie wielkopolskim' (Social Exclusion: Diagnosis and Counteracting Mechanisms in Wielkopolska Region), In: *Spółdzielnie społeczne. Skuteczny mechanizm walki z wykluczeniem społecznym czy ślepa uliczka?* (Social Cooperatives. An Effective Mechanism for Combating Social Exclusion or a Dead End?), collective of authors edited by Jack Tittenbrun, Poznan, 2010, p. 84, <http://www.wykluczenie.spoldzielnie.org>

An Overview of the History of Cooperativism in Slovakia

Martin Jankovič in collaboration with Peter Vittek and Eva Riečanská

The first pioneers

Predecessors of cooperatives in Slovakia were various artisans' and trade guilds and fraternities with their long history since the Medieval times. Ideas related to democratically run economic organizations were being promoted by the Slovak intelligentsia from the beginning of the 19th century. The first real cooperative was established in 1845 in the village of Sobotišťe in Western Slovakia by Samuel Jurkovič – seen as the key figure of the history of cooperativism in Slovakia. The cooperative *Spolok Gazdovský v Sobotišťi* was conceived as a credit union with the main aim to provide financial services to smallholder farmers and artisans. The cooperative was founded only a few months after the establishment of the first modern cooperative in Rochdale¹ (England) and hence it was historically the first credit union in continental Europe. The cooperative, which first started solely as a financial institution, gradually focused also on other needs of its members – the economic principles were coupled with ethical ones, especially with the ideas of mutual help and frugality. The cooperative also supported cultural and educational needs of its members. The membership fee was 30 silver kreutzers and the members were also obligated to pay a contribution of 3 groschen per week. When the organization reached 60 members, they stated to elect their representatives: the chairman, treasurer and accountants. The membership was voluntary and each member had the right to leave the cooperative and entitled to get his membership share. A member could be expelled from the cooperative if he breached the by-laws or did not uphold certain moral standards of conduct. The cooperative lasted for planned six years. However, the situation after the revolution in 1848 and the onset of Bach's absolutism² in the Austrian Empire (of which Slovakia was a part) eventually led to its dissolution. Inspired by the first credit cooperative, similar cooperatives started in other Slovak towns – e.g. in 1845 in nearby Vrbovce and shortly after it also in Myjava and Brezová pod Bradlom. Subsequently, several farmers' credit cooperatives were established also in Central Slovakia, but many of them soon ceased to exist.³ This decline in cooperatives was the consequence of Bach's absolutism that curtailed voluntary organizing, which negatively impacted also cooperative organizations.⁴

The 1870s and 1880s brought about a significant development of co-operatives – especially due to the efforts of Daniel Lichard who for artisans, smallholders and other less well-to-do people fostered the establishment of savings and credit cooperatives, at that time called *vzájomné pomocnice* (mutual help unions). They were founded in many towns and promoted by many well-know public personalities and intellectuals of that period (such as Ján Francisci-Rimavský, Viliam Paulíny-Tóth, Jozef Boor, Pavel Mudroň and others). In 1868 the first consumers' cooperative *Potravný spolok vo Veľkej Revúci* was initiated by Samuel Orbis. The organization's mission was to provide to its members foodstuffs for good prices.⁵ It was the first legal consumers' cooperative in the then Hungary⁶ and its example was emulated by cooperatives elsewhere in Slovakia, Budapest and the Slovak enclave in southern Hungary and part of present-day Serbia.

However, the Hungarian legislation of the period was still lacking a law to regulate cooperatives. This gap was filled by the Legal Article No. XXXVII from the year 1875 on commercial law that came into force on the 1st of January 1876. This Article in sections 223-257 enabled the establishment of credit, food, production and insurance cooperatives. In the territory of Slovakia, the sections 223-257 were with small amendments in force until the 1st of January 1955.⁷

Another personality of this period of the history of the Slovak cooperative movement was Ján Liub who promoted the establishment of agricultural production cooperatives. He founded the first one of this kind in the then Hungary together with A.H. Škultéty in the village of Kraskov in Central Slovakia⁸. The cooperative farmed on 140 hectares of land and it significantly revived the local life. Despite the fact that the cooperative was successful, it had not further successor.⁹

The period from the 1890s until the beginning of World War I was marked by a difficult economic situation combined with political repressions. Especially life in the countryside was harsh and many people emigrated abroad. Still, however, recollections about successful cooperatives from the past were present in the collective memory and stories about active cooperatives kept arriving from other countries.¹⁰ After a period of stagnation, cooperativism was revitalized through so called “tri-purpose” cooperatives when the first coop of this kind was established by Ján Vansa in 1893 in Hačava under the name *Pílansko-háčavský hospodársky, potravný a úverný spolok*. The cooperative focused on purchasing and selling various commodities to its members for bargain prices, accepting money deposits and providing loans. These types of cooperatives were popular in the Liptov and Gemer regions of Central Slovakia.

In Western Slovakia, cooperativism was revived thanks to the efforts of Dr. Ľudovít Blaho and Ľudovít Okánik who in 1897 founded in Skalica the agricultural cooperative *Gazdovsko-potravný spolok*. They also helped to establish a number of other cooperatives specialised in farmers' production such as dairy farmers' cooperatives or livestock insurance coops.¹¹ From 1906, these cooperatives organized farmers' congresses, discussions and exhibits. The congresses featured the rich cultural programme with theatre shows and concerts.¹² *Fin de siècle* was the period when also other production cooperatives came into existence and flourished – such as cooperatives of basket weavers, toymakers or cooperative distilleries.¹³

Revival of the cooperative movement led to the establishment of umbrella organizations: in Budapest in 1898 the Central Office of Food Cooperatives (*HANGYA*) was founded to which cooperatives in 260 Slovak towns belonged. One year later, the Central Office of Credit Cooperatives (*OKH*) was founded under which also Slovak farmers' cooperatives were organized. In 1914 about 125 belonged under this organization. Initiated by Dr. Milan Hodža, the Central Cooperative for Economy and Commerce (*Ústredné družstvo pre hospodárstvo a obchod*) was founded in 1912 in Budapest.¹⁴ Its mission was to collaborate with all Slovak cooperatives, and provide them economic aid, low-interest loans as well as support the establishment of new cooperatives. Its affiliated Publishing Cooperative published educational books and the magazine *Hospodársky obzor* (Economic Horizon). However, further development of the organization was interrupted by WWI.

The period of interwar Czechoslovakia - the 'golden era of Slovak cooperatives'

After the break-up of Austria-Hungary at the end of WWI., Slovak cooperatives faced a new situation. The two former central offices of cooperatives *HANGYA* and *OKH* in Budapest owed to Slovak cooperatives more than 35 millions crowns, which made the survival of these cooperatives difficult and many were saved only thanks to the state financial aid.¹⁵ In 1919 a new central organization – the Central Cooperative (*Ústredné družstvo*) – was founded in Bratislava, yet it was unable to prevent the demise of a number of production and insurance cooperatives.¹⁶ According to new rules, no cooperative could do business without a special licence and if a cooperative did not comply with this decree it was dissolved.¹⁷

In the interwar period, the cooperative movement in Slovakia flourished. In 1918, there were 1,146 cooperatives, among which the most numerous were food

cooperatives – in 1918 there were 595 of them, one year later their number rose to 742 with 122,000 members.¹⁸ Nevertheless, Slovak cooperatives were still lagging behind Western Europe especially in the number of credit unions, but from the year 1923, the situation started to generally improve. This was in part due to changes in the leadership of the Central Cooperative, and also due to the support on the part of the minister of agriculture Milan Hodža who promoted establishment of cooperatives and played an active role in advocating new legislation. An important development was the establishment of the Association of Farmers' Mutual Credit Unions (*Zväz roľníckych vzájomných pokladníc*) in 1924 that was based on new legislative amendments. Also the Central Cooperative was reorganised and became a financial institution.¹⁹ Until the year 1928, 357 credit cooperatives were established in Slovakia.²⁰

The onset of the Great Depression at the end of the 1920s had a negative impact on economic and social situation in Slovakia. More than one half of the population worked in agriculture and their interest in cooperativism increased. In the 1930s the number of food, production, housing and other cooperatives went rapidly up. Due to the rising number of food cooperatives, the Central Procurement Office of Food Cooperatives (*Nákupná ústredňa potravných družstiev*) was established in 1934 in Bratislava. From 1919 until 1936 the number of cooperatives doubled and especially in the 1930s their membership rose. At the end of the year 1937 Slovakia had 2,044 cooperatives with 515,000 members. For instance, activities of agricultural cooperatives reached about one half of the population of Slovakia.²¹ The Central Cooperative continued in its publishing activities and besides specialized literature it also published the magazine *Hospodársky obzor* (Economic Horizon) with supplements *Roľnícke noviny* (Farmers' Newspaper) and *Hospodársky kalendár* (Economic Calendar).

The period of the wartime Slovak state and WWII

After the Vienna Arbitration Award²² in 1938, Slovakia lost more than one fourth of cooperatives of various types and more than a million hectares of agricultural land. The year 1939 meant the end of the 'golden era of Slovak cooperatives' during which the principles of democratic governance and autonomy of cooperatives were upheld. The new regime of the Slovak state that was created after the forcible split of Czechoslovakia recognised the importance of cooperatives for the national economy. Hence, their activities had to adjust to its needs and were subject to centralisation of the non-democratic, totalitarian wartime regime. All cooperatives had to belong under some central office and undergo a mandatory revision. If a cooperative refused to comply with these rules it might have been

closed down.²³ Thus the state through central cooperative offices gained unprecedented political control over cooperatives. Especially the ruling Hlinka People's Party (*Hlinkova ľudová strana*) strengthened its influence upon agricultural cooperatives and forced them to succumb to its policy. For instance, from 1941 the Slovak Agricultural Association (*Slovenské poľnohospodárske združenie*) made membership in a cooperative mandatory for everyone working in agriculture.²⁴

This decree violated the principle of voluntary membership in cooperatives which is one of the main features of a democratic cooperative movement. Nevertheless, the number of cooperatives increased despite the lack of autonomy and democratic governance, which can be explained by a heightened need of self-help among people due to the war times. In Slovakia in 1945 there were 2,596 various types of cooperatives registered under the office of the Central Cooperative that together had about 750,000 members.²⁵ Cooperatives played an important role also during the antifascist Slovak National Uprising – especially the regional office of the Association of Economic Cooperatives (*Zväz hospodárskych družstiev*) in Banská Bystrica that purchased various goods and dispatched them directly to the antifascist resistance fighters. For these activities, many members of cooperatives were executed or arrested and deported to concentration camps.

Slovak cooperativism in “communist” Czechoslovakia (1948-1989)

The post-war situation created new opportunities for the development of family cooperatives, also the need to reorganize farmers' cooperatives increased especially after southern regions of Slovakia, annexed by Hungary, were returned to re-established Czechoslovakia. In the areas afflicted by the War it was necessary to swiftly restore the economy as well as democratic principles of the operation of cooperatives. Cooperative central offices were re-established too and the Association of Economic Cooperatives got the preferential right to purchase all agricultural products. In 1945, on the basis of president Beneš Decrees many cooperatives located in Czechoslovak territories inhabited by Germans and Hungarians were confiscated and nationalised.²⁶ Financial institutions, including cooperatives, were negatively affected by the presidential decree about nationalisation of banks and by limitations related to the programme of the new communist cabinet led by Klement Gottwald.²⁷

Slovak cooperatives were able to withstand attempts at centralization and monopolisation until February 1948 when the new central financial institution People's Financial Centre (*Ľudové peňažné ústredie*) was established in Bratislava which

controlled all important associations of cooperatives such as the Central Cooperative (*Ústredné družstvo*), the Association of Farmers' Mutual Credit Unions (*Zväz roľníckych vzájomných pokladníc*) and the Association of Credit Unions of Small Business Owners (*Živnozväz*). In April 1949, also the Post Savings Bank (*Poštová sporiteľňa*) that was the main financial institution serving the public at large merged with the People's Financial Centre (*Ľudové peňažné ústredie*). This way, the nationalisation of all financial institutions was finished and after more than a hundreds years from the establishment of the first credit cooperative by Samuel Jurkovič credit unions in Slovakia ceased to exist.²⁸ Farmer and food cooperatives lost their autonomy when they were compelled to join the Association of Consumers' Cooperatives (*Zväz spotrebných družstiev*) in 1948.

The new regime delivered a blow to democratic cooperativism by compromising its main principle of democratic governance. The ruling elite realised that without nationalisation of cooperatives it would not be able to get the countryside, where more than a half of the population lived, under its control. The idea was that gaining control over countryside food cooperatives would be the main step in establishing socialism under the political leadership of the Communist Party. Cooperatives were perceived just as a transitory and temporary form belonging to a certain phase of the social evolution and were meant to cease to exist after they had fulfilled their historical role. This period was characterised by non-democratic, Stalinist practices, forcible nationalisation of property and centralisation of governance.

On the 23rd of February 1949, the National Assembly passed the law that defined the establishment of agricultural cooperatives (*jednotné roľnícke družstvo - JRD*) on collectivistic principles of the soviet *kolkhoz*.²⁹ The size of the membership share was not reflected in the amount of share of the profit of the cooperative. Membership in the cooperative was mandatory and it meant the loss of rights to the live stock, land and property accumulated by ancestors of the member. Many farmers who refused to join this types of cooperative farms were persecuted and sent to labour camps. At the beginning of the 1950s, many forcibly established agricultural cooperatives stagnated, their membership was declining and some of them dissolved. The situation was serious especially in Eastern Slovakia and food supply was in peril.³⁰ In 1955, the second phase of collectivisation started, focusing on mid-size land owners. The first phase was aimed mostly at smallholders and the landless.³¹ Stagnation in collective farming lasted until the end of the 1950s and its economic consolidation and better results started to show just at the end of the 1960s.

The period of the beginning of the 1960s was the first phase of amalgamation of cooperative farms and formation of larger units.³² In 1951 in Slovakia

there were 445 cooperative farms with 67,470 members, 10 years later it rose to 2,683 farms with 329,320 members.³³ The second phase of collectivisation of agriculture and centralisation of agricultural cooperatives started in 1971 and it took place mostly in Central and Eastern Slovakia. This way, the last privately owned farms were nationalised.³⁴ The last phase of the process started in 1979. It was marked by further amalgamation of farms and centralisation of agricultural production, but also its specialisation and introduction of new methods of industrial large-scale agriculture.³⁵ Special agricultural secondary schools and colleges were founded to ensure an adequate number of qualified farmers. However, cooperatives were often merged without sufficient analyses and their leadership was appointed on the political basis. This led to economic inefficiency and resulted in negative environmental impacts.

In 1950, the network of consumers' cooperatives *Jednota* (Unity) was established as a continuation of the rich history of consumers' cooperatives in Slovakia. *Jednota* had its branches in every district. It built new shops, department stores, restaurants and accommodation facilities.³⁶ Consumers' cooperatives were also associated in the Slovak Association of Consumers' Cooperatives (*Slovenský zväz spotrebných družstiev - SZSD*).

Production/workers' cooperatives were associated under the Slovak Association of Production Cooperatives (*Slovenský zväz výrobných družstiev - SZVD*). Production cooperatives were particularly numerous in metalworking industry, followed by chemical industry, plastic industry and woodworking industry. A significant number of cooperatives was also in textile and leather manufacturing, arts and crafts production and in services esp. in hairdressing and photography.³⁷ Since 1953, a specific social role was fulfilled by production cooperatives that provided employment to people with disabilities (*výrobné družstvá invalidov - VDI*). Until 1961, 19 of such cooperatives with more than 300 production facilities were established. They employed 3,052 people. Shortly before 1989, the *VDI* employed almost 10,500 people of which almost 8,000 were the disabled.³⁸ Successful were also housing cooperatives and cooperative construction of residential buildings. For instance, in 1985 in Slovakia housing cooperatives had more than 360,000 members and up to that year built about 300,000 flats.³⁹

Despite the fact that the regime of so-called real existing socialism compromised the main principles of democratic, autonomous and de-centralised cooperative governance, Slovak cooperatives played an important role in the economic and social development of Czechoslovakia. Although this time period is still subject to various interpretations, over the course of forty years agricultural production increased three times and the beginning of the 1980s Czechoslovakia was among to the world top countries in food production per capita. However, the

legacy of the regime has left its mark on the general perception of the cooperative movement and its traditions – at present the term “cooperative” bears rather negative connotations, which does not correspond with the democratic spirit of the cooperative movement. This fact has negatively influenced the development of cooperativism after the regime change in 1989.

Transformation of cooperatives in Czecho-Slovakia in 1989-2004

For cooperativism, the situation after the fall of the so-called really existing socialism in 1989 was not favourable. Prevalent in the public perception was the general argument that cooperatives have no place in the market economy and they belong to the past. Existing cooperatives were to be privatised and transformed to other types of business entities. Nevertheless, there were efforts to overcome deformations of the previous regimes and to keep the ideas of cooperativism alive. On the 28th of January 1992, the so-called Transformation Act No. 42/1992 Coll. on Regulation of Property Relations and the Settlement of Property Claims in Cooperatives came into force which marked the beginning of transformation of cooperatives, mandatory for all cooperatives. The process of transformation caused a number of problems, the people who were in charge of the process lacked necessary qualification and knowledge of the history and democratic principles of the cooperative movement, the ownership structure of cooperatives often changed at the expense of their original members, and the whole process was politically driven. Previously forcibly merged cooperatives started to crumble and the economic situation of many worsened with liberalisation of market prices that was reflected in higher costs and lowered profits of cooperatives.

After the split of the Czecho-Slovak Federation and formation of the Slovak Republic in 1993, the new umbrella organisation of cooperatives was formed – the Cooperative Union of Slovakia (*Družstevná únia SR*) that replaced the previous Cooperative Union of Czecho-Slovakia as the highest coordinating body representing the interests of its members in Slovakia.⁴⁰

In the period after 1993, measures were taken that were meant to preclude further negative developments in cooperativism. These changes concerned their ownership and payments of membership shares. However, this brought about new financial problems and further complicated the already unclear structure of shares, property and capital. It was assumed that cooperatives would be able to solve their financial problems through issuing and selling their share certificates, but in reality this assumption proved to be erroneous. The share certificates could

be freely purchased also by non-members, which subsequently complicated the ownership structure of cooperatives and their trade relations. In the end, the consolidation of property in cooperatives was achieved by a regulation limiting the purchase of share certificates only to their members. Between 1995 and 2005 the number of cooperatives decreased from 2,081 to 1,542 and since then it has not significantly changed.⁴¹

Despite its long historical traditions, at present the cooperative movement in Slovakia has been lagging behind many other European countries. The potential of new forms of cooperative entrepreneurship that would overcome the negative image of cooperatives from the previous regime remains untapped, although there would be a lot of space for cooperatives e.g. in the field of financial and social services, and cooperatives of various types could play a significant role in local economic and social development and in combating current high unemployment rates.⁴²

Cooperativism in Slovakia lacks systemic support that would put it on fair grounds vis-à-vis multinational corporations supported by the state by various investment stimuli. The future development of cooperatives depends on the extent to which decision-makers will be able and willing to realise and take into account the important social dimension of cooperatives and their added value compared to a one-sided profit-oriented nature of other types of businesses actors and entities.

Notes:

¹ *The Rochdale Society of Equitable Pioneers*, founded in 1844, was an early consumer cooperative, and one of the first to pay a patronage dividend, forming the basis for the modern cooperative movement. The Rochdale Pioneers are most famous for designing the Rochdale Principles, a set of principles of cooperation that provide the foundation for the principles on which cooperatives around the world operate to this day. (http://en.wikipedia.org/wiki/Rochdale_Society_of_Equitable_Pioneers)

² Named after the then minister of interior (1849 – 1859) Baron Alexander von Bach. Bach centralized administrative authority for the Austrian Empire, but he also endorsed reactionary policies that reduced freedom of the press and abandoned public trials. He represented later the Absolutist (or Klerikalabsolutist) direction, which culminated in the concordat of August 1855 that gave the Roman Catholic Church control over education and family life. This period in the history of the Austrian Empire would become known as the era of "neo-absolutism", or Bach's absolutism. (http://en.wikipedia.org/wiki/Baron_Alexander_von_Bach)

³ P. Martuliak, *Stopät' desiat rokov slovenského družstevníctva* (A Hundred and Fifty Years of the Slovak Cooperative Movement), Agroinštitút Nitra, 1995, p. 51

⁴ G. Dudeková, *Dobrovoľné združovanie na Slovensku v minulosti* (Voluntary Association in Slovakia in the Past). Available at: <http://www.dejiny.sk/eknihy/gd.htm>

⁵ P. Martuliak, op. cit., p. 65

⁶ In that period, the Slovak territory was part of the Hungarian Kingdom within the Austrian Empire (later Austria-Hungary)

⁷ P. Pénzeš, 'K 160. výročiu založenia prvého úverového družstva' (On the 160th Anniversary of the Foundation of the First Credit Union), *International and Comparative Law Review*, No. 14/2005, pp. 149-150

⁸ P. Martuliak, op. cit., p. 69

⁹ *Slovenský kalendár*, 1874, pp. 62-63, quoted in: P. Martuliak, op. cit.

¹⁰ P. Martuliak, op. cit., p. 69

¹¹ *Ibid*, p. 73

¹² *Slovenský týždenník*, 19.11.1909, p. 47, quoted in P. Martuliak, op. cit.

¹³ P. Martuliak, op. cit., p. 81

¹⁴ *Slovenský týždenník*, 23.2.1912, quoted in: P. Martuliak., op. cit.

¹⁵ P. Martuliak, op. cit., p. 89

¹⁶ Slovak National Archive, SNA F H, 3/13 Správa ÚD 6. 10. 1926, quoted in: P. Martuliak, op. cit.

¹⁷ Slovak National Archive, SNA F H26-28/23. Text zákona č. 210 z 15.4.1919, quoted in: P. Martuliak, op. cit.

¹⁸ G. Dudeková, op. cit.

¹⁹ P. Martuliak, op. cit., p. 92

²⁰ *Ibid*, p. 96

²¹ *Ibid*, pp. 98-99

²² The First Vienna Award separated largely Magyar-populated territories in southern Slovakia and southern Carpathian Rus from Czechoslovakia and awarded them to Hungary. Hungary thus regained some of the territories in present-day Slovakia and Ukraine that she had lost by the Treaty of Trianon in the post-World War I dissolution of the Austro-Hungarian Empire. (see: http://en.wikipedia.org/wiki/First_Vienna_Award)

²³ Hospodársky obzor 10.5.1939, first page

²⁴ *Slovenský hospodár* 15.12.1941, front page, quoted in: P. Martuliak, op. cit.

²⁵ J.V. Milov: *Slovenské družstevníctvo v prehľade* (An Overview of Slovak Cooperativism), Bratislava 1947, p.18

²⁶ P. Martuliak, op. cit., p. 127

²⁷ *Ibid*, p. 128

²⁸ *Ibid*, p. 128

²⁹ see: <http://en.wikipedia.org/wiki/Kolkhoz>

³⁰ P. Martuliak, op. cit, p.141

³¹ *Ibid*, p. 142

³² *Ibid*, p. 144

³³ *Ibid*, p. 140

³⁴ *Ibid*, p. 145

³⁵ *Ibid*, p. 146

³⁶ *Ibid*, p. 157

³⁷ *Ibid*, p. 159

³⁸ *Slovenský zväz výrobných družstiev. Päťdesiatročná cesta*. (The Slovak Union of Production Cooperatives. A Fifty-year-long Journey), SZVD Bratislava, 2003, pp. 61-63,

³⁹ P. Martuliak, op.cit., p. 161

⁴⁰ See: <http://www.dusr.sk/historia.php>

⁴¹ Slovenský štatistický úrad (Slovak Bureau of Statistics), cited in: <http://hn.hnonline.sk/slovensko-119/klasicke-druzstva-na-slovensku-zaniknu-607023>

⁴² According to official statistical data (Slovenský štatistický úrad, Ústredie práce, sociálnych vecí a rodiny) the average unemployment rate in the 2nd quarter of 2014 was 13.2 %, while at the end of July in three Slovak district it exceeded 25%. <http://portal.statistics.sk/showdoc.do?docid=82799>, http://www.upsvar.sk/statistiky/nezamestnanost-mesacne-statistiky.html?page_id=1254







MEDIA

Cooperativism in the Czech Media in the time period from the 1st of January 2012 until the 15th of May 2014

Jana Pokorná and Jiří Guth

We analysed Czech media outputs containing the key word “cooperativism” (*družstevnictví*) published in the time period from the 1st of January 2012 until 15th of May 2014. In this period the key word appeared in 405 texts published in the print media and on the internet (selected internet blogs and internet news portals) and on the radio and TV (transcripts).

Quantitative analysis

The analysed media outputs were coded and grouped accordingly to the following parameters:

- Sources – we analysed in what media the key word occurred
- Correlation of the key word with concrete meanings associated with the term *cooperativism*
- Correlation of the key word with some public personality, political party or group
- Correlation of the occurrence of the key word with certain events
- Types of media outputs

Sources

All together, the key word cooperativism appeared in 57 different sources. We excluded from the analysis so called outliers, i.e. the sources in which the analysed topic appeared sporadically¹ and set the bottom line for the frequency of the occurrence of the key word to 10 per the media source. This criterion was met by 9 media sources.

The frequency of the occurrence of the key word in particular media is uneven. The key word most frequently occurred in:

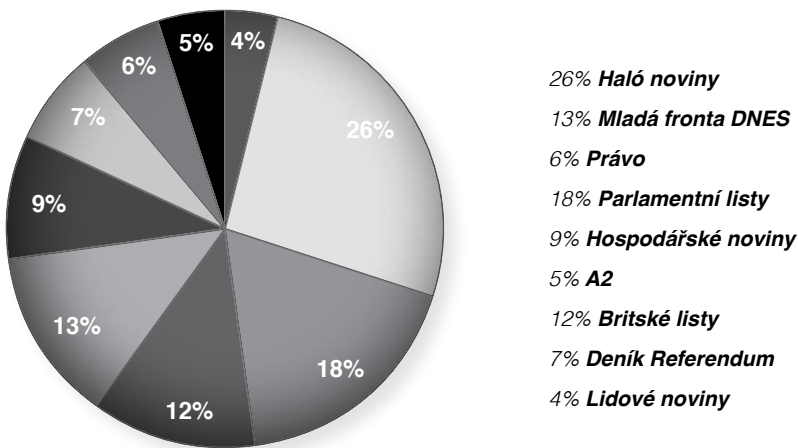
Haló noviny - 54

Parlamentní listy - 37

Mladá fronta DNES - 26²

Britské listy - 24
 Hospodářské noviny - 19³
 Deník Referendum - 14
 Právo - 13
 A2 - 11
 Lidové noviny - 10

The percentage of relevant frequencies of the key word occurrence in particular media sources:



Meaning

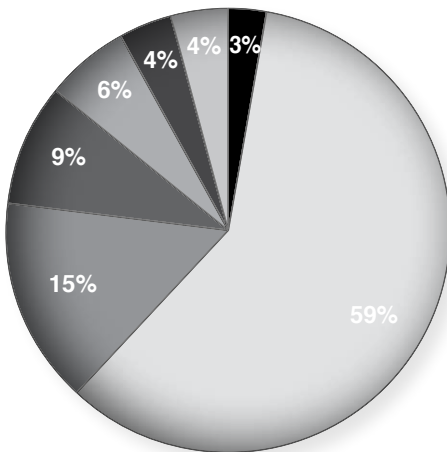
The analysis of concrete meanings related to the term cooperativism yielded the following categories: cooperativism in relation to housing cooperatives, credit unions, agricultural production cooperatives, marketing cooperatives, consumer cooperatives, production cooperatives and cooperativism as an idea/principle. These categories are exhaustive i.e. the analysed sample of media outputs did not contain the key word in any other meaning.

As concerns the frequency of these categories, the most numerous were outputs on cooperativism as an idea/principle, cooperativism in the context of participation, local economy and local development. The frequency of particular categories (number of articles):

Cooperativism in general (as an idea/principle) - 237
 Agricultural production cooperatives - 61

Credit unions - 35
 Housing cooperatives - 26
 Marketing cooperatives - 18
 Production cooperatives - 16
 Consumer cooperatives - 12

The percentage of particular categories of meanings associated with the term *cooperativism*:



59% **Cooperativism in general**
 6% **Housing cooperatives**
 3% **Consumer cooperatives**
 15% **Agricultural cooperatives**
 4% **Marketing cooperatives**
 9% **Credit unions**
 4% **Production cooperatives**

Public personalities, political parties and groups

In the analysed period, the term *cooperativism* most frequently occurred in correlation with the economist Ilona Švihlíková. In total it was in 64 articles, which is almost 16 % of all articles containing the word *cooperativism*.

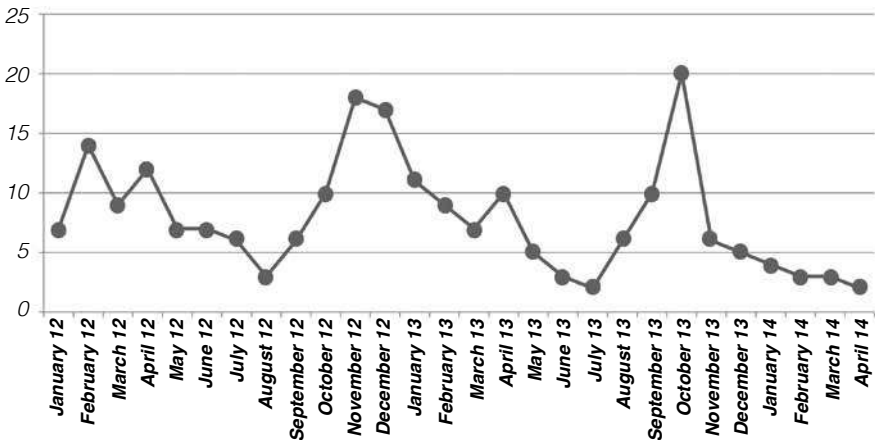
The second most frequently mentioned personality was Táňa Fischerová (a former member of the Parliament of the Czech Republic and a candidate in the 2013 Czech presidential election). In correlation with the term *cooperativism* her name appeared in 48 articles, which represents 12 % of all texts containing the term *cooperativism* in any of its above mentioned meanings.

As concerns the correlation of the occurrence of concrete names with the meaning of the term *cooperativism*, both in the case of Ilona Švihlíková and Táňa Fischerová the term referred to the idea and general principles of cooperativism and to participation, local development and local economy.

Events

We analysed the correlation between certain events and the frequency of occurrence of the term *cooperativism* in the media. While other categories of the meaning of the term (as mentioned above) are temporally quite evenly distributed, the occurrence of the term in its general meaning (as an idea/principle) increases in certain time periods. In particular the increase is apparent during the election periods when the analysed media outputs contain almost exclusively the term *cooperativism* in its general meaning. Outside of these periods, the most frequently mentioned were credit unions and housing cooperatives.

The frequency of the occurrence of the term *cooperativism* as an idea/principle during the monitored time period:



If the text contained any reference to a geographical place, the term *cooperativism* most frequently occurred in correlation with the region of Vysočina. This is most certainly due to the fact that Ilna Švihlíková ran for the general election in this region and the topic of *cooperativism* also most frequently occurred in correlation with her name.

Qualitative Analysis

In our basic qualitative analysis we grouped the analysed texts to four evaluation categories: neutral, positive, negative or ambivalent. The criterion was the tone of the conveyed message related to the term “*cooperativism*” and the context in which it occurs.

These evaluation categories are correlated with a particular area of activity/type of cooperatives (general, housing, consumer, production, credit, agricultural or combined) and with a degree of generality or particularity (cooperativism in general vs. some concrete cooperative). The category “concrete” was considered to be dominant i.e. if the analysed text contained both general and concrete information the text was categorised as concrete.

Findings

In brackets are the values for general/concrete categories.

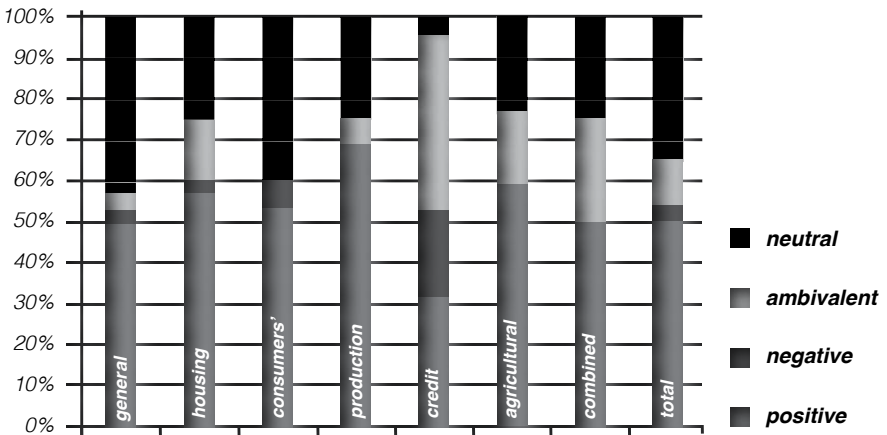
Sector	Positive	Negative	Ambivalent	Neutral	Total
General	131	6	14	112	263
Housing	18 (14/4)	1 (1/0)	5 (4/1)	8 (7/1)	32
Consumers	8 (5/3)	1 (0/1)	0	6 (3/3)	15
Production	11 (8/3)	0	1 (0/1)	4 (4/0)	16
Credit	12 (12/0)	7 (2/5)	17 (16/1)	2 (1/1)	38
Agricultural	20 (13/7)	0	6 (6/0)	8 (8/0)	34
Combined	2 (0/2)	0	1 (1/0)	1 (1/0)	4
Total	202	15	44	141	402

Additional comments and hypotheses (to be confirmed or disproved the hypotheses would require further research and analysis):

1. The ratio of general versus concrete texts is influenced by the chosen key word (*cooperativism*) and is skewed in favour of general articles.
2. The prevalent opinion within the cooperative movement as well as in the public at large is that the media picture of cooperatives is negative. This qualitative analysis indicates that the real media picture may be better than it is generally perceived.
3. An important factor that influenced the interest of the media in the topic of cooperativism was the presidential election (January 2013) and the general election (October 2013), and the pertaining electoral campaigns. The correlation of the articles with the names of the candidates who promoted ideas of cooperativism in their campaigns was 12% in the case of Táňa Fischerová and 16% in the case of Ilona Švihlíková. The tone of the articles published in these periods was predominantly positive, with the exception of a few opinion pieces about the presidential elections that criticised or ridiculed the interest of the candidate Táňa

Fischerová in cooperativism. I. Švihlíková frequently speaks about cooperativism positively also in contexts not related to the election campaign.

- 4. An important part of neutral general texts about cooperativism was announcements of events of the agricultural fair *Země Živitelka* that also hosts the International Cooperatives Expo.
- 5. Significantly the most mentioned or referred to cooperative was the cooperative in Slušovice.⁴



Notes:

¹ We also excluded the periodical *Zemědělec* (The Farmer). Although the absolute number of occurrence of the key word in this medium was 23, the periodical repeatedly published in its calendar of events an announcement about the International Cooperatives Fair. When these announcements were filtered out, the number of relevant articles in this periodical dropped to 9.

² This category combines articles from both the printed newspaper and its internet issue *idnes.cz*. The blog section of the webpage *idnes.cz* was not included in the analysis (with another 13 occurrences of the key word).

³ This category combines articles from both the printed daily *Hospodářské noviny* and its internet issue *ihned.cz*. The analysis does not include 3 blogs in which this key word occurred.

⁴ Having initially started as a cooperative, the agribusiness company *Agrokomplex Slušovice* developed in the 1970s and 1980s into a holding-type company. It had its own simple computers manufacturing branch and international business contacts. The company was striving for maximum efficiency and supported innovative initiatives of its members and employees, which was something exceptional at that time period. To these days, *Slušovice* has a special ring within the context of the cooperative movement (and within the region of its location – Zlín) and it is regarded as an unattainable model, sometimes with the caveat, however, that it used to have exceptionally good relations with the Communist Party.

Availability of Information on ‘Social Cooperatives’ in Hungary: a Brief Overview of the Main Sources

Erika Kármán

Our aim was to research the media appearance of social cooperatives in the printed and online media between 2012 and 2014 in Hungary. We have found more information in the online media. There are many articles about legislation, lots of descriptions about how to start a social cooperative, and various tenders. Furthermore, there are many cooperatives, which have their own websites where they provide information not just about their own activities, but also about the social cooperative as a form of enterprise. Due to the fact that in the last few years most of the cooperatives received financial support to start or to improve their operation, also their supporting organisations (*OFA*, *MVM* and others) introduced their own websites.

Keywords that we have found on different websites are the following: a new opportunity for the labor market, local innovation, economy stimulus, a new way of survival, alternative economy, a solution for the depression, community entrepreneurship.

Legislation, changes in regulations, interpretations and critiques

Beside the official publication of changes in legislation, there are various articles highlighting and describing the modifications and explaining their implementation. The situation is similar in the case of tenders. As a consequence of the tenders, there are some proposals by local governments and decisions on the establishment of social cooperatives managed by the local government (*Polgár, Hajdúdorog*). In addition, between 2012 and 2014 several articles were published on the changes of legislation and the current situation, which also include opinions and critiques. Some of these articles draw attention to the lack of seed capital to start a new organization in the poor regions and emphasise the need for supporting the young, already operating cooperatives. This corresponds with another critique which states that only 30% of all registered social coopera-

tives can operate properly. Another article describes details of a missing tender announcement which as a result could have negatively impacted tens of thousands of people and their lives. Among different descriptions, the summary of the National Tax Institute is available as well, which describes the operation, regulation and tax requirements of social cooperatives.

The National Association of Social Cooperatives

The majority of articles are connected to the National Association of Social Cooperatives. In most cases, László Németh, the president of the association shares his views or answers questions related to social cooperatives. The website is always up-to-date and contains significant information and informs about members of the association, both active or inactive social cooperatives, all around the country.

The Cooperative Research Institute

At the website of the Cooperative Research Institute extensive information can be found about the forms, the operation and history of social and other types of cooperatives. The founder and maintainer of the Institute is the Cooperative Research Foundation. It is a separate legal entity, a public benefit organisation, which is, as the website describes, “the center of research on the Hungarian cooperative movement.” It is not clear how active it is now, but it collects literature and studies related to this topic. It publishes the newspaper “Cooperative” and provides access to almost a 100 years old documents and analyses.

Supporting organizations

In Hungary, the National Employment Fund (*OFA*) is responsible to handle the structural EU funds and to provide financial support for social cooperatives. It has a network of regional offices and one of the main activities it to advise small and medium enterprises, NGOs and nonprofit organizations to improve the situation of disadvantaged groups on the labor market. One of the main projects of *OFA* is the *Cooperation Plus*, which aims to support forming social cooperatives and make them sustainable. The project website <http://www.szocialisgazdasag.hu> writes about the current events, programs, calls for proposals and tenders encouraging many people to visit their websites.

Information about various events

Events related to social and economic effects and opportunities of social cooperatives are published mainly in the printed media. There are many events, which are not related to social cooperatives in particular, but to cooperatives in general, however social cooperatives are mentioned more and more as a new form of entrepreneurship to help disadvantaged groups and support community initiatives. The NGO called *Védegylet* organized a conference called “Local economy” where social cooperatives were described as an alternative form of entrepreneurship in the time of stagnating economy. Information about social cooperatives and their activities was published also around the International Cooperative Day that takes place every July. Many articles promoted a new interpretation of social cooperatives, as even today most people relate current cooperatives to cooperatives of the socialist time.

Conclusion

This overview covers the time period of 3 years. It could be concluded that the necessary information related to issues such as how to start a social cooperative or what regulations to follow is at present available and many social cooperatives inform about their situation and operation. Despite the fact that it is easy to find information, this form of cooperation and its social and economic effects are hardly known to the public. The mainstream media do not present it much and as our field research suggests most people do not know this form of enterprise. Hence, although information is available mainly on the internet, it would be important to publish more and better understandable everyday news about social cooperatives, as a form of enterprise with important social and economic effects.

Availability of Information on ‘Social Cooperatives’ in Poland: a Brief Overview of the Main Sources

Dominika Potkańska

We conducted desk research with the aim to explore the occurrence of the topic “social cooperatives” in the paper and online media in Poland. The research included the two different databases: Google news archives and newspaper archives in the Warsaw University Library.

Keywords we have found on the different websites are the following: social cooperatives, social change, unemployment, social exclusion, empowerment, local development.

The biggest Polish web portal on social economy: www.ekonomiaspoleczna.pl

Our research showed that a vast majority of information we have found on the Internet comes from the web portal [ekonomiaspoleczna.pl](http://www.ekonomiaspoleczna.pl). It is a nationwide portal dedicated to social entrepreneurship. Their target audiences are individuals and institutions engaged in or planning to set up social enterprises. The portal is run by the Foundation for Socio-Economic Initiatives (*FISE*). The website contains information and materials relating to the social economy in Poland and abroad, in particular: current reports, texts and studies, information about trainings, conferences, seminars and other events, legal and financial information on the activities of social economy entities, database of social economy institutions, good practices of social economy both from Poland and from abroad. The portal also serves as a platform for the exchange of information between and among social economy actors in the section of classified advertisements. The portal works closely with the largest non-governmental organizations (www.ngo.pl) portal and another portal run by *FISE* (rynekpracy.org). Monthly the portal is visited by over 20,000 users and it is weekly distributed to more than 7,000 subscribers. The portal maintains its Facebook page with more than 11,000 fans. The portal was created in 2005 as one of the results of the project EQUAL “Searching for a Polish model of social economy”, implemented by a consortium of 10 institutions.

The government

As the Department of Public Benefit of the Ministry of Labour and Social Policy (<http://www.pozytek.gov.pl/>) is the body responsible for implementation and promotion of solutions adopted in the Act on Social Cooperatives, many documents, research reports and information about new projects on social cooperatives available on the internet are published on the website of the Department. The duties of the Department encompass drafting of programmes and strategies regarding the operation of social cooperatives, conducting analysis and assessment of currently running programmes, strategies and legal solutions for the operation of social cooperatives and preparing programme documents for the support of social cooperatives. The department website publishes the English translation of the Act on Social Cooperatives as well as results of social cooperatives monitoring conducted in 2010-2012.

Supporting organisations

Our research showed that on the internet there are many articles, publications and toolkits dedicated to a number of existing social cooperatives as well as people willing to open up their own social cooperative. A large number of available online information was originally published on the website of the National Association of Social Cooperative Auditing Department (*OZRSS*, <http://ozrss.pl/zwiazek/>). The association was established by cooperative members from across Poland, in accordance with the law on cooperatives. The *OZRSS* brings together social cooperatives in order to assist in the establishment of social cooperatives, and in carrying out their statutory duties; providing training for employees and members of the cooperative, initiating cooperative education, instructional activities, consulting, publishing, cultural and socio-educational, initiating and developing cooperation between cooperatives and cooperation with research institutions, representing the interests of affiliated cooperatives to bodies of state administration and local government as well as in conducting obligatory inspection of social cooperatives.

Conclusion

Our search showed that there are many articles concerning legal regulations on social cooperatives, reports, analysis with recommendations of law amendments, case studies, best practices and information on events dedicated to cooperatives. Majority of online publications are online toolkits on how to set up your own cooperative, how to prepare your business plan and how develop your offer. What

is interesting is that some texts in several toolkits that we found were copied from another toolkits, so there is a reason to question the quality of some handbooks and toolkits on social cooperatives published online and in paper. What contributes to a great number of websites dedicated to social cooperatives is the requirement that each project aimed at promotion of social cooperatives should have its own website. Moreover, a majority of social cooperatives have their own websites.

Anybody running a social cooperative or interested in opening one can easily find any information on: how to register a social enterprise, how to apply for a seed grant, where to find social cooperatives incubators, how to prepare a business plan or how to prepare a development strategy for a cooperative. However, most of the information concerning social cooperatives is written in a manner which is understandable only to experts and social entrepreneurs.

There is still a lack of press articles showing the everyday life of social cooperatives so that the idea of social cooperatives can reach the public at large. Through our desk research we found a relatively small number of either the paper or electronic media articles describing the examples of existing cooperatives or articles presenting newly opened ones (published both in newspapers with a national coverage such as *Gazeta Wyborcza* and in small local newspapers). Hence, there is a need to introduce topics related to social cooperatives to paper and online everyday press so that the information on this innovative economic model may reach a bigger audience.

Cooperativism in the Slovak Media in the time period from the 1st of January 2012 until the 31st of January 2014

Peter Vittek

We carried out the analysis of media outputs published in Slovakia in the time period of the 1st of January 2012 until the 31st of January 2014. The analysed sample of the media comprised the main printed newspapers and magazine with the national coverage, the Press Agency of the Slovak Republic and major televisions and internet news portals monitored by the Newton Media Slovakia. This sample contains also a nation-wide periodical specialising in the sector of agriculture. The sample was complemented with 2 selected minor news portals and news magazines. The 1st of January 2012 was set as the beginning date of the monitoring due to the fact that the year 2012 was declared by The United Nations General Assembly as the International Year of Cooperatives.¹ We analysed articles containing the key word *cooperativism*.

In comparison with the Czech Republic, the number of texts containing this key word was rather low, in some of the monitored media it only appeared once or twice over the course of the whole monitored period. The total number of articles was 37.

The occurrence of the key word cooperativism in the output of the selected media in absolute numbers:

Roľnícke noviny – 17
 Pravda – 5
 SME – 3
 Aktuality.sk – 2
 Aktuálne.sk – 2
 Slovo – 2
 TA SR – 2
 Týždeň – 2
 JeToTak.sk (blog) - 1
 RTVS (Radio and Television Slovakia) - 1
Total: 37

Themes and meaning linked with cooperativism

In our basic qualitative analysis we grouped the analysed texts to three evaluation categories: positive, negative and neutral, according to the tone of the conveyed message related to the term *cooperativism* and the context in which it occurs.

The following table shows the correlation of these evaluation categories with main themes related to the word *cooperativism* that occurred most frequently in the monitored media in the given time period.

Sector	Positive	Negative	Neutral	Total
General	12	3	3	18
Transformation of cooperatives	0	6	4	10
History	0	2	4	6
Concrete cooperative	1	0	2	3
Total	13	11	13	37

Despite the small sample size, some themes and their evaluation occurred on a regular basis.

General articles speak of cooperativism as a movement or as a set of ideals and of its social role. A marked positive evaluation is attached to the social role that cooperatives have in general and/or in the times of crises:

“Cooperatives play an important economic and social role and highly contribute to the development of our countryside and cities, and hence to the development of whole regions...”

“We remain faithful to the principles of cooperativism. This philosophy is simple: we decided to stand by the people. Until now, we’ve been upholding this idea and thus we haven’t fired anybody. We’ve rather tightened our belts, but we are all still here.”

“Experiences have confirmed that cooperatives can be an added value to economic, social and regional cohesion.”

“...credit unions are important, because they are resilient against crises. As long as you have credit unions that are locally oriented you don’t have to be interested in American toxic assets because you invest in a given place.”

A negative perception mostly concerns economic problems of the cooperative sector.

Even after a relatively long time period of changes that commenced in 1989, one of the most frequent themes in the media is **transformation of cooperatives**. It is

perceived negatively due to its destructive outcomes and a dubious process. Many cooperatives ceased to exist and in many regions no production was re-established. The evaluation of this process reflects some nostalgia about cooperativism in its pre-1989 form, which, however, was not organised fully in line with international cooperative principles.

“The biggest injustices I see have been done to all members of cooperatives. These people helped the coops to develop in the hardest times when for months they would go without wages and still were able to make sure that the farm work was done on time, they invested money to ensure future prosperity and after 1989 this prosperity fell apart, it was stolen from them.”

“The fall of the regime brought hopes that injustices were going to be rectified, but the Slovak justice has its limits. By the way, guess in what area the creators of the law on the cooperative share certificates do their business together with those who have done nothing about this colossal injustice...”

Paradoxically, the outcomes of transformation are often perceived as negative due to the fact that many cooperatives do not adhere to the international cooperative principles:

“In general, all student teams agreed that an important part of principles on which cooperativism is traditionally based is not applied by our cooperatives...”

“Over the course of the transformation process emerged the tendency of managers and other stakeholders to make such ownership changes in cooperatives that would steer them towards principles typical for joint stock companies rather than for cooperatives. This deviation from the cooperative principles was caused by a number of factors that pushed these principles into the background.”

“...inside post-transformation cooperatives distorted rules and principles of cooperativism survive.”

Another larger group of articles focuses on the **history** of Slovak cooperativism and predominantly on two periods. The first one is the birth of cooperativism in Slovakia and the activities of its founder Samuel Jurkovič. His name is mentioned in relation with almost any, even the slightest, reference to the history of Slovak cooperativism. The second one is the period before 1989. Articles about this second period mostly have a negative tone (although some of them have an undertone of nostalgia for the old regime, as mentioned above) and they also point to the previous regime as a source of stigma on the popular image of cooperativism:

“Collectivisation of agriculture in the 1950s led to forcible formation of collective farms. Their property consisted of land forcibly taken from smallholders, nationalised farmland and confiscated machinery and live stock. Socialist *kolochoz* farms were formed and together with them a new enemy was created – a private farmer whose only transgression was that he had been toiling on his own land and he wanted to continue to do so.”

“In some people’s minds cooperativism is linked with the previous regime, hence they perceive it as relic of the past...”

Some texts report on the operation of **concrete cooperatives**. These type of texts mostly occurred in the newspaper *Rolnícké noviny* (Farmers’ Newspaper) that publish articles on concrete cooperatives. Due to this fact agricultural cooperatives were the most often mentioned type of cooperative; fewer articles dealt with *Coop Jednota* – the largest consumers’ cooperative that has its own chain of grocery stores and supermarkets.

Types of articles

The majority of articles were informative (21) – they focused on transformation of cooperatives or described the situation in concrete cooperatives. In this category are also reports from fairs and exhibits, conferences, competitions and awards ceremonies. The second largest group of articles were interviews (7) followed by articles on legal advice (5) mostly dealing with share certificates. The rest of the texts were announcements about exhibits (2) and articles about the historical role of the founder of cooperativism in Slovakia Samuel Jurkovič (2).

Conclusion

A small size of the sample as well as limits of the output related to only one monitored key word does not allow for some further analysis and categorization of the findings. Nevertheless, given the length of the monitored time period it is possible to conclude that the theme of cooperativism is on the margins of interest of the main media in Slovakia, with the exception of the newspaper *Rolnícké noviny* that has a specific thematic focus on agriculture and a systematic coverage of the theme especially in relation to the transformation and current situation in the agricultural sector. The interest of the Slovak media in cooperativism remained low even during the International Year of Cooperatives in 2012.

Notes:

¹ See: <http://www.un.org/en/events/coopsyear/>, <http://social.un.org/coopsyear/>





LEGISLATION

An Overview of the Current Cooperative Legislation in the Czech Republic¹

Jiří Guth

The cooperative legislation after 1989

Shortly after the revolution in 1989, the Act No. 162/1990 Coll. on Agricultural Cooperatives and the Act No. 176/1990 Coll. on Housing, Consumer, Production and Other Cooperatives were passed. They maintained the duality of legislative regulation of agricultural and non-agricultural cooperatives, but otherwise they could be seen as ground-breaking.

The Act No. 162/1990 Coll. on Agricultural Cooperatives completely changed the concept of cooperatives, especially it depoliticised them and it cancelled the affiliation of cooperatives to the socialist economic system and its central planning. It adjusted basic cooperative concepts and relationships to usual international standards. From previous arrangements, it preserved the principle that each and every member has one vote in decision-making and free cooperative land use. On the contrary, it did not contain any legislative regulation of cooperative umbrella organisations such as councils, unions, etc. The chairperson was obligatorily elected indirectly, i.e. by the board of directors.

A similar approach was characteristic also for the Act No. 176/1990 Coll. on Housing, Consumer, Production and other Cooperatives. Democratisation and liberalisation (in the sense of radically limiting the influence of the state administration) of this legislative regulation was accompanied by the reintroduction of membership shares, but without defining this concept. The legislative regulation of the relationship between the state and cooperatives also included an amendment that the state had a special consideration for and in particular contributes funds to cooperatives of the people with disabilities given their social mission, and to housing cooperatives providing construction and operation of cooperative housing under the state social welfare programmes.

Both laws have responded to changing conditions, but they can be described as temporary, because the period of their effectiveness was very short. They did not fully respect the standard cooperative principles and preserved continuity with previous legislative regulations. At the same time, they introduced a number of elements that not only were better in comparison with the previous legislation,

but also in comparison with the regulations that were put in place later. First and foremost, they stressed the voluntary membership in cooperatives; for agricultural cooperatives they abolished the obligation to pool fodder, seeds and plants; however, on the other hand, the obligation to pool property remained in place and membership shares were introduced for all types of cooperatives. A clear positive was that the new regulation anchored the possibility for the cooperative to choose any scope of its activity. This was a big change, fully reflecting essential features of cooperatives. Also, the formation of cooperatives was not bound to the decision of the administration, but only to registration of the cooperative in the Business Register, preceded, of course, by an act of voluntary establishment of the cooperative.

For agricultural cooperatives, the Act No. 229/1991 Coll. on Regulation of Land and Other Agricultural Property Ownership (the Land Act) was critical. Because a part of the property of cooperatives was obtained involuntarily in the so-called collectivisation², the cooperatives were ordered to make settlements with the original owners. Due to deadlines and required procedures, many cooperatives dissolved, some of them were transformed into commercial companies and others were divided into several smaller entities.

All cooperatives were then forced to transform according to the so-called Transformation Act No. 42/1992 Coll. on Regulation of Property Relations and the Settlement of Property Claims in Cooperatives. It was an attempt to redress past cases of property injustice, but it was somewhat different when compared to other restitution laws. It entitled a certain group of people to have higher property claims towards cooperatives than towards other liable subjects. The joint property of cooperatives, created during the period of so-called socialist mode of production, was somewhat suggestively described as “net capital for distribution”. According to later estimates, this transformation concerned around 900,000 people and claims amounting to approximately 26 billion Czech crowns. The consequences were again impoverishing or even liquidating for many cooperatives (mainly agricultural and housing). But it must be said that in some cases the cooperative property had been transferred to other entities already before the transformation – usually to commercial companies owned by the representatives and managers of these cooperatives.

The cooperative law was newly incorporated into the Act No. 513/1991 Coll. Commercial Code. The Commercial Code cancelled the duality of agricultural and non-agricultural cooperatives, but at the cost of disregarding other significant differences among various types of cooperatives. This was particularly disadvantageous for housing cooperatives. Generally, the Act only slightly differentiated

between commercial companies and cooperatives, stipulated in Section 260: "Unless the Title II (the part governing cooperatives) provides otherwise, the provisions of the Title I shall apply, as appropriate, to cooperatives (the part governing commercial companies)". Furthermore, possible non-profit orientation of cooperatives was mentioned only in one provision and this provision was not elaborated further.

This approach greatly disadvantaged cooperatives founded for the purposes of addressing both economic and social and other needs of their members or cooperatives accentuating these as well as other non-commercial goals. Similarly as with commercial companies, the total sum of membership fees deposits was labelled as so-called registered capital. When established, the cooperative was obliged to create a so-called indivisible fund of at least 10% of the recorded registered capital. The cooperative adds to this fund the amount of at least 10% of its annual net profits until the fund reaches one half of the recorded registered capital. The by-laws of the cooperative might specify that the profit was to be divided among members according to a different principle than as a ratio between the amount of individual member's paid-up fee and the amount of the paid-up fees of all members. Similarly, the rule of 'one member – one vote' might not apply as the decision-making principle at membership assemblies (except for the cases specified by the Code).

The current framework

The Commercial Code was cancelled – formally speaking without any substitution – as of the 1st of January 2014. Some of its content was included into the new Civil Code, some was entirely revoked. The regulation of the Business Register is newly contained in the Act on Public Registers of Legal and Natural persons (i.e. the Registration Act). The part dealing with commercial companies and cooperatives was then transferred into the new, relatively narrowly focused Business Corporations Act.

In the current legislation, together with all other forms of commercial companies, cooperatives are classified under a new common concept of the 'Business Corporation'. Therefore, each cooperative is a business corporation, be the scope of its activity self-help or for-profit business. The rationale is that both commercial companies and cooperatives are legal entities of a corporate type as defined by the new Civil Code ('NCC') Section 210. The legal regulation of cooperatives can be found in Sections 552 to 726 of the Business Corporations Act (hereinafter referred to as the 'BCA'). Equally, introductory parts of the Business Corporations

Act (Sections 1-94) and the general regulation pertaining to all legal persons and all corporations (Ss. 118-213 NCC) apply to cooperatives.

Unlike previous unified legal regulation of cooperatives in the Commercial Code, with some exceptions for housing cooperatives, the BCA, in Sections 727-757, introduces special (and significantly different, at least in comparison with the previous situation) arrangements for housing cooperatives and also in Sections 758-773 it foresees a new type of cooperatives – the so-called social cooperative, developing charitable activities for disadvantaged people particularly in employment, social services, health care, etc. The scope of the new legislation pertaining specifically to cooperatives is about five times that of the Commercial Code (221 sections versus 40).

The Business Corporations Act is divided into three parts with a total of eight titles. The first part entitled “Business Corporations” includes general provisions for corporations in Sections 1 to 773 and then legislation for limited liability companies, joint stock companies, general partnerships, limited partnerships and cooperatives. The second part “Final and Transitional Provisions” contains provisions addressing the transition to the new legislation in Sections 774-785. According to Section 777, all business corporations are obliged to adapt within six months following the day on which the Business Corporations Act becomes effective (i.e. by the 30th of June 2013) their documents (i.e. memorandums of association, by-laws) and to submit them to the Collection of Documents kept by the Registration Court. Should they fail to do so, the Registration Court will notify them setting a reasonable period to fulfil their obligations. Should this time limit expire in vain, the court shall terminate the business corporation and shall order its liquidation on a proposal of the Registration Court or a person demonstrating a legitimate interest. This process shall also apply to all cooperatives, including housing ones, thus causing practical problems to them. It is worth noting that associations of owners of housing units have this time period set until the 31st of December 2016. In Section 777(1) of the BCA, it is stated that the provisions of memorandums of associations that are contrary to peremptory (imperative) provisions of the Business Corporations Act shall be cancelled as of the 1st of January 2014. The last, third, part of the BCA consists of a single section (Section 786), only regulating the efficiency of the Act.

Main Principles

According to Section 552 BCA, the cooperative is an association of unrestricted number of persons, established for the purposes of mutual support of its members

or third parties, or for business purposes. The BCA reduces the limit of the lowest number of members to 3 (according to the Commercial Code, it had to be at least 5 members – natural persons or 2 legal entities) and the law does not differentiate between legal entities and natural persons.

Sections 553-554 provide eight basic requirements for the by-laws, the time period when they come into force (on the date of their approval, unless the membership meeting stipulates otherwise) and the duty to include the amendments to the by-laws based on legal facts.

Sections 555-561 regulate the procedure of establishment of the cooperative including the course of the constituent meeting and requirements for its minutes.

A new duty of cooperatives is to establish in the place of its registered office an information board, accessible to all members every day during normal working hours (Section 562 BCA). The objective is to sufficiently inform all members about the activities and affairs of the cooperative. The Business Corporations Act requires that members of the cooperative all be provided information through a public announcement posted on the information board in the event of publication of the results of dealings and all adopted resolutions of partial membership meetings (Section 668 BCA), publication of the invitation to the assembly of delegates (Section 668(3) BCA) and publication of the results of the dealings and resolutions adopted by the assembly of delegates (Section 698 BCA). However, through the information board, it is possible to provide the members also with further information specified by the by-laws. If the by-laws stipulate so, it is possible to make the information board available to the members of the cooperative through the website.

Compared to the past, the cooperative does not have to record its basic capital anywhere (Section 563), and it is not required to establish any indivisible or reserve fund. The basic membership fee shall be the same for all members, thus it must not be different in the case of natural persons and legal entities. The cooperative has to enter into a written agreement (Section 572) on any possible further membership contributions. The contribution may also be non-monetary, but in such case the membership meeting must approve it in advance (Section 574).

Section 575 BCA governs the declaratory list of fundamental rights and obligations of members of the cooperative, including the right to participate in the management of the cooperative (i.e. to vote and to be elected to bodies of the cooperative, to participate in management and decision-making of the coopera-

tive by voting at the membership meeting), to participate in benefits provided by the cooperative (e.g. share of profits, etc.). The basic duties include the obligation to comply with the by-laws and the obligation to respect the decisions of the cooperative bodies. Other duties include the obligation to pay (Section 587 BCA) and the obligation to notify the cooperative of any changes in the data recorded in the list of members (Section 580(3) BCA), i.e. changes in the surname, domicile, registered office or in the correspondence address. The list of members also keeps record of the date and method of establishing and terminating membership in the cooperative and the amount of the membership contribution/fee and the extent of fulfilment of the deposit obligation to the membership contribution.

The membership meeting may impose on all members the same so-called compensation duty in order to cover losses, amounting to no more than three times the basic membership contribution (for the members of bodies of the cooperative this obligation may, under certain circumstances, be up to ten times the amount) – Sections 587-594. Section 595 redefines the cooperative member's interest as a set of rights and obligations (in other words, material and non-material assets) arising from membership in the cooperative. The member's interest may be jointly owned also by persons other than spouses; however, the by-laws may ban or exclude this possibility (S. 597). Any transfer and transition of the member's interest, both of which can be banned or excluded in the by-laws, is governed by Sections 599 to 605.

Section 608 of the BCA newly anchors the possibility for the cooperative to provide financial assistance, i.e. the possibility to provide an advance, loan or credit to those who want to obtain their membership in the cooperative. So far, provisions of financial assistance were governed by the Commercial Code only in relation to capital companies, at present the Business Corporations Act extends the application of the rules of financial assistance to the cooperatives as well. Thus, the cooperative will be able to lend funds to candidates for membership in order to repay the membership fee when joining the cooperative. However, the contract will have to be pre-approved by the membership meeting (Section 656(f) of the BCA). Subsequently, the cooperative shall register the contract on the provision of financial assistance in the Collection of Documents kept by the competent court. When excluding any member (Sections 614-622), the last instance is the membership meeting. Unless there were irreparable consequences caused by (in)activity of the member, the decision to exclude this member shall be preceded by a warning (Section 615).

The bodies of the cooperatives are governed by Section 629 et seq. of the BCA, namely the membership meeting, the board of directors, the audit commi-

tee and other bodies established by the by-laws. A small cooperative (with less than 50 members) may decide that the statutory body of the cooperative is the chairperson. For small cooperatives, the establishment of the audit committee is not required and its function is performed by the membership meeting. Section 632 of the BCA stipulates implicitly for elected bodies of the cooperative that the term of office all their members shall end at the same time, even if someone was elected, for example, in the middle of the term. Particulars of the membership meeting are regulated in a great detail – in twenty-three paragraphs.

Representation at the membership meeting (Section 635) is possible; the power of attorney shall be in writing and shall specify whether it was granted for representation at one or more membership meetings. One person can represent no more than one third of all members of the cooperative. The membership meeting is held at least once in each fiscal year. The meeting, which is to discuss the annual financial statement of the cooperative, shall be held no later than six months after the end of the fiscal year for which the annual financial statement is prepared. The Board of Directors is obligated to call a meeting if so requested in writing by at least 10% of the members of the cooperative who have at least one fifth of the votes. Given the fact that in cooperatives members may have more than one vote (Section 650), the membership minority is counted not only by persons, but also by the number of votes of requesting members. The by-laws can specify a smaller number of members or a smaller number of required votes, or both.

One of the new obligations of cooperatives stipulated by the BCA is mandatory establishment of a website of the cooperative. This obligation emanates from Section 636 of a BCA and it is related to convening the membership meeting. The new regulation preserves the obligation of the convener of the meeting to send 15 days in advance an invitation to the meeting to members of the cooperative to the address specified in the list of members. The new regulation stipulates the obligation to publish this invitation on the website of the cooperative within the same period of time. The invitation must be published on the website of the cooperative until the membership meeting takes place, while, simultaneously, by its publishing on the website the invitation shall be deemed to be delivered. This literal wording of the Act may imply that cooperatives are required to set up a website.

The membership meeting forms a quorum (Sections 644-646) if a (absolute) majority of all members is present (calculated by the number of people) having a majority of all votes unless the Act or the by-laws require the presence of a higher number of votes. This is the case when the membership meeting decides on:

- a) approval of granting of financial assistance,
- b) payment of obligations,
- c) dissolution of the cooperative with its liquidation,
- d) conversion of the cooperative,
- e) issuing bonds.

Then a quorum is formed when at least two thirds of all members are present and the resolution is adopted by at least two thirds of the present members. In these cases, each member has always one vote. This also applies to the constituent membership meeting.

The by-laws may permit voting of the membership meeting by the means of a memorandum or by mail (also called *per rollam*). In such case, the basic requirements are specified in Sections 652-655. Interestingly enough, it implies from the Act that "If a member fails to present to the cooperative his consent with the draft resolution within a specified deadline, it is understood that he does not agree with the draft".

For the needs of very large cooperatives, the Act (Sections 669-704) also regulates the assembly of delegates in great detail, although in a manner similar to the membership meeting. The minutes from the meeting of the board of directors shall include nominal data on who voted on each draft resolution (Section 709).

The so-called competition ban is stipulated as mandatory for each member of the board of directors and as optional for members of the audit committee (Section 710 and 722). These people may not conduct any business that would be in cooperative's line of activity, not even for the benefit of others, or mediate cooperative's business to others. A member of the board of directors may not be a member of statutory bodies of another legal entity with the same line of activity or be a subject in a similar position, unless it is a business group (a concern), an association of housing unit owners or a cooperative whose membership consists only of other cooperatives.

The establishment of the audit committee (Section 715 et seq., Section 726 of the BCA) is optional in a small cooperative where its function can be performed by the membership meeting and each member of the cooperative has vis-à-vis the statutory body of the cooperative the same power as the audit committee. For other cooperatives, such committee is mandatory.

Social Cooperatives

The following describes the specifics of social cooperatives (Sections 758-773):

- The social cooperative is an association continuously engaging in publicly beneficial activities aimed at promoting social cohesion for the purposes of vocational and social integration of disadvantaged persons into society with the primary aim of satisfying local needs and using local resources according to the place of residence and line of activity of the social cooperative, especially in the area of employment, social services and health care, education, housing and sustainable development. Detailed objectives and terms of activities in accordance with the socially integrative function of the cooperative and its support of local development as well as conditions of profit distribution must be included in the by-laws.
- The social cooperative is prohibited from transforming itself into some other entity than a social cooperative, as well as from transferring of its cooperative shares.
- A member of the social cooperative may be only its employee, volunteer or client.
- The social cooperative may, if permitted by the by-laws, divide no more than 33% of their disposable profit among its members.
- In the social cooperative that is solely set up to satisfy the housing needs of its members each member has always one vote.
- The liquidation value of the cooperative may be transferred only to another social cooperative, or to a municipality in which the dissolving social cooperative has its registered office.

Credit Unions

Establishment and operation of credit unions (also savings and loan associations) is regulated by the Act No. 87/1995 Coll. on Savings and Loan Associations (as amended). Interestingly, it has been already amended thirty-one times since its present version was adopted (May 2014). This Act sets the rules for the establishment, operation and termination of the credit union; it determines the rules of deposits insurance and supervision by the Czech National Bank. Characteristic for credit unions is that they are authorised to accept deposits from its members and provide loans to its members – this is what they have in common with banks. The credit unions are also authorised to provide other services to its members, however, their list is narrower compared to the activities of banks. This concerns for instance financial lease, payment system, payment clearance, issuing and management of means of payment, providing collaterals in form

of surety and bank guarantee, opening letters of credit, arranging for encashment, purchase and sale of foreign currencies, lease of safe deposit boxes.

In order to ensure the main above listed activities, credit unions are allowed to provide loans to each other and to accept deposits; they also can make deposits at banks and take bank loans, engage in foreign currency and some derivatives trading, as well as purchase and sale of securities traded on the regulated European market and purchase and sale of bonds to the extent permitted by the law. Credit unions are not allowed to engage in any other activities than those stipulated by the law.

The first thing necessary for the establishment of a credit union is an authorisation granted by the Czech National Bank. The Bank assesses compliance with the following conditions:

- The starting capital must be at least 500,000 Czech crowns, wherein an amount of at least 35 million Czech crowns has to be paid prior to the application for the license.
- Professional competence and credibility of the applicant for the license, as well as professional competence, trustworthiness and experience of managers, i.e. directors, members of the audit committee and loan committee, and people proposed to hold executive managerial positions with powers and responsibilities defined in the by-laws of the credit union.
- Technical and organisational requirements for the performance of the proposed activities of the credit union, resulting mainly from the by-laws of the credit union, proposal of its management and control system including the risk management system.
- Feasibility of the business plan.
- Professional competence and credibility of natural persons or legal entities with qualified participation in the credit union and members with further membership contributions, but no qualified participation.
- Transparency of persons with close links with the credit union and whether such links do not preclude supervision.

Unlike banks, credit unions are established on the membership principle and their members can be natural persons or legal entities. The number of members is normatively regulated by the Act No. 87/1995 Coll. and must be at least thirty. Each member is obligated to pay his or her membership contributions to the credit union in a monetary form. The amount of the basic membership contribution is the same for each member, but the law allows for depositing so-called further membership contribution. However, if the member's share in a credit union was to exceed the limit specified by the Act, the acquisition of such share is subject to approval from the Czech National Bank.

Besides the right to use the services of the credit union, members are also entitled to participate in the membership meeting and to vote on behalf of the credit union. They have the right to get a share of profit, as well as the right to be informed about the management of the credit union and in case of termination of their membership they are entitled to compensation.

After numerous negative experiences with the activities of credit unions in poorly regulated and inefficiently supervised environment of the 1990's and due to the harmonisation with European legislation, the legal regulations of credit unions significantly tightened. Their activities were subject not only to the rules specified by the Act No. 87/1995 Coll., but also to the Czech National Bank Regulation No. 123/2007 Coll. on Prudential Rules for Banks, Savings and Loan Associations and Securities Dealers, according to which the credit unions, as well as banks, are required to comply with the rules and indicators of capital adequacy, credit risk, solvency and liquidity, classification of selected items of assets, creation of reserves and provisions. In short, on a separate and consolidated basis, every credit union is obliged to maintain some minimum capital corresponding to the sum of the individual capital requirements to cover risks. Depending on the capital, it is also required to comply with rules limiting the amount of assets and off-balance sheet items against a person or a group of persons. The credit union must meet liquidity rules, usually involving requirements for the minimum amount of liquid assets or groups of such funds in relation to assets or liabilities or to a group of selected items of assets and liabilities, restrictions and conditions for certain types of loans or investments, deposits, guarantees and commitments and finally to rules for acquisition, financing and evaluation of assets. In addition to this, a credit union is obliged to act prudently and with "due care." Like banks, it shall not enter into contracts under disadvantageous terms. Such contracts are invalid. It is not permissible to pledge assets of the credit union or any of its parts. To conclude any contract related to disposing with the business or its parts, the credit union needs a prior consent of the Czech National Bank. The credit union is not authorised to acquire a direct or indirect interest in capital of other legal entities; it shall not have any influence on the management of any legal persons in any way.

When established, credit unions create a venture fund to cover the risks of providing loans and guarantees. In addition to the venture fund, credit unions establish a reserve fund. If the reserve fund was not created at the establishment of the credit union, it is created from the "first" net profit. If the credit union reports a loss in the given fiscal year, these funds are used to cover such loss.

Besides the establishment of three general obligatory bodies (the membership meeting, the board of directors, the audit committee), the law requires that credit unions establish a specific fourth body, namely the credit committee, which should

consist of a mandatory minimum three members, elected by the membership meeting from among the members. The commission's main task is to decide on granting loans to members, providing guarantees for loans of its members and to secure the loans. The law pays attention to the issue of competence, trustworthiness, responsibility and to the conflict of interests of members of elected bodies and the management. The members of elected bodies and management of credit unions are required to perform their functions with due care i.e. in a proper, qualified, professional manner, respecting not only the law, but also the interests of the credit union and its members. Credit unions are also obliged to disclose certain types of information, regularly or upon request, in order to inform its members, the public and supervisory body about its activities and financial situation.

The credit union is also required to inform candidates for membership about all facts associated with the membership, especially with the by-laws, terms and conditions, rights and obligations arising from the membership and terms of deposit insurance, loan terms, and other activities that the credit union is authorised to perform. If there is any change in these facts, the credit union is required to inform its members about such changes in a timely and properly manner. The credit union is also required to publish basic information about the union, their members having a qualifying holding in the credit union, about its members with the further membership contribution, the structure of the consolidated group that it belongs to and its operations and financial conditions. The website of the credit union usually provides this information updated every three months. The website of credit unions should provide also further information, such as an organisational chart, annual reports and the code of ethics. Property rights of members of the credit union are protected through the institute of the mandatory deposit insurance provided in the Act on Banks, to which the Act No. 87/1995 Coll. refers.

Specific developments and prospects

The Credit Unions Acts was adopted in 1995 in a very liberal form with minimal control and regulatory mechanisms. This led to a boom in credit unions in the late 1990s and then to stripping of their assets. According to some estimates, around eight billion Czech crowns of the total of 11.3 billion Czech crowns in deposits were stolen. The state compensated some part of it at least to small savers by an unsystematic *ad hoc* measure. After a wave of bankruptcies in 2000 and after subsequent tightening of legislation in 2002, most credit unions were dissolved and currently, there are twelve credit unions in the Czech Republic (at the end of 1999 there were 127 credit unions). This relative current stability is due to self-regulation within the Association of Credit Unions and partly due to the involvement in the Deposit Insurance Fund (from its establishment in 1995 to 2006 it was

designed only for banks). In recent years, the volume of deposits has been rising, but various bankruptcies continue.

Currently, the Ministry of Finance of the Czech Republic together with the Czech National Bank prepared an amendment to the Act No. 87/1995 Coll. which should:

- i)** Set an upper limit of total assets of the credit union to 5 billion Czech crowns;
- ii)** Allow direct transformation of a credit union into a bank;
- iii)** Increase the mandatory deductions from profits to the venture fund and determine the minimum amount of 30% of the aggregate outstanding loans and guarantees granted (as opposed to the current 20%) and;
- iv)** Compared to banks, double the rate of contributions of credit unions to the Deposit Insurance Fund.

The European Cooperative Society³

Since 2006, it is possible to establish so-called European Cooperative Society or European Cooperative (SCE from Latin *Societas Cooperativa Europaea*) in the Czech Republic, on the basis of the Regulation No. 1435/2003 on the Statute of the SCE and the Act no. 307/2006 Coll. on the European Cooperative Society.

Some differences compared to the general regulation of cooperatives in the Czech Republic are:

- Members (may be natural persons or legal entities) must have a permanent residence or registered offices at least in 2 different EU Member States;
- It shall have subscribed share capital of at least 30,000 Euros;
- In addition to the traditional dualistic system, it can also have a unitary authority system (the administrative board appointing and dismissing directors);
- It provides for a special (stronger) participation of employees who are not members in the management of the SCE via a special negotiating committee;
- The chairperson of the SCE and its audit body are always elected indirectly;
- The chairperson of each SCE body shall have a casting vote in the event of a tie;
- Greater confidentiality: the members of the SCE bodies are bound by confidentiality, even after they have ceased to hold office, not to divulge any information which they have concerning the SCE the disclosure of which might be prejudicial to the cooperative's interests or those of its members, except where such disclosure is required or permitted under national law provisions applicable to cooperatives or companies or is in the public interest;

- The right to vote at the general meetings shall be governed by the principle 'one member – one vote' regardless of the number of shares a member holds;
- It introduces the category of a member-investor as a person who does not expect to use or produce the SCE's goods and services (non-user). Such person is admitted solely as an investor and his/her membership is focused on achieving financial gain from the investment.

According to the information available, no SCE based in the Czech Republic has been created so far.

The current legislation on cooperatives is quite complicated, but basically it is still rather liberal. Compared to the previous period, it better captures the specificities of cooperatives vis-à-vis business companies. However, in some cases, the law is unreasonably detailed (e.g. particulars of the invitation to the delegates or the minutes from meetings of the board of directors).

Notes:

¹ This chapter is based on the following sources:

Sbírka zákonů (Collection of Laws), available at: <http://www.sbcr.cz/>

T. Dvořák, *Družstevní právo* (The Cooperative Law), C.H.BECK, Prague, 2006

J. Havlíčková, "Přehled nejdůležitějších změn v právní úpravě bytových družstev po 1. 1. 2014," available at: <http://www.katalog-pravniku.cz/clanek/prehled-nejdulezitejsich-zmen-v-pravni-uprave-bytovych-druzstev-po-1-1-2014>

M. Hoření, "Důvěra v záložny se postupně obnovila." (The Confidence in Credit Unions Is Gradually Restored) In: *Haló noviny*, 12.6.2013, available at: <http://www.halonoviny.cz/articles/view/6720498>

V. Hubáčková, *Struktura družstva a evropské družstevní společnosti* (The Structure of the Cooperative and of the European Cooperative Society), Diploma thesis, Masarykova univerzita, Právnická fakulta, (2007), available at: http://is.muni.cz/th/76112/pravf_m/

M. Hunčová, *Družstva a jejich role v tržní ekonomice* (Cooperatives and Their Role in Market Economy). Ústí nad Labem: STUDIA OECONOMICA, 2006

I. Kejik, *Právní úprava družstev v českých zemích* (manuskript), 2011, published at: http://www.dacr.cz/info_vychovne.php

L. Mikmeková, *Právní úprava postavení a činnosti dohlážených finančních institucí v ČR* (Juridical Standing of the Financial Institutions and Financial Services in the Czech Republic), Diploma thesis, Masarykova univerzita, Ekonomicko-správní fakulta, 2014

D. Sillmen "Budoucnost družstevních záložen: připravte se na rušné období" (The Future of Czech Credit Unions), 2014, available at: <http://www.mesec.cz/clanky/budoucnost-druzstevnich-zalozen/>
 J. Svoboda (ed.), 2008): *160 let českého družstevnictví* (160 Years of Czech Cooperativism), Družstevní asociace ČR, Prague 2006, available at: <http://dacr.cz/dokumenty/doc/kniha.pdf>

J. Zábojová Vepřová, *Právní úprava družstva v zákoně o obchodních korporacích I.* (Legal Regulation of Cooperatives in the Law on Business Corporations I.), 2013, available at: <http://www.panelplus.cz/cz/1032.pravni-uprava-druzstva-v-zakone-o-obchodnich-korporacich>

² By "collectivisation" is meant the obligatory and often forcible formation of collective farms during the period of the really existing socialism. It took place in several phases from the 1950s until the 1970s. See the chapter on History.

³ Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE), available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32003R1435&rid=3>

Social Cooperatives in the Hungarian Legislation¹

Erika Kármán

The European Union considers the concept of social economy as one of the ways of development in the 21st century, and it has emphasised the institutionalisation and improvement of this concept in the past decades. Social economy can be seen as a separate sector besides the business and public sectors, and it involves a huge variety of social, voluntary and entrepreneurial activities. The social cooperative is a new, special community form of social economy, and contrary to a business enterprise its primary aim is not profit maximisation, but it prefers other community aims and needs (education, cultural and social development, employment).

The legal framework in Hungary

The Hungarian National Assembly adopted the New Constitution (*Alaptörvény*) in 2011, which regulates the legal system, fundamental civil rights and obligations and it defines fundamental rules for the Hungarian state. As the Constitution is at the apex of the hierarchy of Hungarian legislation, every other law must be compatible with it. In the legal hierarchy the Constitution is followed by acts then state regulations and local government regulations. In Hungary the fundamental operation of non-profit organisations is regulated in the following acts: the Civil Code, the Act on Freedom to Association, the Act on Public Benefit organisations and the Act on Business Associations.

The emergence of social cooperatives, their purpose and possible role

Cooperatives in general and social cooperatives in particular can provide a solution or at least a tool to solve problems related to employment, social security, rural development and agricultural policy. The possibility to establish a social cooperative was in Hungary first introduced in 2006, when the Act X. of 2006 on Cooperatives was adopted. The legislation on social cooperatives has not been modified since 2013.

The social cooperative is a special form of a cooperative with its own regulations. The social cooperative is founded on the basis of the amount of share capital specified in the by-laws and operates on the principles of open membership and variable capital. It has a legal subjectivity and aims to promote economic and other (cultural, educational, social, health) needs of its members. It aims to create job opportunities for its unemployed and socially disadvantaged members and to improve their social status.

A social cooperative can operate and be registered as a public benefit organisation if it fulfils the requirements of the Act on Public Benefit Organisations. The Act defines which activities are deemed as public benefit activities (e.g.: supporting families, providing elder care, educational and cultural activities, supporting disadvantaged groups, training unemployed people and the like). These regulations make clear the difference between cooperatives and business associations, because the cooperative is not a specific business association. Even if both of them generate profit, the business association's only aim is to maximise profit, while the cooperative focuses on economic, cultural, social and educational needs of its members.

In the business association, the profit allocation is in proportion to the capital contribution, while in the cooperative one part of the income goes to the community fund, and the other part goes to the members in proportion to their work in the cooperative and their financial contribution. The business association generally does not form financial funds for community purposes, while this is the purpose of the community fund of the cooperative. In the business association, the participation in decision-making is usually determined by the rate of capital contributions, while in the cooperative the 'one member – one vote' principle is applied.

The establishment of a social cooperative

A social cooperative may be established by no fewer than seven natural persons. At least seven people are required to establish cooperative's committees (the Board of Directors and the Supervisory Board) to avoid the conflict of interests in different positions of the committees. A business association or any form of an NGO cannot be among the founding members, neither can during the operation of a social cooperative a business association or an NGO become its member or the kind of an investor whose primary aim is to gain economic benefits.

All members of the social cooperative are obliged to contribute to the activity of the cooperative. Previously, the personal contribution was allowed only in the form of employment, or business or an engagement agreement. Since 2013, it has been allowed to work for a cooperative also as a member, without an employment contract. This measure is called the member contribution – a special form of a personal contribution. On the other hand, all types of personal contribution have to be included in the by-laws.

The member contribution is regulated by the Act IV. of 1991 on Promotion of Employment and Support to the Unemployed. Based on this Act, only those people can work as members for a cooperative who are registered job seekers or are under public employment. If these people get employed by another employer, their member contribution has to be intermitted.

The members' personal contribution has to be linked to a concrete activity of the organisation. The by-laws can define the personal contribution as obligatory.

Registration

After 30 days of the approval of the by-laws, the establishment has to be reported at the competent registry court at the location of the cooperative. The cooperative can carry out economic activities only after its registration. The cooperative comes into existence when it has been registered in the Business Register. The legal supervision is exercised by the competent registration court. Any member may request the court to review a decision of the cooperative or its bodies if there is suspicion that the decision might be in conflict with legislation or the by-laws of the cooperative.

The by-laws define the minimum capital contribution of the members, which is mandatory for everyone. Under the principle of solidarity, the by-laws shall specify the forms and procedure of granting benefits to the individual members and their dependents.

The Act from 2013 addresses the members' tax and social security payments and provides measures that relieve the social cooperatives of a tax burden and help them to strengthen and develop in the first years.

The introduction of social cooperatives into the Hungarian legal system, specifically to the Hungarian Act on Cooperatives was a good step. There is no

doubt that it is necessary to review the practical applicability of certain existing rules, and then to review and modify them. However, it can be stated, that even in the 21st century the cooperatives can fulfil their role created more than a century ago as social cooperatives.

Notes:

¹ This chapter is based on the following sources:

NESsT: *A nonprofit szervezetek önfinanszírozására vonatkozó jogi útmutató*. At: www.nesst.org
Nemzeti Adó és Vámhivatal: *Tájékoztató a szociális szervezetek foglalkoztatási lehetőségeinek szélesítésével összefüggő egyes kérdésekről*

R. Számadó, *Módszertani kézikönyv, Szociális szervezetek, az alakulástól a fenntartható működésig*, available at:

<http://szoszov.hu/modszertani-kezikonyv-szocialis-szovetkezetek-szamara>

M. Réti, *Mit biztosít ma a jogszabályi háttér Magyarországon a szociális szervezetekkel kapcsolatban*, available at:

<http://szoszov.hu/dr-reti-maria-mit-biztosit-ma-a-jogszabalyi-hatter-magyarorszagon-a-szocialis-szovetkezetekkel>

Website:

http://www.nav.gov.hu/nav/ado/egyebkot/tajekoztatas_20130603.html

An Overview of the Current Legislative Framework and Performance of Social Cooperatives in Poland

Tomasz Schimanek

The background

The idea of social cooperatives in Poland was inspired by the Italian example of social cooperatives and appeared as a response to the growing challenges related to vocational and social integration of people threatened with social exclusion.

The first attempt to bring this idea closer to practice was the Act on Social Employment, adopted in 2003.¹ It defined, for the first time, the notion of socially excluded persons and it indicated a possibility of vocational activation of such people in the form of worker cooperatives.

The next step was the introduction of the concept of the social cooperative in the National Strategy for Social Integration, elaborated in the National Action Plan for Social Integration. The National Action Plan was adopted by the Council of Ministers in 2004. The Plan, among other things, pointed to the development of social employment and social cooperatives as instruments for counteracting social marginalisation.

The term social cooperative appeared in the Act on Promotion of Employment and Labour Market Institutions dated 20th of April 2004. This Act amended the Cooperative Act by introducing a possibility of forming a new type of cooperatives – a specific type of not-for-profit worker cooperatives. The Act introduced also some forms of support to social cooperatives to be provided from the Labour Fund.²

The final stage of introducing the institution of the social cooperative was in 2006 the adoption of the Act on Social Cooperatives which now provides the basis for forming and operation of this type of entities in Poland.³ The Act was amended three times: in 2009, 2010 and 2011. The most important changes concerned, for instance, the proportion of people threatened with social exclusion to other members of the cooperative. Originally, the required percentage of people threatened with social exclusion was at least 80% of all members; the amendments lowered it to 50%. Another change consisted in introducing a possibility to employ members of the cooperative on the basis of other civil law contracts and

not only the cooperative employment contract. A change was also introduced making it possible for legal persons to form a social cooperative.

Current legislative framework

The objective of a social cooperative is to run a common enterprise based on individual work of its members. A social cooperative is, therefore, a kind of a worker cooperative, different, however, in that profit generated by the cooperative cannot be distributed among its members. The entire balance sheet surplus must be allocated towards the cooperative's reserves and the purposes related to its re-integration activity.

A social cooperative is formed in order to work for:

- Social re-integration of its members, which should be understood as activities aiming at restoring and maintaining the ability to participate in the life of the local community and to fulfil social roles at the place of work, residence or stay,
- Vocational re-integration of its members, which should be understood as activities aiming at restoring and maintaining the ability to provide work independently on the labour market – and these activities shall not be performed as part of the social cooperative's business activity.

A social cooperative has the legal personality and is subject to entry into the National Court Register (KRS). A social cooperative may have from 5 to 50 members. It can be founded by persons belonging to at least one of the following categories: the unemployed, the disabled, the alcohol, drug or other intoxicants addicts after they have completed their treatment, the mentally ill, the homeless following individual programmes of transition out of homelessness, people leaving prison having problems with social re-integration, refugees participating in individual integration programmes. A cooperative may also be founded by other natural persons, they cannot, however, constitute more than half of its members.

Additionally, a social cooperative may also be founded by at least two of the following legal persons: non-governmental organisations, local governments, churches. After founding a social cooperative, the legal persons are obliged to employ at least 5 persons threatened with social exclusion within 6 months from registering the cooperative at the National Court Register.

Important features of a social cooperative include: democratic management (one member – one vote), autonomous character and responsibility (including

economic responsibility) of all members. The highest governing body of the cooperative is the general assembly of its members.

Apart from business activity, social cooperatives may also engage in socially beneficial activities in the sphere of public benefit tasks⁴ and use, for this purpose, the support of volunteers.

Social cooperatives may take advantage of a number of entitlements, for instance, a one-off support from the Labour Fund for starting a business activity for each of the founding members of the social cooperative, one-off support from the State Fund for Rehabilitation of Disabled Persons *PFRON* for disabled people for making their contribution to the cooperative, exemption from an application fee paid for the entry into the National Court Register and for an application fee for amendments to the entry, possibility to use the Labour Fund to finance pension, disability pension and accident insurance premiums for people threatened with social exclusion, exemption from the income tax on the income spent on social and vocational re-integration of the cooperative members in a given year. Cooperatives may also participate in procedures for public procurement, public procurement with social clauses and receive subsidies for public benefit activities.

The most important functions

The main function of social cooperatives is social and vocational re-integration of its members. This function is to be fulfilled by conducting business activity which is the source of income from work for the cooperative members and employees as well as a form of vocational integration.

Another important function is community-based, participative management of the social cooperative. Such an approach has also an educational dimension, as it teaches responsibility and cooperation. The third important function is creation of jobs for people from socially excluded groups. Cooperatives also work towards other social goals in the sphere of public benefit.

The current condition of Polish social cooperatives

There are 471 social cooperatives registered in Poland (as of the 8th of May 2012).⁵ It may be estimated that about half of them actually perform any real activity. A great majority of them are cooperatives formed by natural persons. These usually have few members, between 5 and 10 members in a single cooperative.

As it was presented in the governmental report on the functioning of social cooperatives⁶, among the members of cooperatives threatened by social exclusion, the predominant groups are the unemployed (more than 80%) and disabled people (almost 40%), whereas the number of people addicted to drugs, refugees or people leaving prisons is marginal. The level of employment of people who are not cooperative members is also low. On average, a single social cooperative employs 2 such persons. Less than 1/5 of cooperatives use the assistance of volunteers.

Almost half of cooperatives are engaged in business related to house and garden work (cleaning, design, taking care of customers' homes and gardens). Other areas of activity include construction services (33.3%) and catering services (27.9%). Almost half of cooperative members (44%) have poor or very poor opinion of their own chances to compete on the open market. The predominant elements in social activities of the cooperatives are those of social and cultural nature, addressed to the cooperative members (85.7% of cooperatives). Activities involving cooperation, i.e they are carried out jointly with other organisations, are performed by 67.1% of cooperatives.⁷

The most important benefits from the activities of social cooperatives are related to the labour market. The most frequently cited ones included creation of new jobs (80.9%) and restoring and maintaining the members' ability to provide work, independently, on the labour market (72.9%). Another group includes benefits related to impact on local community and better functioning of society. The most frequently mentioned example was strengthening ties among people and the sense of participation in social life (59.3%). The financial condition of social cooperatives is not satisfactory. In 2010, half of them had negative financial results. 27% of cooperatives recorded a zero financial result. Only 23% of social cooperatives had a positive financial result. 48% of cooperative members assess the financial condition of their cooperatives as bad or very bad. Only 15% state that the economic situation of their cooperatives could be better. 39% of the respondents believe that the situation of their cooperatives has deteriorated as compared to the previous year.⁸

Weaknesses of Polish social cooperatives

Polish social cooperatives have been in existence for 6 years. This period has not resulted in a quantitative boom, expected by some advocates of this legal form. Those almost 500 social cooperatives registered so far is not a big number, especially as some of them do not really conduct any activity. It is telling that

the situation is similar in Hungary, where the cooperatives have been formed for 6 years and their number is not high either.⁹

Finances is the weakest point of Polish social cooperatives. Almost half of cooperatives have a negative financial result, even though they are trying to minimise the costs of their operation, which also results in the very low level of wages in most of these cooperatives. It is, to a great extent, an effect of the problems in running the business which was expected to be the main source of funding for the cooperatives' operations. The reason for this problem is that the majority of cooperatives' members are not prepared to run their own business and have no experience in this type of activity. Another reason for these difficulties is the lack of capital for starting their own business. Loans and credits will not fill this gap as they are usually not accessible for most cooperatives. One of the ideas to remedy the situation was to provide a possibility for legal persons to form social cooperatives. The experience so far has shown that this idea can work in the case of local governments, which, as founders, can hand their contribution over to the cooperative, for instance, in the form of premises or providing some transportation means. But this has, at the same time, brought a risk that such cooperatives may become dependent on local authorities.

So far, therefore, social cooperatives have not been, on a national scale, a significant instrument of social and vocational integration, primarily because there are still not many of them and they do not provide a substantial number of jobs. For the time being, they have not proved to be an instrument used by some groups of the socially excluded, for instance by refugees or people leaving prisons. The practical experience also shows that the participatory function is poorly fulfilled because for many members of cooperatives joint responsibility and management is too much of a challenge.¹⁰

These weaknesses encourage reflection on how they could be eliminated to enable growth of the social cooperatives movement. The issue of key importance is obviously education and proper preparation of socially excluded people to jointly run a social cooperative. It is also necessary to create support mechanisms for the cooperatives in the form of loans, credit and guarantees tailored to their capabilities (e.g. to pay back the loan). It is certain that the public administration should use, on a much broader scale, the social clauses, which facilitate the social cooperatives' access to public procurement.

However, it is also worth mentioning that problems similar to those encountered in Poland, have also appeared in the case of Hungarian social cooperatives.¹¹ This may mean that there are some errors in the systemic solutions related to

social cooperatives. Therefore it would be worth examining which of the proposals included in the Act on Social Cooperatives have served their purpose and which require adjustment.

Notes:

¹ Act on Social Employment dated 13th of June 2003 (Journal of Laws No. 122, item 1143 as amended)

² Act on Promotion of Employment and Labour Market Institutions dated 20th of April 2004 (Journal of Laws No. 99 item 1001 as amended)

³ Act on Social Cooperatives dated 27th of April 2006 (Journal of Laws No. 94 item 651 as amended)

⁴ Public benefit tasks are tasks indicated in the Article 4 of the Act of the 24th of April 2003 on Public Benefits and Voluntary Work (Dz. U. no 96, item 873 as amended). The public tasks sector shall extend to work in the fields of social welfare, including aid offered to families and individuals with social problems, and work to offer equal opportunities to such families and individuals; charity work; preserving national traditions and Polish values; developing national, civic, and cultural awareness; working to support national minorities; health care and promotion; work to support the disabled; promoting employment, and professional activation of the unemployed and of individuals threatened with job loss; promoting and protecting women's rights, and work to support equality of rights regardless of gender; work to support economic development, entrepreneurship development included; work to support the development of local communities; science, education, coaching, and upbringing; knowledge touring and recreation (children and young people); culture, art, protection of heritage in culture and tradition; promoting physical culture and sports; ecology, animal protection, protection of natural heritage; public order and safety, social pathologies prevention; promoting skills and knowledge in the field of state defence; promoting and protection of human and civic rights and freedoms; work to support the development of democracy; rescue systems and protection of residents; aid to victims of calamities, natural disasters, armed conflicts and warfare – in Poland and abroad; promoting and protecting consumer rights; work to support European integration, and the development of contacts and co-operation between societies; promoting and organising volunteer work; work to provide technical, training, information, and/or financial aid to non-governmental organisations and entities specified in Article 3, Clause. 3, to a scope defined in items 1 through 23.

⁵ As cited in: www.ozrss.pl

⁶ See the report on the functioning of social cooperatives operating under the Act of the 27th of April 2006 on social cooperatives for the period 2010-2011, available at http://www.ekonomiaspoleczna.pl/files/wiadomosci.ngo.pl/public/korespondenci/portalekonomiaspoleczna/informacja_sp_soc_2010_2011.pdf

⁷ See the report on the functioning of social cooperatives operating under the Act of the 27th of April 2006 on social cooperatives for the period 2010-2011, available at http://www.ekonomiaspoleczna.pl/files/wiadomosci.ngo.pl/public/korespondenci/portalekonomiaspoleczna/informacja_sp_soc_2010_2011.pdf

⁸ Ibid.

⁹ Presentation by Anna Horvath from the NESsT Hungary during the seminar “Social Cooperatives – Polish and Hungarian Experiences” organised by the Institute of Public Affairs on the 26th of April 2014 in Warsaw

¹⁰ See E. Bogacz-Wojtanowska, M. Lenzion, I. Przybysz, *Sukces i trwałość ekonomii społecznej w warunkach polskich* (The Success and Sustainability of the Social Economy in the Polish Context), Institute of Public Affairs, Warsaw 2014.

¹¹ Presentation by Anna Horvath from the NESsT Hungary during the seminar “Social Cooperatives – Polish and Hungarian Experiences” organised by the Institute of Public Affairs on the 26th of April 2014 in Warsaw

Cooperatives in the Legislation of the Slovak Republic

Mária Nemcová and Martin Hadbavný

Introduction

From a global perspective, and particularly in terms of the European Union, a significant importance is attached to the cooperative movement, especially with regard to the tradition of cooperatives in European countries and their important role in all areas of economic activity and in meeting social policy objectives in general.

Notwithstanding the aforementioned, in the European Union, and particularly in the Slovak Republic, the potential of cooperatives may be considered as not fully utilized, while this is apparent especially as regards so-called credit cooperatives/credit unions and provision of financial and banking services, where limits restricting the operation of cooperatives in these areas still remain. Furthermore, the stated areas represent one of the essential factors for establishment and effective functioning of organized cooperatives and achievement of their objectives.

Fundamental aspects of cooperative legislation

Generally, the cooperative is a legal entity, whose legal form is recognised and governed by the Slovak Act No. 513/1991 Coll., Commercial Code, as amended ('Commercial Code'), separately from business companies. However, general rules regarding business companies subsidiary apply also to cooperatives.

Within the terms of the Slovak Republic, a cooperative may be characterised as a legal entity with voluntary open membership and variable capital.¹ The specificity of cooperatives consists namely in principles such as self-governance, self-help, mutual support and benefit, as well as the principle of cooperative democracy (one member – one vote) that is also regulated in the Commercial Code, however, not peremptory.²

Basic characteristics

Legal regulation of the cooperative is presented in section 221 et seq. of the Commercial Code, where the cooperative is defined as a "community of unre-

stricted number of persons (i.e. members) established either to conduct business, or to satisfy economic, social and other needs of its members.”

Members of a cooperative may be both natural persons and legal entities (e.g. also another cooperative). A cooperative must have 5 members at least, except for situations where members of a cooperative are legal entities, in which case 2 members are sufficient.

A cooperative is a legal entity with its own legal personality, which has *ex lege* a status of an entrepreneur and is liable for any breach of its obligations with all its property. Members of a cooperative are not liable for obligations (debts) of the cooperative, i.e. they do not have a position of guarantors with respect to cooperative’s creditors. However, cooperative by-laws may lay down that all or some members are obliged to cover losses of the cooperative up to a certain limit exceeding their membership fee.

Registered capital³

The aggregate amount of all membership fees constitutes the registered capital of a cooperative ('registered capital') which is, however, due to open membership of cooperatives, variable. Registered capital in the aforementioned sense is not registered in the Commercial Register, while only a certain part of the registered capital, specified in by-laws of a cooperative, is registered in the Business Register. The Commercial Code uses for these purposes the concept of recorded registered capital and circumscribes its minimal amount to 1,250 Euros. At the moment of its registration in the Business Register, the recorded registered capital must not be higher than the aggregate amount of membership fees (i.e. it must not exceed the “real” registered capital), however, it may be (and usually is) lower than the “real” registered capital of a cooperative. In this regard, if the registered capital decreases under the statutory minimum limit, such situation constitutes a statutory reason for dissolution of the cooperative by means of a judicial decision.

Both registered capital and recorded registered capital may be increased or reduced based on the decision of the general membership meeting, however, certain statutory conditions must be fulfilled.⁴

The membership fee⁵

A requirement of commencement of the membership in a cooperative is payment of either a membership fee determined by the by-laws of a cooperative ('basic membership fee') or a certain part of the basic membership fee specified in the by-laws ('initial membership fee'). It should be mentioned, that by-laws of

a cooperative may prescribe a different amount of a basic membership fee or an initial membership fee for natural persons and for legal entities.

The membership fee does not need to be limited by the amount of the basic membership fee⁶, as by-laws can further also permit that members of a cooperative may undertake to pay additional membership fees, and thus increase their capital participation in the cooperative under the conditions set forth in the by-laws. The undertaking of additional fee has subsequently a direct impact on the amount of profit share, settlement share, and liquidation share (unless the by-laws of a cooperative provide otherwise), however, it does not have any effect on the number of votes on membership meeting, unless the by-laws explicitly stipulate it.⁷

At the time of foundation of a cooperative, the basic membership fee (or initial membership fee) must be paid in a manner determined by the constituent membership meeting within 15 days of the date when the constituent membership meeting was held. Further, a member must pay his/her membership fee that exceeds his/her initial membership fee within 3 years, unless the by-laws provide a shorter period. It should be noted that determination of the maximum period for payment of the membership fee is peremptory, i.e. the by-laws may stipulate only a shorter period. However the maturity period for payment of unpaid amounts of membership fees can be shortened based on a decision of the membership meeting, but only if a loss suffered by a cooperative requires it.

The Commercial Code explicitly stipulates a prohibition of payment of any interest accruing on membership fees to members of the cooperative, except for cases stipulated by the law.

The indivisible fund

Under the Commercial Code, each cooperative is, upon its incorporation, obliged to establish an indivisible fund amounting to at least 10% of the recorded registered capital.

The indivisible fund may be used only for economic purposes set forth in the cooperative's by-laws, to overcome unfavourable course of economic activities of the cooperative, or to recover cooperative's losses.

Establishment of a cooperative

The process of establishment of a cooperative consists of 2 stages namely the stage of foundation of a cooperative and the stage of its incorporation.

Foundation – the constituent meeting

The pre-condition of foundation of a cooperative is a constituent membership meeting ('constituent meeting') which determines the amount of recorded registered capital, approves the by-laws and elects bodies of the cooperative.⁸ Therefore, those who intend to found a cooperative have to initiate the convocation of a constituent meeting, at which persons who have submitted an application to join the cooperative are entitled to vote (each applicant has one vote).

The constituent meeting results in the foundation of a cooperative, only if applicants for membership in the cooperative have undertaken to pay up membership fees the aggregate sum of which is equal to the amount of recorded registered capital (i.e. 1,250 Euros at minimum). However, at the time of its foundation a cooperative is not yet a legal entity, and therefore it does not have legal personality.

The course of the constituent meeting must be certified in a notarial deed which shall include a list of members and amount of their individual membership fees which they undertook to pay up at the constituent meeting. Further, the approved wording of the cooperative's by-laws shall be attached to the notarial deed as appendix.

Incorporation – registration of the cooperative in the Business Register

A cooperative comes legally into being (i.e. acquires legal personality) on the day of its registration in the Business Register. Prior to filing of the application for registration of the cooperative in the Business Register, at least one half of the recorded registered capital must be paid up. The application for registration of the cooperative in the Business Register must be signed by all members and submitted by the managing board. However, it should be emphasised that a competent registration court will perform the registration of the cooperative only if all statutory requirements have been met and no errors during the stage of foundation of the cooperative occurred.

By-laws

The by-laws are a fundamental document of each cooperative as these do not only stipulate the rules of governing (as regards both relations between members and the cooperative and common relations among its members), but also regulate the legal position of the cooperative externally, in relation to third persons. The by-laws must include all particulars obligatory required by the Commercial Code, but may also regulate other matters concerning the internal organisation of a cooperative based on own discretion of the cooperative or its members.⁹ Any alterations or amendments to the by-laws may be performed only on the basis of a decision of the membership meeting.

Cooperative bodies

According to the Commercial Code, obligatory bodies of a cooperative are the membership meeting,¹⁰ board of directors¹¹ and the audit and control committee.¹² However, by-laws of a cooperative can determine that further bodies of the cooperative may be established. In a so-called small cooperative (i.e. a cooperative which has less than 50 members), the by-laws can stipulate that a membership meeting exercises the powers of the board of directors and/or the audit and control committee. As for general statutory requirements concerning members of cooperative bodies, only natural persons who are members of the cooperative and are over the age of 18 and natural persons who represent legal entities which are members of the cooperative may be elected to cooperative bodies.

The term of office of cooperative bodies members is determined by the by-laws of a cooperative, however, pursuant to the Commercial Code the term itself may not exceed 5 years. With respect to the performance of the position of a member of a cooperative body, the Commercial Code sets forth also certain statutory limitations. In this regard, the position of a member of the board of directors and a member of the audit and control committee are mutually incompatible. As a further statutory limitation, the Commercial Code defines also an obligatory statutory ban of competition which cannot be excluded by the by-laws.¹³ Members of the board of directors and of the audit and control committee are obliged to discharge their duties with due care and in line with the interests of the cooperative and all its members, and they are liable for damage caused to the cooperative by violation of their aforementioned duties.

Membership in the cooperative¹⁴

The legal status of a member and his/her membership interest

The concept of membership interest is used by the Commercial Code, under which it represents the extent of a member's participation in a cooperative. The amount of membership interest is determined as a ratio of the membership fee to the registered capital of a cooperative, unless the by-laws stipulate otherwise. Each member may only have one membership interest in the cooperative. Generally, membership interest is represented by a set of member's rights and duties and constitutes an asset value which is an object of legal relations.

Commencement and termination of membership

The Commercial Code leaves the detailed regulation of commencement and termination of membership up to cooperatives and their by-laws. However, it generally applies that once all requirements determined by the Commercial Code¹⁵ and the by-laws of a cooperative are met, membership in a cooperative shall

commence (i) if the cooperative is being established, on the date when the cooperative is incorporated (i.e. is registered in the Business Registry), (ii) during the existence of the cooperative, by being accepted as a member based on a written application,¹⁶ (iii) upon transfer of membership¹⁷ or (iv) in other manner laid down by the Commercial Code.¹⁸ However, no membership can commence before payment of the basic membership fee or initial membership fee.

Membership in a cooperative may in general be terminated under a written agreement, withdrawal,¹⁹ expulsion,²⁰ announcement of bankruptcy against the member's property, dismissal of a bankruptcy order due to member's lack of property, or upon cessation of legal existence of the cooperative. As far as a natural person is concerned, membership of such an individual terminates upon his death.²¹ Membership of a legal entity in a cooperative terminates upon its liquidation, or if a bankruptcy order is made, or upon cessation of its legal existence.²²

Rights and duties of members

Rights and duties of members shall be governed by the by-laws of a cooperative and respective provisions of the Commercial Code. However, with respect to the relation between the by-laws and the Commercial Code, we would like to point out that the by-laws of a cooperative may not regulate certain aspects concerning the cooperative contrary to mandatory provisions of the Commercial Code. Taking into account the foregoing, it can be noted that members have particularly the following rights and duties:²³

- (i) *the membership fee*; one of the fundamental obligations of a member is to pay a fee to the cooperative in the amount specified in the by-laws.
- (ii) *premature payment of the fee*; based on a decision of the membership meeting (if it is required due to a loss suffered by the cooperative), a member may be obliged to pay up unpaid amounts of the membership fee before the lapse of a respective maturity period.
- (iii) *payment duty beyond the fee*; based on a decision of the membership meeting, a member may be obliged to make payments in favour of the cooperative up to a certain limit in excess of his/her fee in order to cover losses of a cooperative.
- (iv) *distribution of profit*; if a cooperative generates profit, the membership meeting decides on the amount of profit to be distributed among members of the cooperative. The Commercial Code provides that the member's share, to be distributed among members shall be established as a ratio between the amount of that member's paid-up fee and the amount of the paid-up fees of all members. However, it should be emphasised that the abovementioned rule on distribution of profit is not mandatory, and therefore may be adjusted either by by-laws of the cooperative or by a decision of the membership meeting.

- (v) *management of the cooperative*; all members have a right to participate in management of activities of the cooperative. In this regard, it should be emphasized that each member of the cooperative is authorised to file on behalf of the cooperative a) an action for compensation of damage against members of the board of directors or audit and control commission, who are liable for the damage caused to the cooperative and b) an action for payment of the fee against a member of the cooperative who is in default with payment of his/her fee, unless the membership meeting decided to expel such member.
- (vi) *settlement share*; upon termination of membership during the existence of the cooperative, the concerned member shall have a right to payment of a settlement share. However, as rules on determination of the amount of the settlement share provided in the Commercial Code are not mandatory, they may be adjusted by the by-laws.
- (vii) *liquidation share*; in the event of dissolution of the cooperative accompanied by its liquidation, each member has a right to receive a share in the liquidation balance that results from the liquidation. As the rules on distribution of the liquidation balance under the Commercial Code are not mandatory, the by-laws of the cooperative may adjust them or provide that liquidation balance is not to be divided among the members.

Termination of the cooperative

Similar to the process of establishment of the cooperative, the process of termination of the cooperative itself is divided into two phases. While the first phase consists of dissolution²⁴ of the cooperative (occurring with liquidation or without liquidation), the second phase relates to deletion of the cooperative from the competent Business Registry. It should be emphasised that the cooperative shall cease to exist as a legal entity upon the termination process is finalised, i.e. upon its deletion from the respective Business Registry.

Financial cooperatives/credit unions

Despite a considerable historical tradition in Eastern Europe, the idea of cooperative banks, or credit unions began to re-emerge only after political changes in the early 1990s.²⁵ In this regard, a particular example may be seen in the Czech Republic, where the Act No. 87/1995 Coll. on Credit Unions and certain related measures and on the amendment of the Czech National Council Act no. 586/1992 Coll. on Income Taxes, enabled the establishment and operation of these institu-

tions. The said Act among others enabled credit cooperatives, upon meeting and subject to certain conditions provided therein,²⁶ to receive from its members repayable contributions (other than membership fees), provide to its members credits and certain special services which are generally confined to banks and financial institutions (e.g. provision of payment services, clearing, issuing and administration of payment instruments, purchase and sale of foreign currency, opening letters of credit, provision of guarantees and financial guarantees).

Notwithstanding the foregoing, in the Slovak Republic, there are as of today no adequate conditions created for the possibility of establishment and operation of credit unions that would be similar to those established in the Czech Republic, while credit unions (in its original meaning of a legal entity providing also certain banking and financial services) exist within the Slovak Republic only in the form of branches of foreign credit cooperatives. Irrespective of the aforesaid, cooperatives formed under the laws of the Slovak Republic may provide to its members loans and credits (without the provision of banking and payment services), however, only in a limited form and subject to certain legal requirements and limitations.

Provision of credits and loans by cooperatives in the Slovak Republic

As for the possibility of Slovak cooperatives to provide credits and loans in the Slovak Republic, this possibility will always depend on individual circumstances and intentions of a respective cooperative, whereby certain legal restrictions may arise in this regard with respect to the activity of such cooperative. In this relation, it will primarily depend on the fact whether a respective cooperative intends to provide credits and loans as part of its business,²⁷ or whether such activity will only be occasional and not related to its scope of business.

In case that the provision of credits and loans shall be done as part of business, such activities may generally be performed by Slovak legal entities only in the following forms:

- (i) *bank credits and loans*, i.e. provision of credits and loans as part of business from repayable funds received from other persons on the basis of a public invitation. Under the Slovak Act No. 483/2001 Coll. on banks and on amendments to certain acts ('AoB'), such activity may however be performed from entities incorporated under Slovak law only by banks (i.e. legal persons located in the Slovak Republic which were established as joint stock companies) after obtaining a banking license. As the AoB

specifically stipulates that only legal persons established as joint stock companies can provide credits and loans, such provision of bank credits and loans may not be performed by Slovak entities with a different legal form (such as cooperatives).

- (ii) *non-bank credits and loans*, i.e. provision of credits and loans from financial means, which are not repayable (i.e. which form own resources of persons providing credits or loans) and which were obtained without a public invitation or public offering of assets. Credits and loans in this form may be provided by any Slovak entity (including cooperatives) which obtained the respective trade license under the Slovak Act No. 455/1991 Coll. on trade licensing and which meets general conditions for pursuit of trade (i.e. minimum age of 18 years, legal capacity, integrity).²⁸ In case an entity intends to provide non-bank credits and loans, it does not need to obtain a banking license, however, if such credits and loans will be provided also to consumers, further legal conditions must be met, as these are stated hereafter.
- (iii) *consumer credits and loans*, i.e. temporary provision of financial means under a consumer credit contract²⁹ in form of a loan, credit, deferred payment or similar financial assistance provided by a creditor³⁰ to a consumer³¹ under the Slovak Act No. 129/2010 Coll. on consumer credits and other credits and loans for consumers and on amendments to certain laws ('AoCC'). The said Act further provides a complex regulation of rights and obligations related to providing consumer credits and loans under a consumer credit contract, conditions for providing consumer credits, statutory particulars as regards consumer credit contracts, as well as a definition of certain types of credits that shall not be deemed to be consumer credits and which are not subject to AoCC.³² Credits and loans in this form may be provided by any Slovak entity (including cooperatives) which meets certain general conditions³³ set forth in the AoCC and which is registered in the Register of Creditors providing consumer credits kept by the National Bank of Slovakia.

Shall the provision of credits and loans not represent part of business of a cooperative (i.e. such activities will be performed only occasionally and not for the purpose of making profit), such cooperative will generally not be subject to the aforementioned statutory conditions and limitations. However, given the complexity of this matter, the question whether a cooperative may provide credits and loans beyond its business activity, or whether respective statutory limitations apply, shall always depend on the particular case and its individual assessment.

Slovak cooperative legislation vs. international cooperative principles

In 1995 the International Cooperative Alliance (ICA) adopted following cooperative principles as guidelines by which cooperatives put their values into practice:

- (i) *Voluntary and Open Membership*,³⁴ This principle requires not only individuals and cooperatives, but also the State and its bodies to refrain from inducing or compelling persons, either directly or indirectly, to join a cooperative. Voluntariness further relates also to the question of remaining in a cooperative as its member, whereby in this regard the law should not connect the termination of membership in a cooperative with any direct or indirect sanctions.

Generally, the Slovak Commercial Code does not breach the principle of voluntariness of membership in a cooperative; however, it does neither protect nor support it in any way. With respect to the significance of this principle, it may be argued that voluntariness in the aforementioned sense and its adherence should become a legal principle explicitly declared and regulated by applicable legal regulation.

As for the principle of openness of membership in a cooperative, this principle among others states that a cooperative must not refuse an applicant for membership based on gender, social, racial, political or religious reasons. In this regard, we emphasised that the Commercial Code does not in any manner regulate the right of a refused applicant to defend himself/herself in case a cooperative breaches the respective principle (for instance if a cooperative refuses the applicant based on religious reasons). In this relation, we state that according to Article 14 of Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE) (“Regulation on SCE”), “candidates refused membership may appeal to the general meeting held following the application for membership.”

Taking into account the foregoing, it may be argued that the current legislation should reflect the principle of openness in its complexity and in this regard correspondingly set forth rights of a refused applicant, so that the applicable regulation will be in compliance with the said ICA principle.

- (ii) *Democratic Member Control*,³⁵ Although the Commercial Code does not expressly breach this principle, it should be noted that pursuant to Section 240 of Commercial Code “At the voting (at the membership meeting) each member shall be entitled to one vote, unless the by-laws provide otherwise.” In other words, the by-laws of a cooperative may regulate the number of votes per member differently and *ad absurdum* they may also exclude members’ votes. With respect to the aforementioned, we point out that under provisions

of the new Czech Act No. 90/2012 Coll. on business corporations ('Business Corporations Act') "When voting at the membership meeting each member shall be entitled to one vote, unless the by-laws provide that a member has more votes." However, the Business Corporations Act also explicitly and peremptory prescribes certain matters, in relation to which each member shall have one vote and the by-laws of the cooperative may not provide otherwise.

In relation to the foregoing, it may be argued whether Slovak legislation complies with the concerned principle of ICA. While some may argue that cooperatives shall have the power to stipulate in its by-laws the number of votes per member in accordance with their contribution to the capital of the concerned cooperative, the principle 'one member – one vote' should in certain matters concerning the cooperative be guaranteed by law in order to ensure the compliance with ICA principles.

- (iii) *Members Economic Participation***;³⁶ According to this principle, members shall contribute equitably to the capital of the cooperative. The Commercial Code does not expressly breach this principle; however, it does allow the by-laws of a cooperative to prescribe a different amount of a basic membership fee or initial membership fee for natural persons and for legal entities and further also to permit undertaking of payment of additional membership fees by members of a cooperative. Hence each member of a cooperative may in practice have a different capital interest in the cooperative, which is not in compliance with the said ICA principle.

Further, it should be emphasised that under this principle, surpluses may be allocated to members to their benefit in proportion to their transactions with the cooperative, i.e. profit share should be distributed to members according to their level of cooperation with the cooperative and not primarily in accordance with the amount of their contribution to the capital of the cooperative.³⁷ It should be noted that rules of distribution of profit (and rules for calculation of the settlement share) under the Commercial Code³⁸ are primarily based on the principle of proportionality of a member's paid-up fee to paid-up fees of all members, which is not in compliance with the said ICA principle. It may be therefore argued that the current legislation should be changed in a manner that will reflect the nature of cooperatives as personal and not capital associations.³⁹

- (iv) *Autonomy and Independence***;⁴⁰ The current Commercial Code does not breach this principle; however, it neither protects nor supports it in any way. As this principle forms in its nature and substance with the principle of voluntariness one unit, and further taking into account its significance, it may be argued that this principle and its adherence should

become a legal principle explicitly declared and regulated by applicable legal regulation.

- (v) *Education, Training and Information*⁴¹ The realisation of this principle is primarily a practical issue rather than a legal issue. The realisation of this principle in practice will therefore depend on a particular cooperative, resp. willingness and interest of society in general.
- (vi) *Co-operation among Cooperatives*;⁴² In the Slovak Republic, there is no statutory provision which either expressly prohibits or restricts the realisation of this principle. However, certain statutory limitations may arise when examining particular forms of possible cooperation among cooperatives in practice, for instance financial cooperation and support (e.g. provision of credits and loans). The question whether cooperation among cooperatives should be governed and supported by the applicable law (if yes how), may therefore be subject to a wider debate.
- (vii) *Concern for Community*;⁴³ In the Slovak Republic, there is no statutory provision which either expressly prohibits or restricts the realisation of this principle. However, taking into account the significance of this principle, it may be argued whether the current legislation fully enables or promotes the efficient implementation of this principle in practice.

Conclusion

In summary, as for the ICA principles and their implementation into the Slovak legislation, it may be concluded that the Commercial Code generally meets the said principles and their requirements. Notwithstanding the foregoing, the Commercial Code however contains also certain provisions which may not be considered to be in full compliance with the ICA principles. Therefore, it may be argued that the concerned provisions of the Commercial Code should be correspondingly amended, in order to ensure that the Slovak legislation fully complies with the ICA principles and their requirements. In this regard, due to their significance, it may be appropriate to explicitly declare and regulate certain (if not all) ICA principles in the applicable legislation, as well as to set forth effective means to enforce compliance with them, which is at the moment absent.

Taking into account the foregoing, we believe that in the context of the ongoing process of recodification of private law in the Slovak Republic, close attention should be given also to legislative adjustments of cooperatives and the cooperative law in general.

Notes:

¹ O. Ovečková, et al., *Obchodný zákonník. Komentár. 1. zväzok* (Commercial Code. The Commentary. Volume 1), Wolters Kluwer, Bratislava, 2012, p. 1074.

² L. Žitňanská, O. Ovečková et al., *Základy obchodného práva, 1. zväzok* (Foundations of Commercial Law, Volume 1), Iuris Libri, Bratislava, 2013, pp. 461-462.

³ Žitňanská, Ovečková, et al., op. cit., pp. 470-471.

⁴ E.g. the statutory condition for reduction of registered capital is that such reduction is inevitable for covering of the cooperative's loss which cannot be covered from other funds of the equity.

⁵ J. Suchoža J. Husár, et al., *Obchodné právo* (Commercial Law), Iura Edition, Bratislava, pp. 618-621.

⁶ Besides monetary membership fees, membership fees can be provided also as a contribution in kind, however, such contribution has to be valued either by the manner of evaluation prescribed by the by-laws or as determined by all members of a cooperative at the time of its foundation.

⁷ Žitňanská, Ovečková, op. cit. p. 472.

⁸ The constituent meeting passes resolutions and elects its bodies by a majority of attending applicants.

⁹ By-laws of a cooperative can also regulate employment relations between its members and the cooperative if an employment in the cooperative is one of the conditions for membership in the cooperative. However, the regulation of employment relations must not be contrary to provisions of labour law, unless the regulation set forth in the by-laws is more advantageous to members of the cooperative.

¹⁰ The supreme body of any cooperative is the membership meeting that decides on the most important affairs concerning the cooperative. All members are eligible to vote at the membership meeting which takes place at least once a year. In case of a very large cooperative, powers of the membership meeting can be exercised by an assembly of delegates, if this is in accordance with the by-laws. Similarly, by-laws may provide that the membership meeting can be held in parts and the votes are subsequently aggregated. The Commercial Code sets forth exclusive powers of the membership meeting. It should be emphasised that usually, each member has one vote at the membership meeting; however, by-laws can stipulate the number of votes per member differently.

¹¹ The board of directors is the executive body of the cooperative. It organises and manages activities of the cooperative, except from those that fall within the competence of the membership meeting or the audit and control committee. The chairperson of the cooperative (the board of directors) and the vice-chairperson are either elected by members of the board of directors or by the membership meeting. The board of directors can appoint a managing director (only if the by-laws allow it) to manage every-day activities of the cooperative; in such case the chairperson organises and chairs only the board of directors board. The appointed managing director does not have to be a member of the cooperative.

¹² The audit and control committee supervises all activities of the cooperative and considers complaints filed by cooperative members. The audit and control committee is an independent body which is accountable only to the membership meeting. Further, it is authorised to demand from the board of directors any information related to the financial management of the cooperative.

¹³ According to the ban of competition, members of the board of directors and the audit and control committee, procurators, and the managing director may neither be engaged as entrepreneurs, nor members of statutory or supervisory bodies of other legal entities pursuing similar scope of activities.

¹⁴ M. Patakiová, et al., *Obchodný zákonník. Komentár* (Commercial Code. The Commentary), 4. vydanie (4th edition), C.H. Beck, Praha (Prague), 2013, pp. 979-1002.

¹⁵ As far as natural persons are concerned, certain age is not a condition of commencement of the membership. However, if under the cooperative by-laws one of the conditions for commencement of the membership is the establishment of an employment relation between a member and the cooperative, only a natural person who completed elementary school education and is at least 15 years of age can become a member. In such case, membership

shall commence on the date of commencement of the employment contract and terminate on the date on which the employment contract is terminated.

¹⁶ During the existence of a cooperative, one of the conditions for membership is submission of a written application by the applicant and its subsequent acceptance by the board of directors of the cooperative, unless the by-laws authorise the a membership meeting to decide on acceptance of such applications. The maturity period for payment of a membership fee of an incoming member is stipulated either by the by-laws of the cooperative or by the decision on acceptance.

¹⁷ The Commercial Code distinguishes between the transfer of membership rights and duties ('transfer of membership') to another member of a cooperative and transfer of membership to a third person. With respect to the transfer of membership among members, the Commercial Code stipulates the principle of free transferability. It means that a member of a cooperative may freely transfer his/her membership to another member, unless otherwise provided in the by-laws of cooperative. The transfer of membership among members comes into effect once the cooperative is notified in writing on the transfer by the transferor and when a cooperative receives the transferee's written consent to his/her membership. An agreement on transfer of membership to the third persons (i.e. not to other existing member of the cooperative) is subject to a prior approval of the board of directors of the cooperative. However, if the board of directors withholds such approval, the member who intends to transfer his/her membership may appeal to the membership meeting. Upon approval by the board of directors or membership meeting, the transferee becomes the member of a cooperative with the same rights and duties as the member from whom these rights and duties were transferred. Further, please note that the by-laws can lay down reasons that generally exclude the transfer of membership to the third person. The by-laws can also stipulate instances when the managing board cannot withhold an approval of transfer of the membership, or instances when an approval by the board of directors to such transfer is not required.

¹⁸ Another manner of commencement of membership is, for instance, commencement of membership in relation to a merger, merger with acquisition and split of the cooperative, or conversion of a business company into a cooperative.

¹⁹ The right of withdrawal is *peremptory* stipulated by the Commercial Code and therefore cannot be excluded by the by-laws.

²⁰ A member can be expelled if, despite a warning, he/she repeatedly breaches his/her membership duties, or for other serious reasons laid down in the statutes. A member might also be expelled if under a final judgement he/she was convicted of a deliberate criminal act against the cooperative or one of its members.

²¹ A member's heir may apply for membership in the cooperative. The by-laws of the cooperative can specify the conditions under which the board of directors cannot reject the membership application of an heir, and circumstances when approval by the board of directors is not required for the heir's acquisition of membership.

²² If the legal entity has a legal successor, the latter assumes all the rights and duties of the former member.

²³ Žitňanská, Ovečková, et al., op. cit., pp. 501 - 506.

²⁴ The cooperative is dissolved (i) as a result of a decision of the membership meeting; (ii) by the completion of bankruptcy proceedings after fulfilling a scheduled decision or for the reason that the property is not sufficient for the paying out of expenses and the commission for the liquidator, or by refusing a proposal for declaring bankruptcy for lack of property; (iii) by a court ruling; (iv) by the expiration of the period for which the cooperative was established; and (vi) by meeting the objective for which the cooperative was established.

²⁵ For instance, cooperative banks and credit cooperatives/credit unions started to emerge in the early 1990s in Hungary and Poland, where such entities were established in large industrial facilities and centres and operated as corporate saving banks.

²⁶ The credit cooperative/credit union must for instance meet certain professional, technical and organisation requirements, have at least 30 members, obtain permission from the Czech national bank to conduct its business, while before filing the application in order to obtain such permission a sum in the amount of 35,000,000 Czech crowns must be paid up, which represents the registered capital, resp. risk fund, reserve fund etc.

²⁷ I.e. a systematic activity independently conducted for the purpose of making profit by the cooperative in its own name and at its own responsibility in compliance with respective applicable legal regulations.

²⁸ In case of legal persons, these conditions must be met by members of its statutory body.

²⁹ Consumer credit contract shall in these terms mean a contract obliging the creditor to provide consumer credit to the consumer, while obliging the consumer to redeem the provided financial means and pay the total consumer costs related to the consumer credit.

³⁰ Creditor shall in these terms mean a natural or legal person offering or providing a consumer credit as a part of their business activity.

³¹ Consumer shall in these terms mean a natural person which does not act within the scope of its business or occupation.

³² These include for instance (i) interest-free credit or credit free of any other fees, (ii) credit provided by employers to their employees from their own resources, not available to the general public, (iii) credit with a value of less than EUR 100 and more than EUR 75,000; if more credit contracts are concluded between the same creditor and consumer for the same or similar purpose within the period of 12 months, the total of all credit contracts shall be considered as the only consumer credit by this Act, (iv) credit payable within a period not exceeding three months and other types of credits set forth in section 1 subsection 3 of the AoCC.

³³ For instance a creditor (or members of its statutory body) must meet the following: (i) minimum age of 18 years, (ii) legal capacity, (iii) integrity, (iv) credibility, (v) second level university education with three years experience in banking in the sector of credit transactions or other sector of financial markets or a secondary education with seven years experience in banking in the sector of credit transactions or other sector of financial markets.

³⁴ Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

³⁵ Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.

³⁶ Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

³⁷ F. Helešic, *Základy teorie evropského a českého družstevního práva* (Basics of the Theory of European and Czech Cooperative Law), C.H. Beck, Praha (Prague), 2009, p. 70.

³⁸ By-laws of a cooperative can determine rules on distribution of profit differently from the Commercial Code.

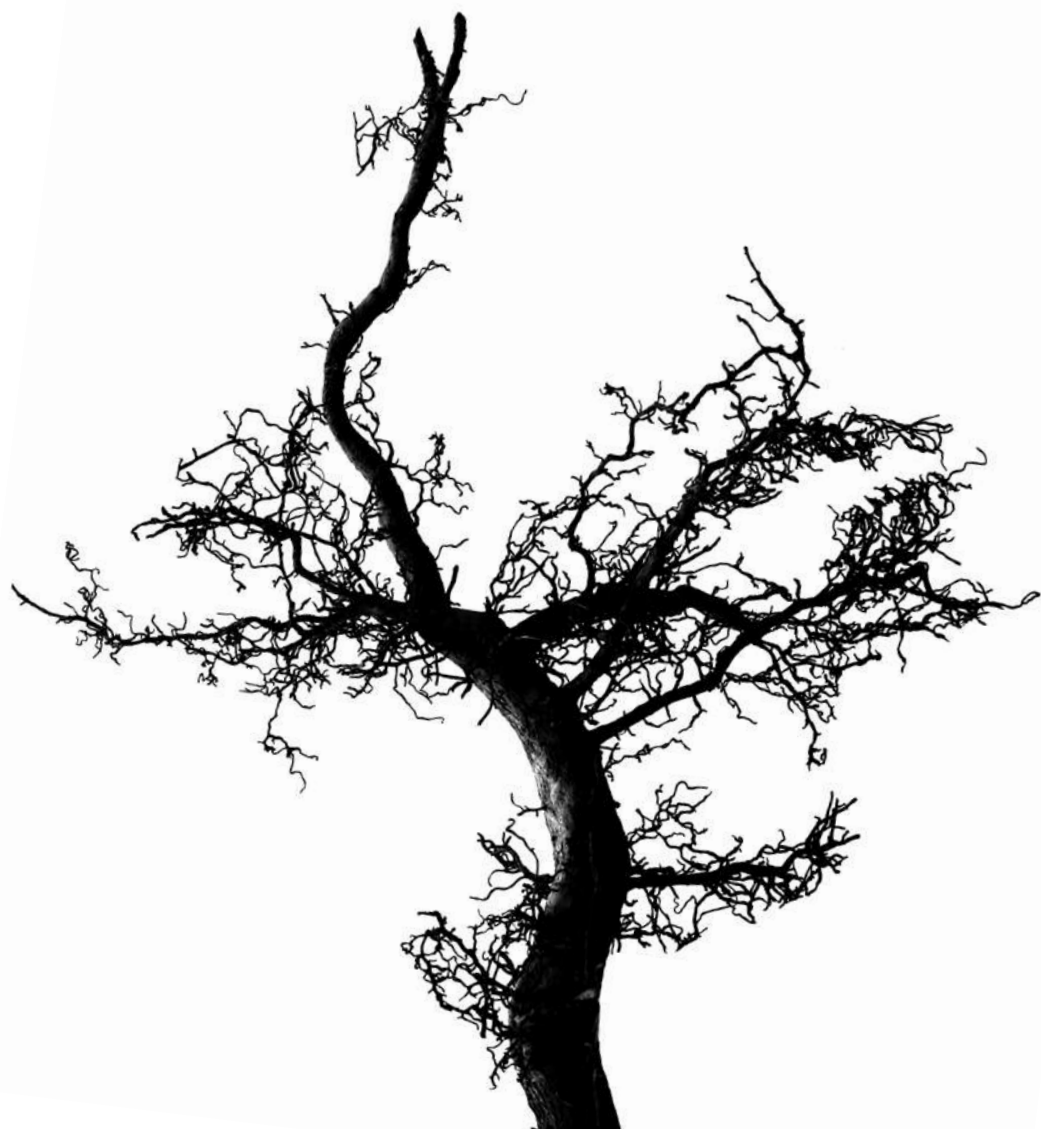
³⁹ Compare with Article 66 of Regulation on SCE.

⁴⁰ Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

⁴¹ Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

⁴² Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

⁴³ Cooperatives work for the sustainable development of their communities through policies approved by their members.







IN THE FIELD

Exploring Cooperatives in the Czech Republic: Research Findings

*Kateřina Vojtiřková in collaboration with Jiřĩ Guth,
Magdalena Hunčová and Josef Smrčka*

Introduction

The aim of the research was to map the situation in 6 selected cooperatives, their operation and the attitudes of different cooperative actors not only about these cooperatives in particular, but also about social economy in general. The first part of this chapter discusses the methodology of the research, in the next part the findings of the questionnaire survey are presented together with additional data available from cooperatives' websites. The final part presents a comparison of the cooperatives and puts forth the interpretation of the findings within the framework of the criteria for good cooperative practice.

Methodology

The questionnaire survey was conducted with 6 different categories of actors within 6 different types of cooperatives. For each category of actors a separate set of questions was created and for each category of actors also a recommended number of respondents was assigned – this was altogether 32 respondents per one cooperative (see Table 1).

Table 1: The recommended number of the survey respondents in particular categories of actors and the number of survey questions.

	Number of respondents	Number of questions
Member of Coop	5	14
Member of Management	1	23
Coop Employee	5	14
Coop Client/Customer	5	7
Member of Local Self-Government	1	11
Local Resident	15	12

The overall number of returned questionnaires was slightly lower than the recommended number, which was due to the selection of particular cooperatives that either had a smaller than recommended number of employees or none. All together we collected 165 questionnaires and their number per cooperative varied from 20 to 35 (see Table 2). As concerns the categories of actors, the largest number of questionnaires was collected from local residents, nevertheless these questionnaires were not very revealing.¹ The longest inquiry was conducted with the leaders and management of the cooperatives (see Table 1).

The criteria of selection of cooperatives included the **type of a cooperative**: a production cooperative, cooperative employing people with disabilities, consumers' cooperative, credit union and two agricultural cooperatives. However, the credit union *Creditas* did not want to take part in the survey, so in its stead we included into the sample a housing cooperative as a representative of a rather wide-spread type of cooperative in the Czech Republic.

Another selection criterion took into account **different regions** of the Czech Republic – represented are the Ústecký, Jihočeský, Pardubický and Kraj Vysočina regions. Some of the selected cooperatives operate at the super-regional or national level. Some of them have their branches in other regions (Jihomoravský, Liberecký, Královéhradecký, the Capital City of Prague). The survey did not cover the Karlovarský and Plzeňský regions and Moravian regions (Moravskoslezský, Zlínský, Olomoucký).

The cooperatives are located in the municipalities of a various size and administrative status. A half of them are located in district towns (Děčín, Ústí nad Orlicí, Pelhřimov), one is in a municipality with a broader jurisdiction (Lovosice), one is in a smaller town (Borovany) and one is located in a village (Zašovice).

It is important to highlight some methodological limitations of the collected data and the possibility of their generalization and comparison:

1. Large heterogeneity of the sample: the selected 6 cooperatives differ in many parameters, especially as concerns their field of business activity, size (the number of members, employees, branches), organisational structure or the length of their time in business. Hence, it is difficult to draw some general conclusions and find correlations between the variables.
2. Data quality and validity: the limiting factors are also the questionnaires themselves (the type of questions they contain) and the data quality related to misunderstandings on the part of respondents and the lack of common

instructions on the part of researchers. Hence, the data provided by the questionnaires are of a rather basic nature – despite the fact that they used many open questions their recorded response was often “do not know” or other short answers.

3. Data representativeness: given the chosen type of research and its limited funding, the nature of data collection was more of a simple research probe rather than a full survey. Also the selection of respondents (such as the locals, customers, members of larger cooperatives) might have been biased, which together with a low number of questionnaires poses a problem with data representativeness and does not allow their quantification.

Therefore, the presented analysis should be regarded as **exploratory** aiming at marking the main contours of the topic, showing further entry points for research and framing of questions that should be further investigated by more in-depth case studies.

The data description and analysis

This part briefly introduces all researched cooperatives using data collected through questionnaires and some additional data from cooperatives' websites, if they were available.

- Characteristics of the cooperatives (its size, field and sphere of activity, time-period of existence);
- Leaders and management of the cooperatives, its organisation and cooperation;
- Opinions of members;
- Opinions of employees;
- Opinions of customers about the cooperative and about social economy;
- Opinions of local residents and members of local self-governments.

Table 2: Characteristics of cooperatives and the number of returned questionnaires according to the cooperatives and categories of actors.

Name of cooperative:	Number of Questionnaires									
	Location (region, district)	Type	Member	Member of management	Employee	Customer	Member of local government	Local resident	Total	
1.SDZP	Děčín (Ústecký, Děčín)	production, employing the disabled	4	1	3	5	1	12	26	
Chaloupky - ZD Zašovice	Zašovice (Vysočina, Třebíč)	agricultural production (dairy)	2	2	2	5	2	10	23	
KONZUM, consumers' cooperative in Ústí nad Orlicí	Ústí nad Orlicí (Pardubický, Ústí n. Orlicí)	consumers' (retail, mostly food)	5	1	5	5	2	15	33	
Brassica marketing cooperative	Lovosice (Ústecký, Litoměřice)	agricultural marketing	5	1	5	5	1	11	28	
DUP – družstvo Pelhřimov	Pelhřimov (Vysočina, Pelhřimov)	production (leather goods, metalworks, brewery)	5	3	5	5	2	15	35	
Bytové družstvo Borovany	Borovany (Jihočeský, České Budějovice)	housing	5	1	0	2	2	10	20	
Total			26	9	20	27	10	73	165	

Table 3: Characteristics of the cooperatives: the year of foundation, number of members and employees.

Name of cooperative:	Year of foundation	Number of members	Number of employees	Number of employees who are also members	Members and employees ratio	Positions of director and head of the coop
1.SDZP	2003	7	98	No data	0,07	joint
Chaloupky - ZD Zašovice	2011	6	4	3	1,5	joint
KONZUM, consumers' cooperative	1898 (1993)	4282	583	about 300	7,3	separate
Brassica marketing cooperative	1999	48	13	0	3,7	separate (cannot be joint)
DUP – družstvo Pelhřimov	1945	40	130	40	0,3	joint (cannot be separate)
Bytové družstvo Borovany	1999	24	0	0	-	no director

DUP – družstvo Pelhřimov

The cooperative was established by local producers in Pelhřimov (the population according to the 2011 census was 16,323, region Vysočina) in 1945 in the tradition of the pre-WWII cooperative boom. Informally it had been in operation as a wartime support structure a few years before its official establishment. As one member of the cooperative pointed out, none of the founding members is still alive, but a strong feeling of continuity of the cooperative since its inception is still present.

After 1990 the cooperative diversified its business portfolio into 3 main areas: 1. metalworks (manicure and pedicure tools, production of small metal components for different industries), 2. leather goods (folders, briefcases, handbags and the like), 3. beer brewing (in 2001 the cooperative bought the municipal brewery *Poutník*). The cooperative operates mostly in its location in Pelhřimov (their own retail stores), but also at the regional and national level (through partner retailers and its own e-shop). At present it has 40 members and 130 employees. During the crisis years 2008-2009, the cooperative had to lay off 30 employees (19%), but at present it generates profit and pays dividends.

The general assembly elects a board of directors responsible for strategic management of the cooperative and also elects an audit committee. The head of the board of directors is in charge of tactical management of the cooperative. He is a person with education in economics who came to the cooperative from his own previous business. As one member pointed out, this person is not only capable of running the organisation, but he can also motivate others to come up with innovations.

The financing of the cooperative is ensured through its own generated income and through bank and commercial loans and subsidies (e.g. the EU operational programme Environment, the Social Fund)

DUP – družstvo Pelhřimov is a founding member of the Union of Czech and Moravian Production Cooperatives (*Svaz českých a moravských výrobních družstev – SČMVD*). One member of the board of directors spoke also about cooperation with the Union of Czech and Moravian Consumers' Cooperatives (COOP), but according to his words this cooperation is not going well enough.

The goal of the cooperative is to create jobs for people, stay on the market and generate profit to fund investments and innovations. To achieve these it cooperates with local (up to 20 km distance – about 15 % of sales), national and international partners. The main competition is perceived to be abroad, especially

in Asian companies. The cooperative's leaders believe that what is needed to run a successful cooperative is education, innovative ideas, skills and motivation. As they stated: it is important to work "with the right people, to have a business-oriented mind, to be socially and environmentally sustainable". "The right people, the right vision and goals and people motivated to achieve them."

According to the by-laws, members of the cooperative (5 respondents) have to be its employees. They are informed about cooperative principles and practices, and they appreciate the possibility to participate in decision-making and to receive dividends. Two members expressed their slight dissatisfaction with the scope of decision-making participation due to the fact that decisions are mostly made thought the board of directors and the members "only confirm them". Nevertheless, in the opinion of all members, the cooperative is in a good shape and it has a good standing within the local community, it has its tradition there.

For employees who are not members of the cooperative, to work in the cooperative means to have a source of income and employment with better working conditions (good treatment) than they would have elsewhere, but at a cost of lower income. Mostly, should they have to start over, they would choose this work again and would also recommend it to those who want to work, are skilled or are not able to find another job. The cooperative creates jobs and has survived difficult times. The employees believe that the public perception of the cooperative is equally positive.

The reasons why people are the customers of the cooperative are: they are local, somebody recommended the organisation to them, lower prices and good quality of products and their availability. The respondents-customers do not perceive the cooperative as a social enterprise. Out of five respondents, three named some social enterprises – a hospice, the NGO *Člověk v tísni* and social cooperative *Podané ruce* (Zubří, Moravskoslezský region).

Just one out of fifteen inquired local residents did not know the cooperative as a traditional local business. Almost all of them were also customers because they find the products inexpensive, of good quality (many repeatedly mentioned good beer) and available on the market. Social enterprises they mentioned were *Fokus Vysočina*, *Centrum Lada* in Pacov and dumpling production at the Mácha's Lake.

In the opinion of two members of the local government the main challenges for the town are sustainable development, a transportation network and roads and employment – especially a good supply of skilled labour. As a social enterprise they both mentioned *Fokus Vysočina* with which the local government cooperates. In their view, the main advantage of the social enterprise is creation of jobs for the

disabled; its disadvantages are a lack of funds, high costs and low salaries.

1. SDZP Cooperative

1. *SDZP*² cooperative was founded in 2003. It is a typical social enterprise, one of the biggest of its kind. The cooperative was established by a group of medical doctors with experience in working with the disabled and by several IT specialists. Nowadays the cooperative has about a hundred employees, most of whom are people with disabilities. The cooperative has seven members.

The cooperative headquarters are located in Děčín (the population according to the 2011 census was 49,106, Ústecký region), it has branches in Česká Kamenice and Šluknov (including one limited liability company), Ústí nad Labem, Liberec, Jablonec, Prague, Jaroměř and Brno. The areas of activities of the cooperative are: 1. services (operation of contact centres), 2. sales (IT and other commodities). According to the cooperative website, its business portfolio includes: a call centre, security agency, help desk and service outsourcing.

A member of the management spoke about the initial purpose of the cooperative to employ family members at a workplace that was originally a low current systems company.

The cooperative has close contacts with the local community, the local authorities and NGOs. It is a member of the Union of Czech and Moravian Production Cooperatives (*SČMVD*), the Association of Employers of the People with Disabilities (*AZZP*) and the Thematic Network for Social Economy (*TESSEA*). It cooperates with the Union of the People with Disabilities and other disabled people's organisations. The management sees the strongest impact of the cooperative in employing this target group.

The highest organ of the cooperative is the general assembly; its statutory representatives are the chairperson and the director. The cooperative does not have an audit committee. The employees take part in decision-making through working meetings held in their particular branches. The chairman of the cooperative is simultaneously also its chief manager, but the decisions about the direction of development of the cooperative are taken by a board consisting of three people: the chairman of the cooperative – a founding member, his deputy who joined the cooperative from its subsidiary company and the sales director. The cooperative is funded through an interest free loan from the *SČMVD* and through a bank loan.

The main goals of the cooperative is, according to its management member, to provide better quality services, broaden the possibilities of using of the social

fund, achieve economic sustainability and increase the number of employees. They wish to achieve these goals through new business opportunities and suitable partners, and through establishing long-term collaborations. What is also needed is a clear and stable legislation. What they would recommend to others is not to rely only on one area of activity and to follow a clear business plan.

Out of overall seven members of the cooperative four were surveyed – among them two founding members. They expressed their satisfaction with the current decision-making processes and organisation of the cooperative. They see their membership as an income opportunity as well as the opportunity to participate in running the company. Members are familiar with the decision-making process and can actively participate in it, they know how profit is divided and they agree with the principle. Their expectations related to the membership in the cooperative (such as participation in decision-making, self-actualization and the like) have been met. The respondents are convinced that the public perception of the cooperative is positive (especially with respect to the employment of the target groups). Compared to other business forms, the cooperative gives people more opportunities to have their say in operation of the enterprise. One of the members would not recommend the cooperative form of business to those who lack social sensitivity.

For employees (3 respondents) to work in a social cooperative means to have a good job, to work with people who have the same disability as they have, and to gain new experiences. The treatment of employees is friendlier than in a “regular” company. The employees think that workplaces with a prevalence of people with disabilities do not suffer from negative behaviours such as bullying or expressions of pity. Out of three respondents, two are not very familiar with the decision-making process and division of profit (“It’s not my business”), one of them is partly familiar with these issues. The respondents were not able to assess how the cooperative is perceived by the public.

Customers (5 respondents) stated as reasons of their purchase of products/services from this cooperative: 3x low prices, 2x good availability, 1x purchase on the basis of so called “additional taxation” (*náhradní daňové plnění*),³ 1 x socially conscious approach, 1x friendly relations. Three respondents named concrete examples of social enterprises: the brewery in Kásná Lípa, *KARKO*, *HM Katon*, *s.r.o.*, *AXI*, *s.r.o.*, *Slunečnice* in Děčín, *Hračkotéka*.⁴

Out of twelve respondents-local residents, seven were familiar with the existence of the cooperative, but none of them was their customer. The reasons they mentioned: not interested in their services, the cooperative is oriented more towards other businesses than towards individual clients. Four respondents

named as an example of social enterprise the company *Slunečnice* in Děčín (it runs the pancake restaurant *Na cestě* that provides training and employment to the people with disabilities) and *KARKO* (a production cooperative of visually impaired people), chocolate manufacturing facility and brewery in Krásná Lipa (the chocolate factory *MANA* founded by the *CEDR* non-profit organisation employing the people with disabilities), the brewery *Křínický pivovar, s.r.o.* and *Fokus Labe* in Ústí nad Labem (supports people with mental illness).

According to one member of the local government who participated in the survey, the challenges for the town are: unemployment, small businesses development and floods. As the main development opportunities he regards: cooperation with the neighbouring German region of Saxony, formation of partnerships with the NGO sector and utilisation of the EU funds. He also named several social enterprises in Děčín including the studied *1. SDZP*. In his view, this cooperative does not collaborate much with the town and is mostly running on the EU subsidies.⁵ This cooperative has a status of a social enterprise mainly due to the fact that it creates jobs for vulnerable social groups.

The marketing cooperative Brassica

The cooperative started to form in 1998 as an initiative of agro-producers and in the next year the state started to support their activities. After the accession of the Czech Republic to the EU, the conditions for establishing producers' organisation for common marketing of certain agricultural commodities and the conditions of support provided to their activities were defined. In 2011 there were more than 20 marketing cooperatives in the Czech Republic that applied for the subsidy from the State Agricultural Intervention Fund.⁶

The cooperative is an association of private farmers – producers of grains and rapeseed. It provides storage and marketing of these products. The cooperative was established in 1999 as a reaction to the crisis and ensuing low market prices of these commodities that threatened the existence of their producers. The private farmers already had some experiences with cooperatives and knew their advantages. In the first year of its existence, the cooperative had 15 members, but in the following year the membership doubled. In 2014, the cooperative had 45 members.

The cooperative is located in Lovosice (the population according to the 2011 census was 8,623, Ústecký region, district of Litoměřice), where it in 2000 bought in an auction a granary which is the main base of the cooperative. Its suppliers are local farmers who are its members. The members farm on the area of 9,000 ha of land in the districts of Litoměřice, Teplice, Louny and Kladno. According to the director of the cooperative, the main goal of the cooperative is to stay on the

market, maintain their sales prices and customers and to sell their commodities to mills and other producers. The cooperative is not a member of any cooperative umbrella organisation (e.g. the Cooperative Union) and does not collaborate with other cooperatives or the local government. Their main competition on the market is the joint stock company *Agrofert*.

The general membership meeting decides about the fundamental issues such as the annual fee (in 2014 it was 5,000 Czech crowns), participation of members in activities of the cooperative and its outcomes and the meeting elects the board of directors. The director (the general manager) is not a member of the cooperative. He reports to the board of directors.⁷ At the time when the cooperative was established, its leadership was made up of the chairman (head of the cooperative) and its deputy who as a private farmer started to build business relations. All members have college education in agriculture and experience in agricultural production, as well as in running a business.

In addition to their own income (from membership fees, storage and transportation fees), the cooperative has an investment loan from the Ministry of Agriculture. Profits are reinvested to the cooperative – instalment payments for the granary and technical development.

The cooperative is not officially in the category of social business. So far it has not supported any non-profit activities and it does not employ disabled people. Nevertheless, the cooperative plays a role in local development via its support to local agriculture and employment. It operates locally – its suppliers are local farmers and its employees are local residents.

The director of the cooperative sees the unfavourable situation in agriculture as a consequence of agricultural subsidies that have negative implications for the market, natural environment as well as morality of people. To establish a similar kind of cooperative requires finding a market niche, having a vision and a specific product and also having the ability to unite people to work towards a common goal.

None of the members of the cooperative is at the same time its employee. For the respondents (local farmers), the membership in the cooperative means to have marketing of their products and their storage ensured. The price they get for their goods is seen as fair. They appreciate the possibility to stay on the market and their membership in the cooperative significantly enhances their business. Out of five respondents, one mentioned that he does not have adequate knowledge of economic management of the cooperative. One member

sees as a disadvantage the fact that he cannot make individual decisions, another regards as disadvantage the necessity to take part in membership meetings. Two respondents did not mention any disadvantages. The members in general are aware of the nature of the cooperative. The decisions are made on the 'one member – one vote' principle, including decisions about profit.

Employees of the cooperative (non-members) appreciate that the cooperative provides them with jobs (good, interesting, better or worse paid, relatively stable).

The customers of the cooperative are a relatively narrowly defined group of mostly local grains and rapeseeds processing plants. All of them see as its positive side good availability of products, low prices and three of them also mentioned that the representatives of the cooperative are pleasant to deal with. The way they learned about the cooperative differed – some heard about it from others, two mentioned the cooperative's website. The surveyed customers do not think that Brassica is a social enterprise; only one customer saw it as such due to the fact that it is a cooperative. None of them knew any concrete social business and their knowledge of social economy was quite low and vague.

Out of 11 respondents from the ranks of local residents, 10 did not have any knowledge about the cooperative. This is related to the specific sphere of activity of the cooperative – providing services to a specific and rather narrowly defined circle of their customers-farmers. The locals also had vague ideas about social businesses and social economy. Only one respondent correctly named a social business – the cooperative *INVA* in Litoměřice – established in 1957 and employing people with disabilities.

The vice-mayor, as a representative of the local self-government, spoke about Lovosice as a town with a negative label due to its chemical industry, which also has its advantage in the form of low unemployment. As concerns social services, the municipality runs a housing facility for Roma families and organises the public works programme; it has also helped to prepare social economy projects. She sees the advantage of social economy in integration of socially excluded people and in community development.

KONZUM, consumers' cooperative in Ústí nad Orlicí

KONZUM is the largest and oldest cooperative in our research sample. Its tradition dates back to the 19th century. In 1993, its activities were revitalized and *KONZUM* was re-established as a consumers' cooperative specializing mostly in food retailing. It has an open membership and the membership fee is 1,500

Czech crowns. At the beginning of 2014, the number of its members was more than 4,200 and it had 583 employees (a half of them were also cooperative members). The cooperative runs more than a hundred stores in the districts of Ústí nad Orlicí (cooperative's headquarters, the population according to the 2011 census was 14,414, Pardubický region), Rychnov nad Kněžnou, Náchod and Svitavy. The cooperative describes itself as the most locally oriented consumers' cooperative in the Czech Republic that strictly follows the principle: what can be purchased locally should be purchased locally. About half of their sales are regionally produced goods.

The cooperative honours international cooperative principles. It became a member of the COOP[®] and it is also a member of the Cooperative Association of the Czech Republic and EUROCOOP. It is a member of the Local Action Group *Orlicko*. It collaborates with the local non-profit sector. Its main competitors are corporate retail chains and expanding Asian stores .

The highest decision-making body is the assembly of delegates (elected in their constituencies). It elects members of executive bodies of the cooperative. The highest is the board of directors consisting of seven members; the control body is the audit committee (five members). The positions of the general manager and of the chair of the board of directors are separate. The general manager of the cooperative has been working in the organisation for more than 20 years. He had previous experiences in business management. His role is to develop long-term visions and innovative proposals. He has technical college education, and over the course of his work for the cooperative he has received training in cooperatives management. He continues to educate himself in this field and maintains professional contacts both in the Czech Republic and abroad.

The cooperative is financed through its own income. In the past, they also used bank investment loans. The undivided part of net surplus is put in their economic stability fund. They give preference to the benefit of their members and a long term stability of the cooperative – in a crisis they strove for keeping the employment rather than making profit.

The goal of the cooperative is to better the life of its members and strengthen the regional identity. They want to be the best and a stable supplier of primarily regionally produced quality goods and to provide these also in less profitable smaller localities. Further, they want to support environmentally friendly distribution as well as local employment. In addition to foodstuff, the cooperative also sells fuels, energies, telecommunication and postal services. The cooperative supports dozens of non-profit organisations in the region through its social fund.

The director of the cooperative regards as the most important to strive for a long-term positive growth, as only a stable cooperative that makes profit can be beneficial to its members.

Members of the cooperative (not its founding members) know and apply cooperative principles and various forms of decision-making (including surveys). Their membership in the cooperative has met their expectations, they especially appreciate that profits stay in the region and that they can purchase good quality Czech food products for good prices. They approve of the economic management of the cooperative and its distribution of profit, including the support of non-profit organisations. They trust the leadership of the cooperative. Our respondents think that the cooperative is increasingly appreciated also by the public, but it is a “long distance run”. Most of them do not perceive any negative sides; two respondents mentioned a limited selection of goods and the membership fee amount.

The employees of the cooperative perceived their jobs positively; their expectations have been met. They think that also the public perception of the cooperative is positive due to its preference of regional goods and Czech foodstuffs as well as its support for the non-profit sector.

People became customers of the cooperative mostly due to its good availability, friendly image, or upon recommendations of others and long term good experiences with the cooperative. Two out of five respondents thought that *KONZUM* was a social business; they see special features of social businesses in their ownership structure. The ideas about who mostly benefits from social economy differ: our respondents attribute its benefits to the owners, members, customers or society in general. Only one respondent named a concrete social business – *Jednota*.

Responses of the local residents indicate popularity of the *KONZUM* cooperative. All fifteen respondents knew it and all of them were its customers.⁹ As the main reasons for choosing *KONZUM* they named its availability together with good relations, friendliness and focus on local/regional commodities – one respondent mentioned explicitly that *KONZUM* was an “alternative to global supermarkets”. Answers related to social economy may indicate a rather lower knowledge of this field when only three out of fifteen respondents named some examples of social businesses. The examples of social businesses they named were: *KONZUM*, *Toulcův dvůr*, restaurant *Rettigovka* in Litomyšl, *VDI Meta*,¹⁰ and a credit union (*kampelička*).

In the opinion of two members of the City Council in Ústí nad Orlicí, the challenges that the town faces are unemployment and the revitalization of the brown field

Perla. Both councillors see the *KONZUM* cooperative as a social enterprise. They positively evaluate its activities in their locality, its support of values of solidarity and togetherness as well as its support of local producers. They concretely collaborated with the cooperative in reconstruction of its property – the shopping centre *Nová Louže*. As an advantage of having the cooperative in their town they also regard the tax revenue from the business.

Chaloupky – ZD Zašovice

The agricultural cooperative *Chaloupky – ZD Zašovice* is the smallest cooperative in the sample (6 members and 4 employees) and also the newest one. The cooperative was founded in 2011 when the dairy production branch of the company *ČSOP Kněžice* separated and became independent from the original company. The *ČSOP Kněžice* specializes in management of protected areas through animal husbandry. The cooperative is linked to the non-profit organisation *Chaloupky, o.p.s.*¹¹ which for more than two decades has been focusing on environmental education (protection of nature and sustainable development). The cooperative is located in Zašovice (the population according to the 2011 census was 120, Vysočina region, district Třebíč) and it operates locally.

The cooperative started to process cow and sheep milk in September 2013, so the year 2014 was the first whole year in which it was fully in business. The first bigger success of the cooperative was when it was granted the regional certificate for dairy products.

The cooperative is not a member of an organised cooperative movement, but it upholds the cooperative principles. It collaborates with small producers of milk, local shops and environmental organizations from Brno. Its customers are local residents that also allow cattle grazing on their property. The whole chain of production and consumption is localized (employment, production, consumption). The cooperative encountered some problems with clarification of its internal structural relations and with the “old” cooperative with respect to land ownership issues.

In decision-making the cooperative employs the principle of ‘one member – one vote’. The leading personality in all organisations is Dr. Jozef Zetěk – a person with know-how and experiences who pass them on others. In 2010, he won the Vysočina Region award of the Deed of the Year for “exceptional contribution to the development of and support to the non-profit sector in the Vysočina Region and for a long-term activity in environmental and nature protection education”.¹²

The operation of the cooperative is financed through membership fees and membership loans (pre-purchase of goods through a five-year contract). At present, the cooperative focuses on its business side striving to make profit through increasing its production and local sales of dairy products through collaboration with small dairy farmers and land owners. Thus far they have not made any profit. Other goals are to develop a stable regional distribution chain (up to the distance radius of 40 km), reconstruction of production facilities and broadening pasture land for cows and sheep in the close vicinity of the farm.

Members of the cooperative appreciate the cooperative principles that give them the opportunity to participate in business operations and they agree with the fact that revenues are invested into the development of the cooperative. They think that the public views the cooperative positively also due to its emphasis on ecological production.

Employees of the cooperative appreciate the fact that their work is fulfilling, they are treated nicely and also that they too could participate in decision-making. Despite smaller salaries they do not regret their decision to work for the cooperative.

Customers of the cooperative are mostly those who personally know its leader e.g. from a pub. Three out of five respondents do not consider it to be a social business and their idea about the nature and features of social business is not very clear. One respondent sees social enterprises as more ecological, thus not only people but also nature benefits from them. Only two respondents mentioned one example of a social enterprise: a sheltered workshop (unspecified) and the café *Potmě od Světlušky*.

Out of ten inquired local respondents only one was not familiar with the cooperative, four of the respondents were also its customers. Their reasons for this choice were: good relations, atmosphere and quality. They did not regard the cooperative as a social enterprise and were not very familiar with the characteristics of social economy (three respondents saw its benefits especially for the disabled); they mentioned no examples of social enterprises.

Members of the local self-government characterised Zašovice as a small village with small entrepreneurs where even a small cooperative is seen as an important boost to local development, employment and community empowerment. They also appreciated the cooperative principles – participation in decision-making and operation of the cooperative. However, at present the local

authorities do not support the cooperative, but they expressed their interest in obtaining financial means through the Local Action Group and in involving local people in local development.

Bytové družstvo Borovany

The housing cooperative came into existence in 1999 in the small south Bohemian town of Borovany (district of České Budějovice, the population according to the 2011 census was 3,936, Českokobudějovický region) and was formally established one year later. Its purpose was the construction of a residential building and its subsequent collective management and maintenance. This was a “bottom-up” initiative that grew out from the interest of people and got an impulse from the municipality as an alternative to public housing construction. The form of a cooperative was also chosen with respect to tradition. A member of the cooperative board sees as a success the fact that the cooperative is in operation and that people’s housing needs have been met. The goal of the cooperative is to repay the mortgage and to run the cooperative without major financial problems.

A member of the leadership of the cooperative (1 respondent) mentioned collaboration with the municipality (that also is a member of the cooperative), with the municipal services providers and a local internet provider. The impacts of the cooperative on the local community are limited to the house and its maintenance and to the collective care of public spaces and children’s playgrounds. The cooperative’s operation is strictly local.

The cooperative adheres to cooperative principles. It is not a member of the Union of Housing Cooperatives or any other organisation. The cooperative has 24 members and two representatives: the chairman and his deputy with limited powers. It has no director or employees. The general membership meeting elects the representatives of the cooperative – its leadership. A member of the cooperative’s leadership thinks that members are glad that the chairman is willing to hold this position because nobody else is interested in it. He sees the presence of members at membership meetings as rather high. The cooperative has to pay a mortgage, its operation is funded from membership fees, state subsidies and contributions to the maintenance fund. After a negative experience with a credit union, the leadership of the cooperative underscores the importance of careful selection of a bank, and it also stresses the importance of reaching agreements through discussion. What worked for them was to let people first know each other on

several meetings before the actual cooperative was established. What also pays is not to stick too strictly to all rules and to exercise patience.

The answers of five respondents from the ranks of the cooperative's members (four of them were founding members) indicate that this cooperative is an example of a successfully working cooperative from the point of view of its management as well as in terms of its adherence to cooperative principles. It meets the expectations of its members that could be subsumed under one common denominator which is the possibility to have a place to live while being able to participate in decision making. All of them would recommend membership in the cooperative to their acquaintances and other reliable people. Although they think that the public influence of the cooperative is rather smaller, they see it as positive. One member thinks that one negative aspect may be that some members do not take part in membership meetings, another one sees as a negative feature the fact that members are not willing to take on the position of the cooperative's chairperson (the remuneration for this position is low).

Customers of the cooperative (2 non-members) do not regard the cooperative to be a social enterprise. One of them stated as an example of a social enterprise the local brewery *Borovanský pivovar*.

Only three out of ten respondents from the ranks of other local people knew about the cooperative. None of them was a member of the cooperative. Four of them came up with some examples of social businesses: the sheltered workshop *Nazareth* in Borovany – a missionary centre of the Czechoslovak Hussite Church (3 answers), *ZOD* (1 answer), *Borůvka* (1 answer), and *SAS technik* (1 answer).

Two local representatives who took part in the research see social economy as an opportunity to strengthen local communities. As concerns employment, they believe that social economy mostly benefits its "clients" (the disabled) and its influence on local development is low or not evident. In their view, benefits of social economy lie in creation of jobs for the disabled, involvement of communities and tradition. Its disadvantages are low confidence of people in cooperatives and unnecessarily high degree of regulation. They see the cooperative in a positive light since it provides housing for 26 families. The local authority and the cooperative are on good terms also due to the fact that the municipality is a member of the cooperative (it contributed a building plot and equipped the playground).

Comparison of cooperatives

The double-tiered focus of the research both on cooperatives and on social economy requires a definition of this convergence. Therefore, we first look at how to define a social enterprise and how to assess good cooperative practice to get a framework for the final good practice evaluations.

A definition of social enterprise

According to the Ministry of Labour and Social Affairs, the social enterprise can be defined in two ways. A narrow definition includes subjects engaging in economic activity that aims at integration of the socially excluded or those who are at risk of social exclusion. A broader definition points to the priority of social and community-oriented goals including environmental: "Social enterprises should take into account social and environmental concerns in all their activities. Their main goal should be creation of profit in order to pursue the fulfilment of social and environmental objectives rather than profit maximization."¹³ A social enterprise supports the principles of solidarity, strives for social inclusion and increase of social capital in communities and for sustainable development.

Cooperative good practice

Cooperatives are autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity as well as honesty, openness, social responsibility and caring for others.

- **Voluntary and open membership** (Who and how can become a member?)
- **Democratic member control** (How does the decision-making process look? How are decisions about the strategy made? Who has the final word on leadership? What is the relationship between members and employees? Who are not members?)
- **Member economic participation** (How are profits distributed?)
- **Autonomy and independence** (Is democratic control ensured at all levels of decision-making and in all cases?)
- **Education, training and information** (Are educational needs of members met? Are the members provided education? How is the public informed?)
- **Cooperation among cooperatives** (Do they cooperate/do business with other cooperatives? Are they members of wider cooperative structures?)
- **Concern for community** (Does the cooperative play a role in social development? Does it fulfil the social needs of the community in which it operates? Is it seeking to achieve any social goal? Does the cooperative uphold the principles of social justice? Does it include marginalized social

groups at risk of poverty, such as the Roma, elderly women, persons with physical disabilities? Is the cooperative trying to actively protect the environment and natural resources?).

Respondents – attitudes towards the cooperative system

Multi-layered respondent identities, intersections of respondent categories:

First, in comparing respondent categories among themselves, it is necessary to note that a single person can be, at least theoretically, simultaneously a member, employee, manager, customer, local inhabitant and even a member of the local government in a given town/municipality. That was also reflected in the survey process where a single respondent could thus answer multiple questionnaires related to her/his different identities (for example, in the *DUP* cooperative in three cases people responded to three questionnaires and in ten cases they responded to two). Practically, many factors impact the overlap in respondents' identities: the type of cooperative activities, the number of people in particular categories (employees, members, consumers), the by-laws of the cooperative or its history.

Cooperative members and cooperative employees: The by-laws of one of the cooperatives explicitly state that a condition of membership in the cooperative is to work in it as an employee. However, this does not apply vice versa, i.e. employment in the cooperative is not conditioned upon the membership (*DUP* – cooperative Pelhřimov). In another cooperative, most members are not employees of the cooperative (*KONZUM*, consumers' cooperative in Ústí nad Orlicí), in one case, no member of the cooperative is its employee; even the director of the cooperative is not its member (the *Brassica* marketing cooperative). The housing cooperative does not even have a single employee. Some cooperatives would want their employees to eventually become their members (*Chaloupky – ZD Zašovice*, *KONZUM*, consumers' cooperative v Ústí nad Orlicí). That logically implies fairly different expectations tied to membership or the employment status – those are often very specific for a given cooperative.

Members of the cooperatives and customers of the cooperatives: A close relationship among these two categories was present especially in the case of the *KONZUM* consumers' cooperative. This is to a certain extent also the case of the housing cooperative, where the activity is oriented towards fulfilling the housing needs of its individual members. In other cases this relationship would be rather marginal.

Table 4: The ratio of cooperative members who are simultaneously employees of the cooperatives (A) and the ratio of employees who are simultaneously members of the cooperatives (B) (in %).

	A	B
DUP – cooperative Pelhřimov	100%	22%
Chaloupky – ZD Zašovice	50%	75%
KONZUM, consumers' cooperative in v Ústí nad Orlicí	7%	50%
Brassica marketing cooperative	0%	0%
Bytové družstvo Borovany	0%	N/A (no employees)
1. SDZP	100%	7%

* less than 7%

Cooperative members (21 respondents)

Members are generally well-informed about their rights. According to their own words they always partake in decision-making (either by appointing their representatives or directly taking part in decision-making at membership assemblies and working meetings, or through questionnaires as a means of expressing their opinion). They appreciate self-realization, teamwork and would recommend membership in a cooperative to others.

Cooperative leadership, management (9 questionnaires)

The management structures of the studied cooperatives vary radically in their complexity, which reflects especially the size of their membership (see Table 5). While the housing cooperative elects only a chairperson and his/her deputy, in the *1. SDZP* cooperative – which has seven members, the membership assembly also assumes the role of the board of directors and an audit committee. In the *KONZUM* cooperative, the highest body is the assembly of delegates elected in their constituencies.

Table 5: The organisational structures of the cooperatives.

Name of cooperative:	Highest body of the cooperative	Management – board of directors (no. of members)	Chairperson and vice chairperson	Audit body (no. of members)	Director, leading person	Other participation mechanisms	Relationship between the director and chairperson
1.SDZP	delegates assembly (elected in constituencies)	board of directors (7)	chairperson, vice chairperson	audit committee (5)	director	committee of members, opinion polls	director and chairperson separate
Chaloupky - ZD Zašovice	membership assembly	board of directors (7)	chairperson, vice chairperson	audit committee (3)	director		director and chairperson separate
KONZUM, consumers' cooperative	membership assembly	board of directors (5)	chairperson, vice chairperson	audit committee (3)	director		chairperson = director
Brassica marketing cooperative	membership assembly	X	chairperson, vice chairperson	membership assembly	sales director	working meetings	chairperson = director
DUP – družstvo Pelhřimov	membership assembly	X	chairperson	no data	production foreman		chairperson = director
Bytové družstvo Borovany	membership assembly	X	chairperson, vice chairperson	X	X		X

Data source: questionnaires for management members, by-laws of the cooperatives KONZUM, DUP, Brassica, 1. SDZP available in the Business register.

Employees (20 respondents) mostly mentioned kind, polite treatment. What proves to be important is individual approach, especially in employing persons with physical disabilities. In some cooperatives job security, lower demands related to workload, but also adequately lower wages were mentioned. Only in some cooperatives (especially *Chaloupky – ZD Zašovice*, *KONZUM*) the employees mention participation in the decision-making process (“I am taken more seriously”, a certain degree of responsibility), learning new things and participation in socially beneficial activities – ecology, local development.

Customers (27 respondents) mostly appreciated good product availability, the local origin of goods (almost half of the respondents), low price and friendly relations (7 respondents). Availability thus perhaps means more than just physical proximity. Among answers ‘other’ we can find namely references pointing to interpersonal relations such as: “I know Mr. Zet’ko”, “I heard about it from my acquaintances”, “They are local” or “family relations”. All customers of *1. SDZP* and some customers of *KONZUM* and *Chaloupky – ZD Zašovice* see these cooperatives as social enterprises. Respondents-customers do not consider the housing cooperative *Bytové družstvo Borovany*, *DUP* in Pelhřimov or *Brassica* to be social enterprises.

Local inhabitants (73 respondents) – more than two thirds of respondents noted they know the particular cooperative about which they were asked (almost a half of the respondents were their customers; see Table 6). According to our research, best known and used are the services of *KONZUM*, consumers’ cooperative in Ústí nad Orlicí and the cooperative *DUP – družstvo Pelhřimov*. This is not surprising given their long tradition, many years on the market and their products (e.g. food or beer). Little local knowledge about the agricultural cooperative *Chaloupky – ZD Zašovice* operating in a small municipality may be due to its short existence. It is likely that it will increase.

The number of possible customers of the housing cooperative in Borovany is narrow and probably no promotion of the cooperative is needed. The *Brassica* cooperative’s specific portfolio of services determines the circle of possible clients. It is probable that they are well-informed about the activities of the cooperative, which the survey of local people could not capture.

Members of local governments were mostly concerned about the stability of enough employment opportunities and a qualified and educated labour force. They see opportunities in developing collaboration e.g. with other municipalities, foreign partners, investors, in using the EU funds and revitalization of certain neighbourhoods in their municipalities.

Table 6: Distribution of respondents-local inhabitants according to their knowledge of the cooperatives and utilization of their services.

Name of cooperative:	Knows the cooperative		Knows the cooperative but is not its customer		Knows the cooperative and is its customer	
	Number	In %	Number	In %	Number	In %
1.SDZP	5	42	7	58		
Chaloupky – ZD Zašovice	3	30	4	40	3	30
KONZUM, consumers' cooperative in Ústí nad Orlicí					15	100
Brassica marketing cooperative	5	45	5	45	1	9
DUP – cooperative Pelhřimov	1	7	1	7	13	87
Bytové družstvo Borovany	7	70	3	30		
Total	21	32%	20	32%	32	38%

Respondents – knowledge of social enterprises

More than a third of respondents-customers (9 out of 27) could give an example of a social enterprise. The **customers** mentioned relevant non-governmental organisations as *Slunečnice*, *Člověk v tísni*, the coffeehouse *Potmě od Světlušky*, *Podané ruce*, cooperatives *KARKO*, *Jednota*, Borovany Municipal Brewery, business companies *AXIN*, *HM KARTON*, the brewery in Krásná Lípa (*Křínický pivovar, s.r.o.*), the project *Hračkotéka*, hospices or a sheltered workshops of the disabled.

Only less than one fifth of the surveyed local **inhabitants** (13 out of 73) knew a social enterprise and mentioned some concrete example. However, not all of those subjects have the status of a social enterprise (one cited case was a purely for profit private enterprise). The sheltered workshop in Borovany *Nazareth* was mentioned three times, other organisations were mentioned only once. These were coopera-

tives: *KARKO*, *INVA* Litoměřice, civic associations *Fokus Labe*, Chocolate Factory *MANA*, *Toulcův dvůr*, *Borůvka* Borovany and *Slunečnice* in Děčín. Other mentioned enterprises were the brewery *Křínický pivovar, s.r.o.*, *SAS technik, s.r.o.* or *VDI Meta*.

All members of local governments, members of municipal administrations (mayors, municipal council members, deputies) named at least one social economy subject. In five cases they named the researched cooperatives (*KONZUM* in Ústí nad Orlicí, 1. *SDZP, Chaloupky – ZD Zašovice*). Further a number of other subjects were mentioned: the manufacturing cooperative *Mechanika* in Teplice (tachografy company in Děčín), the sheltered workshop *Fokus Vysočina, s.r.o.*, which also has presence in Pelhřimov, various civic associations such as *Slunečnice* in Děčín, *Centrum Krteček*, *Centrum pro tělesně postižené*, *Centrum LADA* in Pacov, local non-profit organisations supporting various vulnerable population groups or housing cooperatives. The respondents who are somehow familiar with the concept of social entrepreneurship see its greatest contribution in creation of jobs, especially for people at risk of social exclusion. The contribution of social economy to the development of community and regions is less in the forefront. Employment and competitiveness are regarded as major challenges for cooperatives and the regions in which they operate.

Good practice examples

Environmental aspects, ecological sustainability

This aspect was of importance especially with respect to the agricultural cooperative *Chaloupky – ZD Zašovice*, where various actors mentioned it as essential. The idea behind founding of the cooperative is related to experiences and activities that its founder has in the Czech Union for Nature Conservation. It is also based on the analysis of the needs of a particular locality and its sustainable development by using local resources. In spite of the short history of the cooperative and a small number of its members we believe that the experiences of its leaders provide a certain guarantee of economic sustainability for the future. In the future, the cooperative might have a significant impact on the community, but so far it is relatively weak.

KONZUM, the consumers' cooperative in Ústí nad Orlicí appears to be another example of good practice. From the viewpoint of its size and history, it stands in contrast to the above mentioned agricultural cooperative. It has more than four thousand members and its tradition dates back to the 19th century. It is important to appreciate not only its emphasis on distribution of regionally produced food, but

also on regional ties and values. Many respondents perceived as a value the fact of keeping money in the region or using profits of the cooperative for local non-profit organisations, which again enhances local ties and so-called social capital. The company leader is also internationally active and the fact that *KONZUM* is part of the international cooperative movement as well as local organisational structures makes this organisation an example of good practice.

Cooperative principles

Our data indicate that all studied cooperatives uphold the cooperative principles. From the perspective of involvement of the cooperatives in larger cooperative structures and cooperation among cooperatives, three cooperatives can serve as examples of good practice – *KONZUM* (even at the European level), *1. SZDP* and *DUP*.

Table 7: Involvement in cooperative networks and the cooperative movement.

COOP group (Association of Bohemian and Moravian Consumers' Cooperatives)	<i>KONZUM</i> , consumers' cooperative in Ústí nad Orlicí
<i>DA ČR</i> (Cooperative Association of the Czech Republic)	
Euro Coop	
Local Action Group <i>Orlicko</i>	
<i>TESSEA</i> (Thematic network for social economy)	<i>1. SZDP</i>
<i>AZZP</i> (Association of Employers of Persons with Physical Disabilities)	
<i>SČMVD</i> (Union of Czech and Moravian Production Cooperatives)	<i>1. SZDP DUP</i> – cooperative Pelhřimov

1. SZDP is a cooperative that meets a narrower definition of the social enterprise. It has been on the market for decades and offers production and services in several parts of the Czech Republic. It can be seen as an interesting example due to the fact that within approximately one decade this company grew from its original objective to provide employment for family members to its present size with a hundred employees. However, the responses of two employees who said that they knew nothing about the decision-making process in the cooperative suggest some failings in upholding the principles of cooperative good practice.

Another cooperative that might be further evaluated from the perspective of good practice could be *DUP* in Pelhřimov. However, the social nature of this cooperative is not sufficiently perceived by respondents of this survey.

Table 8: Ranking of cooperatives according to the criteria of good cooperative practice.

Name of cooperative:	Open membership	Democratic member control	Economic participation of members	Autonomy and impartiality	Education, training, information	Cooperation of cooperatives, cooperative movement	Concern for community	Total
1.SDZP	ND	1	2	2	ND	2	2	9
Chaloupky - ZD Zašovice	ND	2	ND	2	ND	0	2	6
KONZUM, consumers' cooperative	2	2	2	2	ND	2	2	12
Brassica marketing cooperative	ND	1	1	2	ND	0	1	5
DUP – družstvo Pelhřimov	ND	1	2	2	ND	2	1	8
Bytové družstvo Borovany	ND	2	ND	2	ND	0	1	5

Legend:

ND – data not available, 0 – does not meet criteria, 1 – meets criteria partially, 2 – meets criteria

This evaluation was based on the research data.

Notes:

¹ If the respondent did not know the selected cooperative (21 respondents) s/he only answered the questions asking about their knowledge of some social enterprise.

² *Severočeské družstvo zdravotně postižených* (North Bohemia Cooperative of the People with Disabilities)

³ According to this rule, when a business company reaches a certain number of employees it is obligated to employ also some disabled people. If the company does not meet this obligation it is levied an additional tax. To avoid this additional taxation, companies have the option to purchase products or services from other companies employing the disabled.

⁴ A store in the centre of Prague supported by the operational programme Prague Adaptability. It employs people with disabilities who make creative toys for children.

⁵ The cooperative implemented the already finished programme "Development of Social Entrepreneurship in Northern Bohemia" funded by the Integrated Operational Programme. (see <http://www.fondy.eu.eu/>).

⁶ See: 'Odbytová družstva v EU a vybraná rozhodnutí soutěžních úřadů členských států vydaná v oblasti zemědělství.' (Marketing cooperatives in the EU and selected rulings of offices for protection of competition pertaining to the sector of Agriculture) In: *Informační list č. 1/2011*, Úřad pro ochranu hospodářské soutěže, 2011

⁷ No control body was mentioned in the questionnaire or on the website of the cooperative.

⁸ See more about the COOP group: <http://www.skupina.coop/cz/O-skupine/Clanek/209-Skupina-COOP>

⁹ We did not ask how many of these respondents were also members of the cooperative.

¹⁰ *Toulcův dvůr* is a Prague-based training facility focusing on environmental education. *Ret-tigovka* is supposedly the first social company in Litomyšl employing people with disabilities and the socially excluded. It uses mostly Czech materials and resources. *VDI Meta* is a part of *VDI META GROUP* uniting several cooperatives and companies that employ more than 400 people with disabilities.

¹¹ O.p.s. is an acronym for a so-called public benefit society (*obecně prospěšná společnost*)

¹² See: <http://www.kr-vysocina.cz/rndr-jozef-zetek-za-velky-prinos-pro-rozvoj-a-podporu-neziskoveho-sektoru-v-kraji-vysocina-za-dlouholetou-cinnost-v-oblasti-environmentalniho-vzdelavani-vychovy-a-osvety-a-v-oblasti-ochrany-prirody-a-krajiny/g-19926>

¹³ See: *Sociální ekonomika. Studie* (The Social Economy. A Study), MPSV ČR, Praha, 2009

A Possible Model for Resilient Community Business? Insights into the Situation of Social Cooperatives in Hungary

Réka Mihály, Judit Fleischer, Attila Katona and Erika Kármán

Methodological résumé

The aim of the research was to assess the situation of cooperatives in the Visegrad countries, thus to get an overall view of the region in order to facilitate further development and explore the possibility of building a professional network. The research is based on case studies and was carried out by a seven-member research team in Hungary. The team consisted of sociologists, economists and environmental engineers all open to or working in the field of community initiatives and social economy, namely: Judit Fleischer, Beáta Imre, Erika Kármán, Attila Katona, Réka Mihály, Eszter Mlinarcsek and Petra Péntek. The Hungarian research focused on social cooperatives, as nowadays this is the most widespread form of social enterprises in the country. The aim of the research is to provide a qualitative description of the studied social cooperatives as social enterprises on the basis of data collected through interviews with people working in, and getting in contact with the activities of these organisations. To explore the characteristics of social cooperatives, 6 organisations were included in the research. During field trips, our research group carried out in-depth interviews with the management of the selected social cooperatives and local authorities representatives, furthermore the characteristics of the members' and workers' relationships were investigated through focus group interviews. In addition, customers of the coops, and local people were asked about their opinions by questionnaires.

Initially, we faced some difficulties in the selection of the sample, as there are hundreds of registered social cooperatives countrywide, yet many of these were not available or could not be found and it is likely they are no longer working or do not operate as cooperatives any longer. This situation is related the European Union's grant programme that took place several years back and was supposed to provide funding for social cooperatives, but it did not result in viable and functioning social enterprises. An additional difficulty was practical and related to the fact that some cooperatives that we wanted to include in our study operate

in rather remote parts of the country. When selecting our sample, one of our main concerns was to choose social cooperatives with diverse activities. Also, because of the above-mentioned limitations, we finally selected organisations that our research group had some knowledge about or whose activity was in the team's field of interest. Furthermore, the agreement of all 4 country teams was to try to choose cooperatives whose operational principles include social and environmental values, as well as economic ones. These requirements were fulfilled by all the organisations investigated in this research.

A brief description of the studied social cooperatives

EMMET – the First Hungarian Renewable Energy Generation Social Cooperative

Activities: technology development and provision of renewable energy technologies for local needs, especially in farming.

The First Hungarian Renewable Energy Generation Social Cooperative (*EMMET*) was founded in 2010. It is based on an Italian model. Its members are rather well-off, highly qualified professionals and business people. The aim of the cooperative is to economically support socially disadvantaged people. *EMMET* aims to provide renewable energy power generating units to Hungarian farmers with minimal investment costs and technological interventions. With these units, farmers can build the basis of energy independence and self-sufficiency of their business. Currently, the cooperative is inactive because “The technology does exist and is available, but the social integration side is not yet ready to be implemented, plus the current funding system is also inadequate.” Despite this fact, *EMMET* has a great vision for supporting self-sufficient model farms that could lead to a significant social and environmental impact in the future. In addition, its members have many years of experiences in the business sector and are absolutely committed to social economy and cooperativism.

The Fresco Village Social Cooperative

Activities: cultural events, inter-cultural learning, Roma integration, advocacy for people living in extreme poverty.

The *Fresco* social cooperative is located in Bódvalenke in the Edelényi district and was founded in 2009 by local residents and activist Eszter Pásztor. The population of the village is about 200 people, 95% of whom are socially excluded

Roma living in extreme poverty. A special feature of this village that sets it apart from other ones in the area are its unique cultural and artistic expressions in the form of murals on the walls of local houses painted by well-known Roma artists. The cooperative was established to pursue two fundamental goals: the first is general aiming at elimination of prejudices against the Roma people; the second is to give the local people an opportunity to make a living.

The *Fresco Village* cooperative has managed to get a worldwide reputation (articles about their activities have appeared in the Wall Street Journal, the Washington Post, the Los Angeles Times, the New York Times, Le Monde, Al-Jazeera, the BBC and Reuters), however the issue of village's self-sufficiency has not yet been solved and the cooperative so far has failed to provide work for the local people in the long run. They organised the cultural Dragon Festival in the village two years ago and got some smaller projects, but these activities could not generate employment in the village. Their last hope was to get funding for a biomass recycling project, they even found partners to support this idea, but the grant application failed and without the planned financial support the project could not be realised.

They have plenty of ideas and are determined to put them in practice, but due to the lack of initial capital they could not start any projects. However, members of the cooperative are committed to continue and with the support of its founder Eszter Pásztor and her network there is a possibility that this cooperative will be successful in the future.

The Stork Community Centre and Café

Activities: local community building, cultural events.

The Stork Community Centre and Café was founded in 2013 by a group of young people in the Budapest VIII district, with the aim of creating a community, cultural and entertainment space serving people living in the area including the socially disadvantaged. *The Stork* is a special case in our research as they have the legal form of a limited liability company, but they work on the basis of social cooperative practice. Three pillars of their mission are to achieve financial sustainability, ensure the well-being of their members and become an activists meeting point which would serve greater community development. Because of the urban rehabilitation plan of the quarter, the current building and therefore the long-term existence of the community centre is uncertain, but the team is committed to their goals even if they have to continue their activities in a different place.

The Gödölye Social Cooperative

Activities: sale of local organic products, catering provision in the local Waldorf School.

The organisation was founded in 2010 in Gödöllő by people mainly from the local Waldorf School who are committed to environmentally and socially conscious food shopping and cooking. The main pillar or the starting activities was the farmers grocery store where local people could purchase organic local products. Later they started a kitchen in line with the same values as the local Waldorf School and provide environmentally conscious, seasonal and healthy food for its students. As this activity seems to be the most profitable, they plan to start it in other Waldorf schools nearby and in Budapest. The leader, Gabor Nagy, played a pioneering role in establishing many community based movements in Hungary such as the Waldorf movement, eco-village, community supported agriculture and so on.

Best practices

From the six studied cooperatives, we chose two organisations as best practices in order to get deeper understanding on what makes a social cooperative work, be sustainable and successful.

The Adacs-Bábonny Social Cooperative

Activities: farming, food processing, catering, maintenance.

The *Adacs-Bábonny* Social Cooperative was founded in 2011 as a supporting organisation of the *Kunbábonny* Civic College. Their initial activities were to maintain the building of the College and also provide catering to trainings and community activities organised by the College. The core mission is to 'act locally for our better life'. In practice, this mission is manifested in a common garden where they started to produce small-scale local products. They view themselves as a group of friends and a community that has the "ability to think together". For the future, they would like to diversify their services, because the current services (maintenance of the Civic College) is quite seasonal and does not provide continuous work for all members. In the future, they plan to expand their garden production and find markets for their crops. They want to develop a local brand, enlarge the range of their services and become a good example for community initiatives connected to the Civic College.

Why is the *Adacs-Bábonny* Social Cooperative a successful model? First of all what we could see in all cases is that community building and development is

a crucial element of stable, transparent foundations of these organisations. In the *Adacs-Bábonya* Social Cooperative, Zsuzsa Mészáros and her team have been working for years to connect to local people and to make organisational principles stable and easy to understand. This was achieved through numerous discussions and professional approach to community development and establishment of a social dialogue.

It is significant how members understand leadership and ownership in the organisation. Officially elected leaders assume these positions as positions of responsibility rather than dominance. Decision-making processes are open and inclusive. Other important element that Zsuzsa Mészáros mentioned is that they started small and developed slowly. This in a way can be a good learning process as the members and also the community can better understand and adopt new steps. On the other hand, however, this also might mean a risk for the organisation, because their capacities are limited. Most of the members have their full-time jobs or pensions or student stipends, so they do not necessarily need salaries, but get their compensation in crops and other products that the cooperative can produce. For those who seek fully-paid regular employment, they can provide only partial solutions. In the last years, the organisation could employ one or two people full-time and part-time in the same time. They can provide partial/seasonal income and food for socially disadvantaged people. This situation may change with the development of garden production and marketing and sales activities. They would be able to hire more people, even if it most probably would be seasonally.

We see this organisation as a good example for small communities in terms of the development of community life, potential local economy growth and local business sustainability.

Community Social Cooperatives (KÖSzSz)

Activities: charity shop, training and consultancy on charity shop operation.

The *KÖSzSz* was founded in 2010 and embraced several different and separate lines of activity focusing on renewable green energy, handmade production and charity shops. They started with the same capacity in all three areas and on the basis of their experiences they decided which of them is most worthy of continuing and increased their capacity accordingly. After a few initial years, it became clear that the charity shops project was going to get more attention in the future.

The model for the *KöSzSz* was the well-know Spanish *Mondragon* cooperative where socially disadvantaged people were employed. At the moment they run

three charity shops in Budapest and as they are financially successful, the cooperative plans to continue and open new shops in the future – about two or three per year – and create a charity shops network.

The main activities of these charity shops are similar to the ones in the United Kingdom or elsewhere in the world: the shops accept different goods such as clothes, souvenirs, household tools and food and then sell them to poorer people at a very reasonable price.

The head of the *KöSzSz*, László Németh, is also the president of the National Association of Social Cooperatives and has done much work to bring social cooperatives together and further develop the social economy sector in Hungary. At the moment, the Association has 36 member organisations. It provides them with professional support to improve their operation. It organises training courses, workshops and helps with legal advice.

We chose the *KöSzSz* as a best practice example for two reasons. One is because they have been able to adapt different models from different countries and integrate them into the Hungarian system, culture, and social economy. There are numerous good practices of social cooperatives in the World especially in Europe and we think that adapting these working models means to already have some foundation with significant experiences. Nevertheless, adapting these models and make them operate successfully in a different society is challenging.

Another reason was that the *KöSzSz* is more than a sustainable organisation. It is rapidly expanding its capacity, employment opportunities and social and economic impact. We have seen many social cooperatives where a creative idea and even a strategy were in place, however after they ran out of grant money, the organisations gradually started to slow down and many of them got inactive. The *KöSzSz* has worked a lot on its strategic planning and issues of feasibility and their main success is that they are able to open more shops, employ more people and serve more customers in need. They can do so not only from grant money, but also from their own financial resources.

Analysis of the cooperatives

The following part contains a cross-section analysis of issues related to the operation of the presented cooperatives. It is based on data collected through interviews and questionnaires and it strives to keep as much as possible to the original answers of our respondents to get a clear description.

Leadership

All organisations under study have a three-member management board, and a three-member supervisory committee. However, four of the six studied social cooperatives are led by a very strong personality. The multi-personal coordination of other two cooperatives can be explained by the fact that they really are cooperative structures of several people with similar qualifications and very similar level of informational background with respect to social cooperatives. In contrast, in the former four cooperatives the difference between the membership and the leader is that of a distinction between socially impoverished people and an educated intellectual or a guarantor of the loan taken for cooperative's operation who sets its conditions and dominates its relations. In one case the main factor is that the leader's work is in the field of community initiatives, thus she has a lot more information on and experience with the subject than the other members. One organisation explicitly intends to break down the hierarchy in its functioning, and plans to have as democratic operation as possible, whereas other organisations have very dedicated leading personalities who gathered around them other members, and hence some degrees of hierarchy in their operation and decision-making processes can be detected.

The interviews also revealed that all but one of the social cooperatives have a leader, or leadership with great experience and professional background in social economy or community-led initiatives. The exception is one cooperative led by a highly dedicated person who has an extensive network of relationships and significant social capital, yet has no occupational background in the mentioned fields of expertise. All leaders have a higher education degree, are very sensitive to social issues and open to grass-roots movements; they are all proactive and ready to activate themselves to do something for social change. They all had some experience with organising, and some management and financial skills already at the time of founding of the cooperative, yet they do not form a homogeneous group in this sense, as some had several decades while others just a few years of these experiences.

It was clear from the management interviews that each of these organisations chose the social cooperative as a form of operation, because it was fully in accordance with their values and they subscribe to the ideas of social cooperativism in their activities. Each leader emphasised the managerial responsibility for the socially and culturally disadvantaged employees, and importance of responsible conflict management, work organisation and for maintaining a friendly atmosphere. Often their prevalent goal was 'success for the sake of community and society' and the attitude of 'we can add to it, we can bring about change, we can bring about improvements'. None of the studied organisations displayed an exclusively profit-making motivation of their activities.

Several of these organisations worked or are still working also in some other legal form (e.g. a civic association or foundation) than the social cooperative. Among reasons for this are organisational development, the need to change or expand their activity, and also the fact that they are forced to diversify, thus broaden the scope of the possible funding opportunities by existing in a variety of legal forms, because of the scarcity of financial resources and legal background. One of the organisations is officially registered as a limited liability company, however its activity and operation meets the requirements for social cooperatives. Its members consider the organisation itself to be a cooperative and indeed they participate in the international cooperative movement. The opposite of this is the case of an organisation where one person took on a loan guarantee, which has largely influenced the operation of the cooperative. Thus, its members are regarded as employees of the leader, and the organisation is still *de facto* a cooperative, but is run like a private business company. However, even in this case, a cooperative relationship still exists between the leader and volunteers, who help the cooperative. The other four organisations are both formally and in practice operating in accordance with the concept of the social cooperative.

With regard to decision making, according to the managers and the majority of the board members, all cooperative members have the right to vote and all the decisions have to be approved by all members. Several interviewees mentioned that as long as there is a counter-opinion within the group they would not leave the discussion table. Nonetheless, it happens in some cases they have to give up on practising direct democracy for the sake of better efficiency. The only exception to this is the cooperative where the democratic decision-making process has been replaced with the mode of operation of a privately run business, due to the above mentioned financial loan. Only one manager referred to the fact that with a growing size of the cooperative the nature of decision-making might change: "... after a certain traffic, or a certain income it is necessary to set up a non-member management, as democracy works as long as decisions are made, but a member will never lead a cooperative as considerably in everyday problems... and might make such decisions which will endanger the coop's operation". In addition, it has been mentioned several times, that for smooth operation of a cooperative it is inevitable to have constant communication among its members, as they are all in the same boat, they have common goals, and their opinions amount to a high added value.

It is important to emphasise, that each cooperative leader spoke honestly, positively and with great respect about members and the disadvantaged employees of their cooperative, however all organisations also experienced conflicts. As examples they mentioned inadequate work ethics or a lack of motivation: "They wanted to

be employees and only cared about getting their salary". Another manager reported someone causing intentional financial harm (cashier theft), "by which he violated all common principles". With respect to this, another negative experience was mentioned that concerned the observation that decisions about cooperative's assets should not be delegated to the people who are severely socially deprived and their basic needs have hardly been met: "... people have to get at least to the second level of the Maslow pyramid for cooperation to work well. At the level where we stand now, it is far too risky a thing".

It is noteworthy that all leaders of the studied cooperatives stressed their need to positively influence the life of the community within the reach of the cooperative's activity and operation, to achieve a positive and sustainable impact both socially and economically, and to fulfil all of this in an ecologically sustainable spirit. As one leader declared about their mission and the principles they represent: "Social economy is the direction for the future. We have formed this cooperative, because we think along those lines, and we also want to work towards a normally functioning society."

Moreover, the goal of the cooperatives, as exemplary community initiatives, is to encourage others to establish other social cooperatives and to share accumulated knowledge about their experiences. To achieve this latter goal, one of the leaders involved in the research is also the head of the National Association of Social Cooperatives of which all organisations involved in the study are members – except for the one that formally, *de jure*, is a limited liability company. However, this organisation is building international partnerships with foreign organisations involved in similar activities and operating cooperative pubs and cafés.

As concerns the forms of financing, one manager maintained that: "support in the form of grants is counterproductive... subsidies should not interfere with poor people's farming". Furthermore, the way to motivate and support entrepreneurship he sees not in some state norms or new technological tools, but in the incentives created to benefit enterprises and entrepreneurs. This organisation have not managed to start the operation of their social cooperative because he thinks their project is not yet ready to be implemented in Hungary, and he sees the lack of a financial scheme for cooperatives which would provide support in accordance with their performance, on the basis of 1 Hungarian forint of subsidy to 1 Hungarian forint per one unit produced. In his view, taking an appropriate investment loan is justified. According to the interviews, most of the managers agree with this stance. One of them said about the social cooperatives' financial sustainability and their competitiveness: "... the social cooperative is not at all non-profit. We all have to go to the battlefield of the market, yet we have

fewer chances than real enterprises, businesses.” As it was mentioned earlier, a for-profit company to outsource its activity or to gain EU funding was formed from none of the social cooperatives in the research, as it is, according to the interviewed managers, the case with many social cooperatives. In their view, it is very attractive to get state-sponsored employees and that is why organisations that do not adhere to the cooperative principles have arisen. The only purpose for their establishment was to use public money and turn it into products and services. According to the interviewees, behind these ‘outsourced’ social cooperatives there was no volunteering, no solidarity or civic ideology and they stopped their activity as soon as the financial support ran out. As a consequence, they stopped employing the disadvantaged people. It is important to mention that it is not inevitable for this to happen, as the research team know of social cooperatives linked to a for-profit mother company whose establishment for instance boosted the local fruit production, improved the lives of local farmers gradually extending their list of produce (jam, pesto, chutney) and their activities (competitions and a Facebook campaign).

All organisations involved in the research are planning to maintain their form of the social cooperative for the future and their activity is consistent with the cooperative principles. The organisation that is formally operating as a limited liability company has not switched to a social cooperative because their accountant did not recommend it to them as it would have been financially less favourable.¹

As concerns some other financial questions, it was mentioned that reaching the break-even point and a profitable and hence sustainable operation is clearly a goal of each cooperative and each leader. There is a variety of sources that the cooperatives used to establish themselves. Some only used symbolic amounts of membership contributions, but even these organisations have applied for grant money or are planning to do so in the future, either for their operation or for the expansion of their field of activities. There are a few cooperatives that have taken on a loan, for a wide range of reasons: be it for salaries or for the equipment or to pay rental costs. Mainly the leader or the management has taken personal surety-ship for a loan and this has influenced the membership principle of the cooperative and led to its suspension in one instance, as mentioned earlier. In other two cases it had no effect on the membership. At the time of our interviews, two of the cooperatives were not operating (their economic and/or social activities were not conducted), and despite many attempts (and loans) they had financial difficulties or their activities lacked reception in their host community. One was operating with a loss of several millions of Hungarian forints as they yet has not reached the

break-even point, however, thanks to a successful grant application and building of partnerships the cooperative is confident to be economically successful in the near future. The other three cooperatives have managed to achieve self-sufficiency; one is still repaying a loan, hence not earning profit, but is still able to pay the wages to its employees, just like the other two. One of the cooperatives has managed to earn profit which is to be used for expansion and opening of new premises.

Among uncertainties related to the future of the social cooperatives, the respondents highlighted strong economic and political contradictions, problems caused by legislative changes, confusion about funding schemes and often very serious liquidity problems. Based on the interviews, major failings related to the structure of the grant tenders were the financial constraints and contradictions of expected outcomes. In connection with the tender schemes and public funds the following problems have been mentioned the most frequently:

- social cooperatives were 'excluded' from the application for funding although according to their activities they met the requirements;
- not all of the existing EU funds and allocations are used by the state; there could be more calls;
- there is no funding scheme for bigger investment and infrastructure development (only for office supplies and devices for disabled people) although such investments would be needed for a long-term operation;
- calls for tenders were closed before the application deadline and sometimes the reason was not explained;
- immense efforts must be exerted to adapt their operation to the conditions set by the funding programmes;
- the grant period is too short, gradualism and a long-term planning is needed;
- payment of the grant is often delayed (liquidity problems);
- entirely for-profit businesses – such as limited liability companies, establish social cooperatives in order to fulfil special requirements of calls mainly supporting social businesses. They partially outsource their activities and after the project period is finished they close down their social cooperative. This tendency of some businesses shows no commitment to cooperativism and social economy.

Employees and members

Membership in the social cooperatives involved in the research varies between 8 to 15 people. Their educational and occupational qualifications range from elementary school to university degree, there are university students among them, as well as seamstresses, people from restaurant services, farmers, engineers, teachers, cultural managers and the retired. Some members who

come from better social conditions are also active in other organisations apart from the social cooperative or have former experience in volunteering.

The focus-group interviews indicate that with the exception of one organisation, the members have good relations with each other and with the management, as usually it soon becomes clear whether somebody is incompatible with the group and those people usually leave voluntarily. In one of the studied cooperatives, the responsibility of the leader for a bank loan made the relationship between members and the leader problematic. Furthermore, in some organisations, gaining a full membership is preceded by a trial period, or a so-called 'stork' status (the equivalent of a 'freshman' in the Hungarian culture), ensuring that only trustworthy and like-minded people get the membership. In addition to the member and employee status, a number of volunteers also take part in the operation of the cooperatives. These volunteers are typically friends or family members, or people who are interested in the ideas or activity of the cooperative or hope to get a job there.

It is true for most cooperatives that the members are on friendly terms with each other as well as with the management and they mentioned this, in addition to their common interests, as another reason for establishing the social cooperative or becoming a member of it. Many of the members have noted that like-mindedness or thinking in unity is very important for them, and helps them solve conflicts and move forward. Accordingly, they would recommend the social cooperative organisational form for people whose communities share the above-mentioned characteristics.

Apart from the social cooperative, which is operated in a private company manner due to the loan, all members and the management have equal rights; they share ideas with each other, and discuss opportunities as well as problems. A member of one cooperative pointed out the "importance of equal work-sharing, so that everyone possibly gets the same amount of work and the same amount of respect and appreciation". However, task-sharing was mentioned as a one of the difficulties, as it is often hard to meet the requirements due to the activity type, due to the different amounts of free time available or because there is more free labour force than employment opportunity at the social cooperative. Most of the cooperatives can offer part-time jobs to its members, or in many cases they can take in people as volunteers. Full-time jobs are typically offered for definite and short periods of time. When organisations find possibilities to subsidize employees' wages and taxes – such as state employment support programmes – longer-term jobs can be created.

Members of the cooperatives are aware of the principle of profit sharing, yet in many cases it was not put into practice, as either the cooperative was inactive or

unprofitable or it did not yet start its operation. The three self-sustaining cooperatives were not distributing their profit as they either spent them on loan repayment or on expansion or extension of their activity. This manifests the social cooperative consciousness/identity of the members, as their primary motivation is not to gain profit, but rather to express their social attitude, to develop and sustain their field and niche of activity and their professional progress.

Opinion of customers and service users

Responses to the questionnaires suggest that the social cooperatives were mostly selected by customers/service users thanks to the quality of their service, personal relations, behaviour of the cooperatives towards their customers and because of their good atmosphere. In several cases, the personal relationship meant that the respondents' relatives, friends or acquaintances are also involved in the cooperative and customers heard about the cooperative from them. Furthermore this group of respondents was the one who was aware that the given organisation operates as a social enterprise and they also knew other enterprises similar to the cooperative, while the rest of the respondents were not even familiar with the term 'social enterprise'.

Several people said that manifestation of the social nature of the cooperative can be seen in the decision-making processes. Financial interests is not the top priority in decision making, rather cooperatives' objectives are taken into consideration. The attainment of a market position – defined by financial profit – is not the primary motivation for social cooperatives. People mentioned that the personal and community character of the service, and the fact that environmental issues are taken into consideration also indicate the social nature of cooperatives. There were some respondents who said that the social character is represented by the small amount of money which was needed to start the cooperative. (Note: this is not inevitable, some social cooperatives won starting grant money and therefore were able to achieve bigger investments).

A wide range of responses were given to the question: 'Who benefits directly from the cooperative's activities?' Some respondents said that the cooperative members did not, only the customers benefit from it. Another response was that only the local residents, and someone else's opinion was that only the 'owners' and 'workers' benefit from it. According to another opinion, anyone can benefit who is open to the ethos of the cooperatives, as people can get answers about "political, social and sociological issues" thanks to cooperativism.

The respondents think that the locals, unemployed people, pensioners, young mothers could benefit from establishing a social enterprise or that social enter-

prises might be good for rural development in places with available land. In more abstract terms, the respondents recommend forming social cooperatives to people who have a “sense of mission”, “have a common mind that is necessary to form such an enterprise”, and for those who “think as part of a community”.

Customers of the cooperatives perceive that in their residential area a social enterprise would be probably useful for unemployed people or for people with special needs. According to another respondent’s opinion “depending on the size, it could be useful for anyone” or that “this may depend on many things, mostly it is a matter of attitude”. Another respondent said that a social enterprise could be directly useful for people living in its vicinity.

Local people

The majority of people living in the vicinity of the social cooperatives were not familiar with the studied social cooperative. They could not name any other social enterprises or characterise this form of enterprise. We recorded different responses only in cases of two social cooperatives the activities of which are bound to smaller settlements. With respect to one of these cooperatives, the locals stated that they recognised and perceived the social character of the organisation, and they also knew that the membership consisted of a group of good friends. Furthermore, the respondents believe that the locality and its community benefit from the activity of the cooperative; they evaluated this impact as moderate. At this point it is important to mention that most of the people who formed this social cooperative had been previously for 15 years participating in community development activities in the village as members of a civic association. This probably has influenced their reputation and the evaluation of their activity. However, the locals are not the cooperatives’ customers as they are self-sufficient producers and therefore they do not demand the services of the cooperative. In case of the other cooperative, all villagers know about its existence and also know its mission as the cooperative was established to improve the quality of the local people’s life. So all villagers are in some way connected to the organisation. For one part of the villagers it is very important that this social cooperative exists, but because of local conflicts there are people who impede its operation. The impact of this cooperative is evaluated quite differently by local people and people living in the vicinity of the settlement, as the initial successful projects have been followed by a series of unsuccessful attempts in recent years. Furthermore, there are people who say that nothing can help the locals, not even a social cooperative, as they are not willing to change their own situation.

Local authorities

In one case the representative of the local authority was not willing to be interviewed, even after repeated requests. According to the leader of the cooperative,

the reason behind this was that the representative is a wealthy local man who is against the social cooperative. Therefore, he as the mayor impedes its activity and undermines the possibility of the locals to get involved with the cooperative.

In case of another cooperative, the representative is one of the three members of the cooperative's supervisory board, so he has a deep knowledge about the operation of the cooperative and is aware of the characteristics of this form of enterprise. In one case there is a close cooperation between the social cooperative and the local authorities: the local authority has a really open attitude towards the cooperative, mainly thanks to the fact that the leader of the cooperative is a recognised expert who "enjoys a high degree of trust and respect" with the local authorities. In addition, the authorities recognised that "the social cooperative's activity is in line with the objectives of our institution" and therefore it is worth to collaborate. For instance, the local authority can suggest potential beneficiaries/employees of the cooperative and help it to find its target group or meet its employment needs, as the local authority keeps official records of socially disadvantaged people living in the area. Also the cooperative gets the business operation premises for a reduced price from the local authority.

Furthermore, one representative of the local authority emphasised that, beside being sustainable from the social and environmental point of view, the examined social cooperative is economically stable as well, self-sufficient and it even generates profit. The representative, who also has a background in a non-profit organisation, said that 'a lot of organisations would like to cooperate with us as part of several non-profit community initiatives', but these initiatives are generally not economically stable, which is a basic requirement, since without that the organisations "are not able to provide real help to society". Through this example it can be seen that despite the current difficult legal and administrative background, a lot might depend on an open-minded local official and the way in which the representatives of local authorities relate to the social cooperative's social and economic sustainability.

Another public official who was interviewed did not know the studied social cooperative, which may be due to its autonomous operation and a specific sub-cultural isolation. The city has a very low unemployment rate (less than 4%) and the most efficient part of the local authority's work is children's welfare. The interviewee believes that there could be more improvements in the care for the disabled people and the elderly. The respondent said that social cooperatives in their town do not play a role in social economy since "the unemployment rate is low because the town is located in an urban agglomeration". At the time of the interview, there was an organisation employing disabled people founded by the municipality, and

in the past there had been a social cooperative, but it was financially unstable and therefore it closed down. She thinks that “non-profit organisations fit into our city culture. This is confirmed by the fact is that there are numerous non-profit organisations operating successfully in our city.” She sees social economy as a valuable tool to promote local development, create jobs and improve the local community more in the countryside than in an urban environment. In rural communities unemployment is a problem, but at least there is land available, which can be a solution for the employment of the locals in terms of crop production and animal husbandry. This officer marked as an advantage that “social cooperatives are great solutions to local conditions, needs”. As a disadvantage she mentioned “short-term thinking, which leads to sustainability problems”.

Summary

Overall in the activities of the six studied cooperatives, community services are more dominant; however, social cooperatives with agricultural and manufacturing activities are also represented. Certainly, besides these potentially profitable activities, the social side of the cooperatives such as community development, advisory services and organisation of cultural programs are very important. Despite their wide range, the analysed social cooperatives have the same goal: to give their members meaningful jobs, livelihood and help their social integration. However, due to the instability of the legal framework, these cooperatives are not always able to provide sustainable or full-time employment for their members, and if they do so usually they can employ only some of their members or only in part-time jobs. Both despite and due to this fact, the number of volunteers involved with each studied cooperative is notable. In many cases, these cooperatives can only support the basic needs of the community, and can not work as enterprises because their economic sustainability is quite uncertain due to legislative barriers.

Another conclusion is that for social cooperatives, the involvement of experienced managers is very important as enthusiastic amateurism should be replaced with professional management at least at the level of strategic planning and development. In addition to the leaders, members play a very important and responsible role. In contrast to more passive ‘supporting’ organisations (e.g. foundations supporting social development), in the social cooperatives their members are expected to actively participate and have they say in decision making. The socially disadvantaged members of social cooperatives (e.g. the long-term unemployed) may not just get regular income, but also regain their social status, self-confidence, quality of social relationships and a hope for getting ahead.

The realisation of all this of course depends on the severity of the handicap, the nature of the tasks related to the job description, and it also strongly depends on the capabilities of cooperatives' leaders.

However, throughout our field research we could see that even the people living or working in the close vicinity of the studied social cooperatives may not really be aware of the operational form and activity of these organisations and the public knowledge of the concept of a social enterprise is still rather low.

In our view, social cooperatives have a significant potential to achieve economic and social policy objectives of creating self-sustainable local communities and in tackling local poverty and social exclusion. The model broadens the focus of local development and provides a method that goes beyond usual solutions: it provides a new vision for a new labour market structure and environmental-social-economic sustainability. It meets real local needs through new and different kind of goods and services (for example local healthy food catering at schools, social and cultural programmes related to local conditions and needs, job opportunities that help disadvantaged people to make a living and develop themselves and their abilities).

To ensure permanent growth of self-organised cooperativism, a corresponding regulatory and financial background is required. Opinions of the leaders of the studied cooperatives provide evidence that the current regulatory system hinders their development, efficient operation and financially sustainable socially beneficial work. In the near future the review and fine-tuning of the relevant legislation would be essential, as well the resolution of contradictions, in order to create the possibility of a financially stable cooperative model which could serve as a basis for social innovation.

The presented research on social cooperatives in Hungary provides an overview and summary of the legal, social and economic background of this increasingly popular and supported form of enterprise and explores the obstacles and opportunities that the cooperatives face. On the other hand, we plan to further build upon the results of this research to provide recommendations to policy makers, businesses and of course to social cooperatives or their existing networks, as obstacles could be overcome only through joint action. We hope that the material that we collected over the course of our research may help to better understand the nature of the current processes and our findings may contribute to the development of social cooperatives, social enterprises and to the whole social economy.

We would like to thank the participating cooperatives' members and leaders, local authorities representatives, customers and local residents for their enormous help and willingness to share their views with us.

Notes:

¹ The administrative burden of social cooperatives and the financial responsibility of their auditing body have been significantly increased in the new Civil Code since the 15th of March 2014.

Social Cooperatives in Poland: a Probe into the Current Situation and Challenges

Dominika Potkańska and Izabela Przybysz

The cooperative tradition in Poland dates back to the 19th century when it first became popular in the Galician region (the Austrian Partition of Poland). After Poland regained its independence, cooperatives spread throughout the entire country.

They developed in particular in agriculture, where they would issue small loans or provide customers with supplies. The introduction of the socialist system after World War II changed the way the cooperative movement functioned in Poland. While earlier it had been democratic in character and reflected the independent development of the community, it now became a tool in the hands of the authorities. The aims and scope of the activities of particular types of cooperatives as well as the way they functioned was dictated from above by the State. As a consequence, at the end of the 1980s the cooperative movement represented an enormous sector of the economy, one that was associated more with inefficiency than with self-government and cooperation between citizens. It is important to keep in mind that the legacy of the communist era had and continues to have a great impact on how Poles perceive this form of economic activity.

With the emergence of the market economy after 1989 the role of the cooperative movement diminished significantly. The number of cooperatives declined steadily from more than 15,000 cooperatives in 1988 to just over 11,000 in 2007.¹ However, major changes have occurred in this institution in the last few years. Especially worthy of note is the new form of cooperative that has emerged, namely the social cooperative, which has greatly revived the cooperative idea in Poland. Owing to the fact that it is the most rapidly developing branch of the cooperative sector, the present research report focuses on providing a description of this very institution. Undertakings of this type operate on the basis of the Social Cooperative Act of 2006, which specifies that the main aim of such organisations is to reintegrate those threatened with social exclusion on the labour market as well as promote the professional rehabilitation of the unemployed. This concerns in particular people whose employment prospects on the traditional labour market are not great. Enterprises of this type tend to be jointly run organisations. We are dealing with a new type of legal entity here whose purpose is not only to engage in some business activity but also to ensure the social and professional reintegration of the cooperative's members.

According to figures from the Polish National Union of Cooperatives there were 601 cooperatives of this type registered in the National Court Register at the end of 2012 and more than 850 at the end of 2013, while at the end of the first quarter of 2014 the total number of social cooperatives exceeded 1,000. However, it is difficult to determine how many of them are really active. The research results indicate that some cooperatives are no longer active, although officially they have not been deregistered. 83% of the social cooperatives surveyed in the research conducted in 2010 were founded by unemployed people, and 38.4% of them employed at least one disabled staff member.² Back in 2010, the vast majority of the surveyed enterprises were small entities with between 5 and 9 members. Scarcely 10% of the cooperatives had 10 or more members. More than 1/3 of the surveyed cooperatives hired additional employees who were not at the same time their members.

The social cooperative is an innovative form of economic activity, which, thanks to financial aid from EU funds, is becoming more and more popular as each year passes. In light of this observation the development of this type of cooperative may change the economic order in Poland and the institution may emerge as a real alternative to private enterprises.

Methodology

6 social cooperatives from different regions of Poland were chosen for the project. The aim was to ensure that the range of the research would reflect as varied a spectrum of such organisations in Poland as possible. Hence the sample included cooperatives that varied in terms of their type, operational goals, business activity, location, history and founding members.

We believed that a complete picture of the current state of social cooperatives, their plans for their future and their functioning in a given legal environment would provide a basis for accurately diagnosing the condition of cooperatives in Poland. This kind of analysis would encompass the following:

- a description of the characteristics of the cooperative: how that institution was established, its adopted goals, business aspects (its business model, clients, market position, and business idea), social aspects, employees (their number and employment structure, recruitment, turnover, position in the enterprise), organisational structure and management;
- a description of the human and social capital of an enterprise (its embedment in social networks as well as its access to institutional resources for supporting social enterprises, its preparation for the functions it performs).

Research on social cooperatives involves the use of numerous research methods. The research tools prepared for the following project were designed in such a way as to make it possible to analyse the above-mentioned issues.

Within the framework of the process as a whole, in-depth interviews were conducted with the leader of each cooperative, with 2 members or employees of the cooperative as well as with at least 2 customers that use the cooperative's services. Moreover, in each case, interviews were also conducted with at least 1 representative of the local community as well as with a representative of the local authorities. The results of these interviews provided a platform for preparing tools for 6 focus groups interviews with members or employees of social cooperatives.

Besides the in-depth interviews and the focus groups, the research material that formed the basis for this report also comprised documentation (balance sheets, business plans, work regulations) made available by cooperatives together with documents affecting the local community, such as local strategies, local development plans, reports and local press releases.

In accordance with the rules of sociological research we are obliged to maintain the anonymity of our respondents. We have, therefore, not disclosed the names of the enterprises covered in the research. However, in order to provide an overview of the research sample we have provided below brief details on each enterprise covered in the research.

- 1.** A social cooperative established in 2009 thanks to financial support from the European Social Fund. It is a cooperative of corporate bodies that was formed by two associations. Its main area of operations is gastronomy (it runs restaurants and provides catering services). The cooperative is located in a rural municipality in south-east Poland.
- 2.** A social cooperative founded in 2009 with its seat in a large city in south-west Poland. It was established by people under the age of 30 from the creative sector (painters, graphic designers, designers). Its main area of business activity is the production and design of eco-friendly advertising gadgets.
- 3.** A social cooperative founded in the Pomorze region in 2007 by women aged 50+ who have pooled together their experiences as cancer sufferers. The main area of its business activity is care for the elderly, sick and disabled.
- 4.** A social cooperative established in 2011 by disabled and long-term unemployed persons. It has its headquarters in southern Poland. The focus of its

economic activity is a café that it runs. The cooperative is involved in promoting the traditions and cultural heritage of its region.

5. A social cooperative based in central Poland founded in 2012 by people under 30 years of age who have experienced problems finding employment in their own town. Its main area of economic activity is a bistro which at the same time serves as a meeting place and a venue for joint actions and projects undertaken by local residents.

6. A social cooperative with its seat in Warsaw that was launched in 2011. It was founded by a group of close friends with experience in working in the private sector. Their main area of business activity is running care facilities for small children.

Objectives

The research identified the main reason why these social cooperatives were established based on the declarations made by their leaders: social and professional reintegration. They are what can be termed “integration” enterprises, which combine economic and social goals. They provide employment for those who otherwise would have no chance of entering/returning to the labour market. In this case, undertaking professional activity should simultaneously give them an opportunity to improve their value, restore respect in the eyes of others as well as increase their professional competencies and skills (employability).

One of the cooperatives in the study stated that its main objective was to provide services of public interest and improve the quality of life of residents by satisfying their needs for care services. Their reason for choosing the cooperative model was not motivated by a desire to collaborate and manage something together.

When the leaders of such organisations are asked what goals they regard as most important, they claim that social goals take precedence over economic objectives, or they stress that these goals are being pursued in parallel. In the first case they need a business approach in order to achieve social goals, while in the second both goals (economic and social) are important, and the business of the organisation is essentially atypical, i.e. it is “softer”, participatory in character and takes into account the needs of employees as well as their disabilities.

With regard to the business goals of social enterprises it is worth noting the differences between those goals and the objectives of (traditional) business

enterprises described in the literature. Maximising profit very rarely serves as basis for the operations of social cooperatives. As has already been mentioned, profit is most commonly a means of achieving social objectives – it allows the founders to embark on broad undertakings and realise social intentions. No decisions or concluded contracts are motivated by profit in any of the studied cooperatives. In commercial enterprises, maximising value entails striving to increase the profits of shareholders by increasing the value of shares or the dividend. In the case of social cooperatives the aim is to maximise employment opportunities for employees – with such organisations the value lies in the benefits they provide for employed persons, or, alternatively, the benefits enjoyed by external customers in the form of exceptional products not available on the regular market. It is also the case that the social cooperatives surveyed in the present research project, in particular the newly established entities, do not aspire to maximise their profit or value, but rather aspire to attract as many customers as possible and sell their products. This strategy is indeed justified and results from the fact that they are entering the market and launching innovative products and services. Some of them focus on the specific character of their products and services – these are unconventional, niche products and services aimed at customers looking for goods that traditional enterprises do not supply.

The social objectives of the cooperatives vary. However, several of their attributes are worth noting, especially from the viewpoint of the successes that some of the cooperatives achieve in realising their goals. Most importantly:

- supporting others, sharing knowledge – setting up new entities and creating networks – what is important is that they are not afraid when others imitate their activities, but rather support and encourage them, especially when it comes to creating certain values;
- supporting the principle of self-help – a very important and relatively common social objective although one rarely *de facto* stressed by commercial enterprises – creating, supporting and promoting self-organisation, activating mutual support among cooperative members, employees and more broadly residents of communities;
- the social objective is usually linked to the local association or community where the enterprise is active.

We can draw the conclusion that the cooperatives described in this report have different social objectives – we can, however, focus on those goals which lie within the range of state social policy and concern certain social groups. In particular, we should mention here the social, cultural and professional activation, rehabilitation, inclusion and reintegration of particular social groups – the disabled, the long-term unemployed, the elderly and the chronically ill (i.e. those who are the objects of social policy).

Some cooperatives have social objectives that are more “internal” in character. In these cases the cooperative’s goals are to improve and help only those people who have helped develop and set up the cooperative. Besides the social objectives directly connected with the enterprise, the organisation does not actually have any others. It is important to note that the social objectives of cooperatives have priority in the hierarchy or balance sheet of social and economic objectives – they constitute the main *raison d’être* for management actions. Some leaders focus on a two-track approach and strive to ensure a balance between different goals. In order to achieve social objectives, it is necessary to deal with the cooperative’s business concerns.

In many cases the studied enterprises adopted the attitude that social objectives are relatively unimportant for the majority of their customers. The quality of their products or services has much greater significance for them. Perhaps this is a result of poor promotion of social objectives. Their advertising frequently covers the economic aspects of enterprises’ activities and there is neither the time nor the resources (both human and financial) for social tasks.

The circumstances under which social enterprises are established

The most common problem facing social cooperatives is the need to create jobs for people in groups threatened with social exclusion – the unemployed and the disabled. With unemployment rising in the last few years among young people, many of whom are graduates of institutions of higher education, this group has also come to be regarded as one of those in danger of social exclusion.

Another motive for establishing a cooperative was the availability of funds within the framework of European Union programmes in the country. A key feature of such programmes was that they issued a financial grant to a single member (of a group threatened with social exclusion) of a newly established social cooperative. Such financial aid usually amounted to around three average national salaries, i.e. approximately 2,000 Euros. It is worth noting that the social cooperative turned out to be a more attractive option for people planning to set up their own business – it was considerably more difficult to obtain grants offered by county-based employment offices to establish a sole proprietorship or to secure a loan from a bank.

Usually (although not in every case covered in the research) the cooperative was established within the framework of a wider project, whose aim was to

reintegrate people threatened with social exclusion as active members of society. The majority of these organisations were financed with structural funds from the Human Capital Operational Programme. Two of the cooperatives in the research were founded by a leader who wanted to develop an enterprise based on cooperation.

The relative ease with which funds could be obtained also influenced the enterprise's choice of economic activity. This is because there is no statutory definition of a social enterprise in Poland. On the other hand, however, in the last few years the state has decided to develop this sector. The only legal form classified as a social enterprise is the social cooperative. This is because in 2003 this institution began to operate on the basis of a statute. Hence, because funds from the European Union are helping develop the idea of social entrepreneurship in Poland, results must be transparent and must not create any doubts in the minds of the bureaucrats managing these funds. When such criteria were adopted, only social cooperatives had a strictly defined legal basis for their activities.

In connection with this fact some people we talked to choose the social cooperative as their operating model not because of their faith in the cooperative idea, but rather because it was easier to secure financial aid for this legal form. However, this group was in a minority.

In addition to the opportunities offered by EU financed programmes, another major stimulus came from institutions from the local environment in which the social cooperatives operate. The research shows both the positive as well as the negative impact of local authorities on the creation of the structures of a social enterprise as well as the possibilities of starting up such institutions.

Opinion among cooperatives regarding the position of local authorities – mainly executive organs – is divided. Half of them declared that the attitude of their local governments was favourable and that local officials expressed willingness to help. One cooperative stressed that the idea of creating the cooperative came from the Mayor or the units subordinate to him. In another case, a local government's cultural department played a role in the establishment of the cooperative. Such support helped create an environment conducive to the development of a social economy in the region, which ensured considerable support for their activities.

The help provided by local public institutions was two-fold in character: material and non-material. The first form of support should include the follow-

ing: providing cooperatives with access to properties at preferential rents or for a nominal fee, providing financial guarantees for the people founding cooperatives, collaborating with these entities via public-social partnerships, and providing cooperatives with contracts for tasks (for example, by referring requests for quotations to newly established entities).

The local authorities also provided non-material assistance. They usually organised information-gathering meetings to look into the possibility of starting a business in the form of a social cooperative. They would act as intermediaries in talks with public institutions, for example with the county employment office and potential partners that could be of assistance to the founders.

What is more, local authorities often declared their confidence in a cooperative with the aim of encouraging other entities to collaborate with the newly established entity. As concerns informal incentives promoting the establishment of social enterprises, the main institutions playing a supporting role in this case were social welfare centres, the social integration centres and local activity centres, which encouraged groups of people to establish social cooperatives via institutional support and the organisation of workshops dedicated to social economy.

Sometimes it was also the case that representatives of local authorities or public institutions did not want to or did not know how to provide support for social cooperatives. It was pointed out that sometimes, despite good intentions, a lack of knowledge regarding the existence and functioning of social economy entities impeded the effective launch of such activities and sometimes made them impossible. The most frequently mentioned problems in the case of local officials are:

- erroneous advice, for example, regarding the type of business activity that a social cooperative can conduct;
- misinterpretation of the regulations, among other things, with regard to reclaiming Social Insurance contributions resulting in the loss of significant financial resources;
- a long waiting period for bureaucratic decisions;
- treating social cooperatives as private enterprises conducting commercial activities.

Several cooperatives reported positive changes both in the consciousness of employees of public institutions as well as in the scope of their knowledge regarding legal norms regulating the activities of given social cooperatives.

Human capital in an enterprise

An enterprise's human resources are one of the most important factors determining the success of its operations. Without the knowledge, creativity and involvement of its employees it may be impossible for the cooperative to achieve either its social or economic goals.

Hence, analysing the profile of a cooperative's members and employees is vital.

The members and employees of the social cooperatives discussed in this report differ from one another both in terms of their education as well as their age. Almost all these cooperatives were established by natural persons and the latter are also employed in them. Young people (under 30 years of age) who founded these cooperatives were for the most part university educated. A half of the enterprises employed people under 35, while the staff in the other half was aged above 40. Additionally, one enterprise has a more diverse age structure, i.e. between 22 and 50. Some of these enterprises were set up by graduates of institutions of higher education, but they also employ people with a vocational or secondary school education at most. It is precisely the professional experience of the members of the founder groups that for the most part determined the business profile adopted for the entity. The percentage of university graduates is higher in entities active in areas requiring specialist skills, e.g. computer graphics, care services for children, or workshops/studios, e.g. in carpentry. Those providing simpler services, such as cleaning or preparing meals, are usually less well educated. Nevertheless, analysis of the six cases does not allow us to say unequivocally what characteristics of employees increase the success of an enterprise.

It turns out that a well-functioning cooperative is considerably more than the sum of its parts, i.e. the people who created it and work in it. Rather, it is the team which together generates highly visible added value. The more clearly the group understands what operating in a cooperative environment involves, the better particular people develop in that environment, and this in turn helps improve the initiative's chances of success. What is more, those entities in which at least one person has had experience in business fared significantly better than others. However, very few cooperative members actually had this skill.

A small number of people in these entities had some knowledge of management, accounting and marketing, or knew something about the specifics of the business activity in which they were involved. More frequently, however, coop-

erative members coped with these problems intuitively. These organisations did not have sufficient financial resources for more professional support, and advice that is provided free of charge in Poland is not available to them.

Support for a social enterprise

There are around forty Social Economy Support Centres active in Poland. Their basic task is to provide support for entities and individuals interested in launching social economy undertakings. Their goal, among other things, is to provide legal, accounting and marketing services, provide advice and training in knowledge and skills in such areas as launching and conducting activities in the social economy sector, as well as services promoting the development of local partnerships, based on collaboration between local governments and NGOs in support of the social economy. A significant number of the social cooperatives we researched obtained support at the stage prior to their establishment. The cooperative members said that such support – which they had obtained at the beginning – considerably enhanced their knowledge of how to run economic/business entities. However, according to them, the biggest downside was that such help came to an end the moment the cooperative was registered. Hence, the knowledge they obtain during their training, although priceless, is too theoretical and when they begin to apply it in practice, questions and doubts emerge, which should be addressed to a professional. The absence of day-to-day advice and assistance is acutely felt.

Support centres operate as a planning platform and their primary goal is simply to launch the cooperative. Once this has been achieved and the planning stage completed the established entity is cut off from any access to help. Because of their limited resources, the organisations running the Support Centre can only provide support to the extent that their means allow.

Cooperatives existing for more than two years find it especially difficult to gain access to professional advice and training – for different reasons than young enterprises do. The help and advice offered by the Support Centres are not adjusted to their needs. The leaders of certain cooperatives are convinced that they have far greater knowledge of how to function in market conditions than consultants in centres do, and that this knowledge has been tried and tested in practice. They believe that such centres are unable to provide advice and training in highly specialised areas connected not only to specific aspects of the law and accounting, but also in relation to the type of services they provide.

Management

Above all, it is important to focus on the organisational structure of the researched cooperatives. Most of the entities have structures with a low level of complexity and hierarchisation. These are entities in which there are no formal relationships, both in terms of a division of tasks or the scope of communication.

In social cooperatives the appointment of the chairperson and the general functioning of the board are often simply formal requirements not really reflecting actual organisational needs. The idea of their functioning is based on the principle of local self-management, equality and shared responsibility.

Cooperative members try to work together and share tasks in the fairest way possible. This is due either to the cooperative values that motivate them or to the conviction that they are working for their immediate environment. What is important in this division is that the skills of particular people are taken into account. This division, however, is not a formal one with detailed descriptions of specific work positions, but rather is intuitive in character. It is important to stress that not all members of cooperatives felt responsibility for the performance of tasks. What is more, great importance is attached to maintaining informal modes of communication and cooperation. If any procedures, work regulations, job descriptions and scope of duties are actually defined in cooperatives, this is only done so because of formal and legal requirements, e.g. the need to comply with health and safety regulations or the requirements of the State Labour Inspectorate and other supervisory institutions, or where there was a need to create them because of the entity's specific profile of operation or they resulted from, for example, implementation of a quality management system.

Cooperative members also pointed out that although all founding members of a social cooperative work to support the enterprise, a leader is necessary in every entity.

The leader in such cases performs additional functions, including representing the enterprise in external situations and contacting the media and government offices. When necessary, he or she also organises the work and monitors the information flow between members.

As the cooperative's organisation and existing activities expand, employment also increases and the management becomes professionalised. Such a situation occurred in one of the cooperatives we researched. The research shows that the same situation also occurs when the organisation comprises corporate bodies and not natural persons. In both of the above mentioned cases, the leader usually

makes decisions without consulting the cooperative's other employees and this entails a sense of greater responsibility for those decisions. Such chairpersons also take care to ensure the transparency of more complex enterprises. In such cases they are also concerned to ensure their cooperatives are competitive.

Competitiveness

The competitiveness potential of social cooperatives lies in those material and non-material resources that are essential for them to function on the market. This problem was also the subject of our research study. One conclusion emerges from the study – the competitiveness potential of the researched entities is highly varied and polarised. Some of these cooperatives have relatively low competitive potential. This is a consequence of, among other things, limited financial and informational resources, and employees do not represent their main competitive advantage (often these people are from disadvantaged/underprivileged groups).

Competitive potential and the ability to compete may be among the most important factors determining the survival of a social cooperative.

It is worth pointing out that those cooperatives which, when they were first launched, still had access to public aid or aid from other organisations and achieved a competitive advantage, had developed much better after a year of activity. Leaders of these cooperatives were aware that the path they choose involves constant change, search for new innovative products and services and taking advantage of all opportunities coming from the surrounding environment.

The research showed that cooperatives are trying to compete through price. This strategy is not adopted solely out of a need to exist on the market. Often leaders said that they are aware that a social enterprise must offer its services and products to less wealthy people at much cheaper rates.

Moreover, some cooperatives consciously try to create a broad range of products and services, often flexible and adjusted to customers' needs. Thanks to such strategy they can not only attract more customers, but, most importantly, develop for themselves a niche on the market, to win customers that other market entities are not interested in. This approach involves focusing on the needs of a narrow segment of customers and allows the cooperative to adjust more effectively to their needs – usually through small-size orders for unconventional products or services for specific customers.

The research showed that enterprises still do not compete through brand or design or by offering attractive original and unique products. Furthermore, they have also not implemented innovative distribution methods or offer post sales services, i.e. such measures that would help maintain a good relationship with the customer following the purchase of a given service.

Moreover, none of the researched social enterprises is deliberately employing marketing strategies as a means of competing, nor have they consciously implemented innovations: launching new products or services or effectively awakening and creating a demand among customers.

Most importantly, marketing of products in a relatively large number of the researched cooperatives is characterised by a certain degree of passivity. This is because marketing activities consist of a set of coordinated, carefully thought out organisational methods, encompassing efforts to attract customers to the cooperative's services, as well as managing a brand and shaping its image. However, many of the researched enterprises are not taking any major planned steps in this area. Such passive attitudes do not only mean that cooperatives fail to promote their products (via leaflets, banners, advertising, internet pages, etc.), but they also reflect a certain naivety. Such passivity is due to poor marketing skills of the leaders and employees of these organisations, limited awareness of the effectiveness of many tools, as well as a conviction that since the client always comes back, this is sufficient on its own and there is no need to change anything in this area.

It is worth noting that the prevailing belief among the leaders of these organisations is that paid marketing is very expensive and its benefits are uncertain. Some enterprises through trial and error avoid paid advertising and costly forms of promotion and focus instead on word-of-mouth marketing, building up a network of contacts, making presentations and putting up stalls during events promoting their localities, as well as at local festivals and events.

Orientation towards customers

One important strategy for boosting competitiveness is to develop good customer relations. All the cooperatives declared their willingness to provide high-quality services for an appropriate price, i.e. one that is attractive for the customer. However, only the best organised cooperatives managed to achieve this goal. Only some of them have their own customer base, talk to customers on this theme and endeavour to maintain contacts with them. They are open to suggestions from customers and willingly make use of the information they obtain from them.

In these cases also, customers in their responses confirmed their good relations with the cooperative. Some of them even said that they do not feel anonymous in such contacts and the flexibility of small cooperatives guarantees that even the most unconventional orders can be met without any problem.

In the majority of the cooperatives, however, customer relations were significantly worse. The cooperatives did not actively try to win their customers. In other words, they did not use the money they obtained to prepare promotional leaflets. For example in one of the cooperatives instead of preparing a proper food menu for the whole week, their daily menu is written on a piece of paper glued to a wall. Losing clients is simply accepted as a “fact of life” and no efforts are made to prevent this from happening. They were not aware that failing to take care of their customers can have very dangerous consequences. They feel no compulsion to attract new customers, even when they provide services to just one client, e.g. a public institution. When a competitive entity appears on the market they often end up losing their only and key client.

A Good Practice Case Study: The “50+” Social Cooperative in Gdynia

An history of the enterprise: The “50+” Social Cooperative was founded by five women aged over 50 who came together as a result of their experiences as cancer sufferers. At the present time, the “50+” Social Cooperative has seven members. Four of them are founding members of the enterprise. The “50+” Social Cooperative was set up by its chairwoman, Grażyna Skorupka, and by members of the Association of Gdynia Amazons associated with her specifically to address problems that affect them directly, such as the lack of systemic support for the professional reintegration of unemployed women of pre-retirement age (50+) as well as inflexible procedures for treating and rehabilitating women with breast cancer. The founders of the cooperative thus decided to “take matters into their own hands”.

Aims of the cooperative:

The aims of the cooperative are as follows:

- **Provide assistance to the elderly, the disabled and the ill (care, cleaning, preparing meals):** the very reason the Cooperative was established was to meet the specific needs of acquaintances from the Gdynia Amazons group and residents the members knew from Karwiny district. It is worth noting that despite the fact that the Cooperative charges

for its services, it has managed to develop a very close, almost family-like relationship with its customers. And both sides benefit. For example, members inform the families of those they are caring for that the costs of their services are tax deductible. The services provided often help improve relationships within the families of those the Cooperative is providing assistance for.

- **Social and professional reintegration of disabled women who have suffered from cancer** – by running a social cooperative, creating convenient sources of income and providing psychological support.

Obviously the economic objective, i.e. generating income for the members of the cooperative, speaks for itself. However, for the majority of the women **the social criterion is clearly more important than the economic criterion**. A very characteristic feature of the cooperative is its **mission to bring about social change on a micro-scale** (changes benefiting the local community) by developing a niche in the social care system for older people and promoting good practices in terms of social and professional rehabilitation and reintegration of disabled women over 50.

Business activity of the enterprise:

The cooperative is active on the local market in the Tri-City region. The enterprise engages in the following activities:

- **Care services (elderly, disabled)** – provided in Gdynia's Karwiny district. This is the cooperative's main area of activity. Its customers are private individuals.
- **The distribution of promotional materials for Gdynia** – the cooperative provides this service throughout the Tri-City region – among other things in hotels, at Rebiechowo airport and Tourist Information Points. Leaflets are often distributed before cultural and sports events.
- **Cleaning services** – these account for a high percentage of all its services. These services are provided in Gdynia and Sopot.
- **Services connected with leisure and free time** – the cooperative organises fitness classes in Karwiny district for women aged 50+.
- **Sales of handicrafts** – occasionally, some of the enterprise's employees sell, for example, felt jewellery and framed cross-stitched embroidery. They managed to sell their felt jewellery during one of the members' visits to the Women's Congress held in the capital city of Warsaw.

The cooperative's care and leaflet distribution services are its most lucrative sources of income. The members admit that they try to diversify their income as

much as possible, since care services are very demanding in terms of logistics and time and are not very remunerative compared to distribution, cleaning and other services.

Management

Organisational structure and decision making

According to its statutes, the cooperative has a three-person Board. The Board is responsible for strategic decisions. However, in practice the cooperative leader has a big say in the most vital decisions. She was the main initiator of the cooperative and she is the main driving force behind its activities. At the same time, however, it is important to emphasise that in practice the cooperative observes the principles of social justice and equal treatment for all members, regardless of their financial contribution (i.e. the number of orders they attract or their profitability). The majority of matters concerning the cooperative, even if they are not regulated by the statutes, are discussed at general meetings of the members. "Operating" decisions regarding particular services are taken directly by delegated members with the agreement of the chairwoman. Members of the cooperative have naturally and more or less unofficially divided up tasks according to their own psychological predispositions, "hard" knowledge and skills. Each contributes her own "capital" to the activities of the 50+ Social Cooperative in terms of knowledge, experience, skills and personality.

When it comes to the organisation's internal relationships it is not without significance that what all its members have in common is their experiences with cancer. All have links to the Gdynia Amazons Association. This gives them peace of mind in the work they do together. They know what they can expect from each other. They know what they are capable of doing and what they are unable to do. They can rely on each other and, if necessary, cover for each other in day-to-day tasks.

Strategic management

Strategic management in the Cooperative essentially concerns three areas:

- Management of human resources – the leader motivates members to think about how to attract customers and ensure themselves income and pension insurance coverage. Moreover, members are encouraged to participate in training sessions.
- Premises – the leader is putting pressure on the other employees to find new premises for the Cooperative in place of her own private flat. This would help avoid situations in which professional gatherings might turn into private meetings.

- Umbrella activities – promoting good practice and the idea of social cooperatives. The cooperative organised a study visit to the Wrocław Regional Social Policy Centre.

Management of human resources

The cooperative has no formally written procedures, work regulations, job descriptions or preferred skills and knowledge for its members. A key factor in human resources management is the leader's own knowledge and experience. Certain features of her personality – her pugnacity and leadership traits – are also crucial. The most important factor in the case of care services is the life experience of the cooperative's members. On the other hand, however, all sides have professionally and consistently prepared themselves for this work by participating in tailor-made training sessions and by working as volunteers at the Nursing Home in Gdynia. Thanks to prompting from the leader, some members are constantly trying to upgrade their skills and qualifications.

Management of finances

The cooperative focuses not as much on generating profit as on ensuring financial security for all its members. As a consequence, prior to 2011 the cooperative sustained small losses. It only began to make profit in 2011. The members do not draw up a detailed budget for their activities. However, the state of the enterprise's finances is regularly monitored during monthly meetings attended by all members. Profit made in 2011 was spent on a rehabilitation stay in Bukowina Tatrzańska. Members of the organisation try to find a compromise between economic and social objectives. Working is the priority. For health reasons they do not want to make profit at all costs.

The cooperative's brand and the image of the cooperative in the local community

The cooperative has been steadily building a strong brand for itself since the very beginning of its existence. The strength of the brand is reflected above all in the positive image it enjoys among people and institutions (local and national) involved in social economy as well as among third-sector organisations. The cooperative's positive image has been bolstered by its multiple award-winning efforts to break stereotypes of marginalised, inactive and disabled women over 50.

The cooperative has very strong roots in the community of Karwina district. Indeed, it can be said that members of the cooperative play a crucial role in the community life in Karwina. It is in this area that the majority of the cooperative's members lives and provides care services. It is in the Jowita FitDance district club that fitness classes are organised for women within the framework of the "Gdynia 55+" group. It is in the local housing association community centre that the local support group for the Gdynia Amazons has its base. Moreover, in 2010 the coope-

rative broadened the Gdynia 55+ project to include activities aimed at developing the local community and supporting civil dialogue.

We are thus dealing with a desire to satisfy local needs through the activities of the cooperative. Local human resources, at least to a limited extent (women aged 50+), are also being used as a form of capital – it is the female residents of Karwiny who form the core of the social enterprise. The cooperative is directly involved in actions that affect the district. Thanks to this, the cooperative has managed to further enhance its positive image among the district's residents. Nevertheless, it is important to emphasise that knowledge about the cooperative among the city's residents as a whole is much lower.

When it comes to promoting their services among customers of care and cleaning services, the cooperative's basic and in fact only "marketing" tool is word-of-mouth marketing – i.e. recommendations among acquaintances with links to the Gdynia Amazons and the cooperative. Moreover, a very important factor when building the brand of an enterprise is to ensure high quality services and customer satisfaction. Building personal, close relationships between members and customers of care services also has a positive impact on the image of the cooperative.

Social capital embedment in social networks

Based on the current research we can conclude that the "50+" Social Cooperative has high social capital. This is true both regionally and locally – in Gdynia in general as well as in the Karwiny district. It is worth pointing out that this capital is "reinvested" above all locally – in those directly connected with the activities of the cooperative or the Gdynia Amazons Association. Institutions and organisations with links to the cooperative include numerous public bodies, such as Gdynia City Hall and the Social Welfare Centre, cooperative organisations such as the National Association of Social Cooperatives and the National Cooperative Council, as well as a number of NGOs, i.e. The Gdynia Seniors Club and the Socio-Economic Initiatives Foundation.

Contact details:

Spółdzielnia Socjalna „50+”, ul. Leopolda Staffa 13b lok. 6, 81-597 Gdynia, tel. 58 629 49 08, [e-mail: gskorupka@gmail.com](mailto:gskorupka@gmail.com). Contact person: Grażyna Skorupka.

Notes:

¹ Data from the National Cooperative Council website www.krs.org.pl

² See: Information on the functioning of social cooperatives operating under the Act of 27th of April 2006 on Social Cooperatives for the period 2010-2011, Ministry of Labour and Social Policy, Warsaw 2012 <http://www.pozytek.gov.pl/files/EKONOMIA%20SPOLECZNA/Informacja...%20PUBLIKOWANA%20DPP%2012.2012.pdf>

On the Margins of Interest: A Probe into the Situation of Cooperatives in Slovakia

Eva Riečanská and Peter Vittek

Slovakia is a country with a long cooperative tradition dating back to the first half of the 19th century. It was the first country in continental Europe to establish a credit union in 1845, and in the next decades the cooperative movement in Slovakia played an important role in the economic and social life of the country and thrived in the interwar era. The post-WWII period brought about significant political changes which impacted also the nature of economic institutions that became fully subordinated to the state – besides state ownership, the cooperative mode of ownership became one of two politically recognised and accepted modes of the ownership of means of production. Hence, the regime provided a lot of support to cooperatives operating in various sectors of economy while at the same time it subjected them to its centralised control and regulation. Due to the non-democratic nature of so-called really existing socialism (or Soviet-style socialism), also the democratic tradition of cooperativism in Czechoslovakia was distorted and its cultural continuity was disrupted.

Despite the fact that at present the cooperative movement plays a significant role in the social and economic development of many countries of the world including Western Europe, the USA and Canada, in the minds of many people in Slovakia the term “cooperative” is something that belongs to the long-gone days of the previous regime. Even 25 years after the fall of so-called really existing socialism, this concept is often frowned at as something that was supposed to disappear in the process of dismantling of the previous political and economic system. However, cooperatives are still part of the Slovak economy and society, but they are very little talked about¹ and hence generally not much is known about their current standing. Therefore, within the parameters of this research, we wanted to gain some insights into their situation and probe the contours of their place in the social and economic life of their communities.

Methodology

We conducted a series of in-depth semi-structured interviews with representatives of 6 selected cooperatives located in different parts of Slovakia. In addition to the data collected in the field through the interviews, which were the core

material of the analysis, we also gathered some additional data from cooperatives' websites and from representatives of the cooperative umbrella organisation in Slovakia. By using the qualitative research method of semi-structured interview we were able to record first-hand accounts of experiences of the main actors – leaders and members of the studied cooperatives, and to capture their opinions.

The research sample of cooperatives included 3 production cooperatives (including 2 cooperatives employing disabled people) and 3 agricultural cooperatives. Given the limited size of the sample we decided, after a careful mapping of different types of cooperatives in Slovakia, to narrow the selection criteria to include only the manufacturing and agricultural sectors, as in our view, cooperatives actively operating in these sectors the best represent the current standing and nature of cooperativism in Slovakia. We strove to get a closer look at conditions of operation of those cooperatives that also fulfil some social function be it through creation of local employment or provision of jobs for the disabled and otherwise marginalised people. It was not our intention to cover all types of cooperatives or to collect statistically representative data. To ensure anonymity of our informants, we do not disclose their names and the names and locations of the cooperatives.

Each of the presented cases is a probe into the current situation of cooperatives in Slovakia, reflecting a broader economic, legislative and cultural context in which cooperatives at present operate and in which they are embedded.

Characteristics of the studied cooperatives

Production Cooperative 1 (PC1)

The production cooperative established in 1948 is located in western Slovakia in a town with the population of 9,207. The cooperative grew out of the local tradition and initially it was an association of small producers of household items and tools for farmers and artisans. Since 1957, the main line of cooperative's production has been metal labels for machinery industry including electricity transformers. It also makes plastic labels and stickers and furniture metal components and provide colour printing services. The cooperative has the EU norm quality certificate ISO for manufacturing of metal products and stickers.

In the past, the cooperative was one of the major employers in the area. It employed 280 people and exported its products to all COMECON countries.²

At present, the cooperative has 37 employees of which 21 are its members. All its employees and members are locals. It employs many older people in the pre-retirement age; the average age of its employees is about 50 years. Many of their members/employees are older women and people with lower education. Some of them are the third generation of the cooperative's members – after their parents and grandparents. Therefore, despite its specific production portfolio, the cooperative is well known in the town and its vicinity.

The cooperative is one of the founding members of the former Association of Production Cooperatives (the current *Coop Produkt Slovensko*)³, the umbrella organisation of production cooperatives in Slovakia and member of the Cooperative Union (*Družstevná únia*) that associates four cooperative associations. One of the main benefits of the membership in this association is the possibility to get a loan with better interest rate than they would get at a commercial bank and an easier access to such loan – commercial banks are reluctant to give loans to businesses with negative financial results.

The cooperative has been gradually losing its market position since the fall of the soviet block in 1989, but with the onset of the crisis in 2008 its standing has got even worse. In their own words, since 2009 the cooperative “has been sinking”. The situation culminated in 2013 when the cooperative had to terminate the employment and hence also membership of 5 people (all were of the retirement age). Before they decided to take this step, the members voted to shorten their work week from 5 to 4 day – it meant that *de facto* they gave up a part of their salaries to help the cooperative to survive. Similarly, they voted to increase their membership contribution. The cooperative also sold some its property (e.g. a recreational facility).

However, despite these efforts the cooperative got trapped in a “vicious circle” of economic problems: due to their lack of financial capital the cooperative cannot invest into its own development and keep abreast with its competitors. To succeed on the market, it is important to have business partners who are difficult to find since the cooperative cannot afford to pay for its own promotion through fairs and exhibitions. It is dependent on its customers – machinery and engineering companies that often change their production portfolios. What also impacts its economic standing is the global market situation and global prices of metals.

At present, the cooperative does not generate any profit. They took a loan from the *Coop Produkt Slovensko*, but they use it for a daily operation of the cooperative, not for innovations. The loan was also used to pay the laid-off members – they

were paid their membership fees and also the membership interests (property share) calculated on the basis of the number of years that they had worked in the cooperative (some of them worked for the cooperative for 30-40 years).

The bodies of the cooperative consist of a five-member board of directors headed by the chairman, the audit committee and the general membership meeting. The chairman has been holding this position for 8 years, before he was in the position of the deputy chairman. He was elected to these leadership positions as a regular member and employee of the cooperative. Also his predecessors were elected to the chairmanship from positions of workers ("so far each chairman has been a 'common person'"). The membership meeting is the highest decision-making organ, it meets several times per year if there is a demand to discuss issues related to the life of the cooperative ("we meet even five times a year, if needed"). Membership in the cooperative is linked to the employment in it – when a member leaves the cooperative his or her membership is terminated. The employments status, however, is not conditioned upon membership – the cooperative employs also non-members.

Production Cooperative 2 (PC2)

The cooperative was founded in 2008. It is located in a district town (population 48,134) in the eastern part of Western Slovakia. One of its founding members and a leading personality behind its establishment has experiences from working for a large cooperative that was rather well known and economically successful in the previous political regime (at one point the cooperative had about 500 members). He joined that cooperative in 1994 as one of its last members, while the cooperative was still in a good standing. Later its membership was decreasing and the cooperative only took in employees without membership. When the cooperative due to mandatory transformation (see History) fell apart, this person had a chance to buy some of its equipment (machinery and tools for book binding) and he established a smaller, family-based cooperative.

The cooperative is one of the few recently founded cooperatives. It only has five members (required by the law) and they are all relatives. The reason why the cooperative was established on the family basis was the issue of trust – they did not want to have any outsiders to become members, and for this reason they do not accept new members and are not planning to do so. They chose the form of a cooperative also due to the fact that the initial expenditures for its establishment were lower than in the case of the limited liability company. Given its size, the cooperative does not have a board of directors and an audit committee, and is basically run as a family-owned business.

The cooperative started to operate a sheltered workshop employing people with disabilities, but at the time of the interview it had no such employees. Its main area of work is book binding and related services (binding calendars and the like), but nowadays competition on the market is high, so they are losing customers. They also have some clients who have customers abroad, namely in Germany and Sweden. The nature of work is mostly manual and rather tedious. The cooperative's sheltered workshop was in operation for 2 years. Due to the changes in legislation related to funding of the disabled employees and payments of subsidies to sheltered workshops, they also established a limited liability company and moved the sheltered workshop there. At the time of the interview, the limited liability company had 12 employees of which 7 were disabled and the cooperative only employed temporary workers. In the opinion of the founder of the cooperative, the limited liability company turned out to be a better solution for the operation of the sheltered workshop. However, in his view, the new regulations have in general worsened the conditions for employing people with disabilities.

The cooperative advertises its services through a website and in the local media and its initiator uses his personal contacts from his previous employment to gain customers – printing shops in other cities. They also get some contracts from local businesses and from local authorities, but that is not enough to sustain the cooperative. Initially, the cooperative was financed through an investment loan that the cooperative's main initiator took as an individual person from a commercial bank. At the time of the interview the cooperative did not have any loans – the argument was that bank loans are too risky. Although the leaders of the cooperative were familiar with the fact the *Coop Produkt Slovensko* provides financial services to its members, they did not join this association and were not planning to do so. This could be related to the fact that the cooperative is not planning to expand either its membership or its business, and the leaders are even considering closing it down.

Production Cooperative 3 (PC3)

The cooperative is located in a mid-size village in Western Slovakia (population 1,724) that lies nearby a district town. Before 1989, the cooperative was a branch of a larger central cooperative headquartered in Bratislava and established as a cooperative of the disabled (*výrobné družstvo invalidov*). This central cooperative was at that time one of the main employers of visually impaired people. In the 1980s, on the premises of the current cooperative, a large campus for the members and employees of the cooperative was built. It comprised production and housing facilities, a medical centre, a cafeteria. All of these facilities gradually closed after 1989 when the cooperative also lost the support previously given to the cooperatives of the disabled. In 1992, during the process of transformation

of cooperatives mandated by the law, the PC3 cooperative was established as a separate entity that continued with the same production portfolio until 2002, although it was gradually losing its markets. This was also due to the fact that the cooperative could not keep up with technologically more advanced producers (the cooperative continued to manufacture manually assembled porcelain electrical fuses). In 2002, the then chairman of the cooperative bought some part of cooperative's production (know-how, technologies and facilities) and later sold this company to a foreign investor. At that time, the cooperative had about 70 members/employees and its leadership had to find for them a new production programme. At the time of the interview, the cooperative's main business partner was an international furniture and home accessories company.

Since the onset of the crisis in 2008, the number of cooperative members and employees has decreased. In 2009 it had about 50 members/employees, but they had to dismiss some of them due to the crisis. The cooperative was operating a sheltered workshop and in the years 2011-2012 it ran into difficulties with obtaining state subsidies provided to the entities employing the disabled. This was due to negative financial results of the cooperative related also to the fact that it had to repay debts incurred by the previous management. Therefore, to get the state subsidies in 2012 the leaders of the cooperative established a limited liability company that employed 21 disabled people in a sheltered workshop that had been previously operated by the cooperative. The employees of the cooperative are people from the near-by region that would otherwise have difficulties finding a paid employment given the nature of their disabilities (visual impairments).

The cooperative changed its by-laws and separated membership from the employment status, i.e. membership in the cooperative is no longer the condition of employment as it used to be in the past when all employees were simultaneously its members. At the time of the interview, the cooperative had 7 members – two of them were in its management and five worked in the sheltered workshop. The cooperative rents its premises and cars to the newly established limited liability company. The cooperative is a member of the umbrella organisation *Coop Produkt Slovensko* which has supported them financially through a loan that they provide to their members and has helped them with legal counselling.

Agricultural Cooperative 1 (AC1)

The cooperative was established in 1995 by 147 founding members. It is located in a district town (population of 21,851) in a wine-producing region of Western Slovakia. It specializes in wine grapes growing and wine production and as such continues in the local tradition of viticulture. Its predecessor was a larger agricultural cooperative (with a more diverse production portfolio) that during the

process of transformation of cooperatives split into four independent entities and was subsequently liquidated. The founding members had their membership interests calculated on the basis of their share of land and years of employment in the cooperative's predecessor. Those who did not want to join this newly formed cooperative terminated their membership by selling their membership interests to the cooperative.

At the time of the interview the cooperative had 98 members of which 25 were employees. Most members are non-employees – elderly people who are already retired, but who keep their membership in the cooperative. Their membership interest is subject to inheritance, but those who inherit it are usually not interested in becoming members. Complete outsiders are not interested in becoming members, which might also be attributed to the fact that in addition to the membership fee, members have to own some agricultural land that can be used by the cooperative. This way, the pool of potential new members is rather limited to those who locally own some vineyards or plots suitable for building vineyards, or to the heirs of deceased members. At the same time, the strategy is not to expand the membership. The chairman of the cooperative explained this strategy by practical reasons – too large membership slows down the decision-making process.

The highest decision-making body is the membership meeting. It usually meets once a year to approve the annual report. At the meeting all members are informed about the situation in and all activities of the cooperative and they vote on the financial report submitted by the board of directors. So far the membership meeting has always been called by the board, not by the membership majority.

During the year, the cooperative is mostly run by the board of directors that is in charge of management of the cooperative. It has 7 members and is headed by the chairman who is the main representative of the cooperative and also the head of the management committee. The board recommends strategies of development of the cooperative to the membership meeting and suggests how profit is used. The board of directors can independently decide about certain issues, e.g. it decides about accepting new members of the cooperative and the membership meeting is just informed about this decision. The executive body of the cooperative is its management committee that has 6 members – all are agricultural specialists and business administration specialists.

According to the by-laws, non-members cannot be in the management of the cooperative. The main membership benefit is that the cooperative provides vineyard cultivation services to its members in their own small vineyards (these

plots, so called *záhumienky*, are provided by the cooperative to its members) where they can grow their own wine grapes. The cooperative provides this service for a lower price than a regular market price.

Employment in the cooperative is not conditioned upon membership in it, however the membership status of employees is preferred. At the time of the interview, the cooperative had 34 regular employees and only 6 of them were non-members. The cooperative locally employs a number of older people and people of a pre-retirement age (the average age is 55 years). It provides temporal seasonal jobs (especially wine grapes harvesting) also to people from other parts of Slovakia (e.g. Northern Slovakia).

The cooperative is financed mostly from income from sales of their own grapes and wine, but in the past it recorded some losses too. They also own some fields and produce grains in collaboration with another cooperative located in a neighbouring village. When the cooperative started in 1995, it had almost no machinery or production technologies and it lacked appropriate production and storage facilities as many of those were taken over by other cooperatives – successors to the old liquidated cooperative. In 2013, the cooperative was able to get a loan through the Development Bank under a special scheme for purchases of agricultural land and agro production facilities. This way it was able to buy a farm yard and could start developing its own campus in line with its strategic vision of development (wine cellars, a wine shop, premises for agro tourism and the like).

Agricultural Cooperative 2 (PC2)

The cooperative is located in Western Slovakia in a northern part of the Lesser Carpathians in a village (population 3,840) in the vicinity of a district town. It was founded in 1952 and in 1974 it was merged with a cooperative located in a neighbouring village. It has a quite diverse production portfolio: plant and fruit production, grapes growing and wine making and milk production. In the past, the cooperative was the largest employer in the area, it had about 500 members. Nowadays it has all together 200 members, but most of them are “inactive” – they are retired. At present, the cooperative does not accept new members, but its membership interests are subject to inheritance, so those who inherit them could either become members of the cooperative or they can sell their interest to the cooperative.

The cooperative employs 95 people of which 20 are not members. The cooperative employs local people and it provides jobs to the elderly and the Roma (at the time of the interview they had 8 Roma workers) and seasonally they employ more people from the local Roma minority.

Lately, the decision-making structure and principles in the cooperative changed when its current chairman in partnership with four other members/employees of the cooperative (all agricultural engineers) formed a limited liability company that bought more than a half of membership interests from their original owners. This way they practically became majority owners of the cooperative. Hence, the cooperative no longer operates on the 'one member - one vote' principle of cooperative democracy. The highest organ is the membership meeting which meets annually, but the limited liability company has the majority vote. These five people are also members of the cooperative board of directors (the board has all together seven members) which sets the strategy of the cooperative and makes decision about economic issues. The membership meeting usually discusses "daily business", issues of daily concerns of regular cooperative members.

The cooperative is one of ten founding members of an agricultural marketing cooperative – association of fruit producers established by 10 cooperatives and fruit farms. It was fashioned after the model of an Italian fruit producers' cooperative association. The cooperative runs its own store where it sells its products (fruits, wine, milk, animal fodder etc.) The customers of the store are mostly local people. Seasonally, people from other villages or nearby towns arrive to so-called self-harvesting of fruits such as strawberries or peaches. This is rather popular because it gives people the opportunity to buy freshly harvested fruits for good prices. As the chairman of the cooperative said, often whole families from towns come during weekends not only to pick fruits, but also to show their children how they are grown.

Agricultural Cooperative 3 (AC3)

The cooperative is located in a rural town (population of 7,186) in the southern part of central Slovakia. It was founded in 2009 as a production and marketing cooperative of apiculturalists – beekeepers. Its main mission is to provide complex support to beekeepers in Slovakia – starting from production to marketing and sales. The cooperative is modelled after examples from other countries (e.g. France) where the majority of bee products are sold through cooperatives – associations of producers who have their sales and prices guaranteed through the cooperative. The rationale behind the establishment of the cooperatives is the anticipated future trend in the EU to provide support to associations of producers. It also derives inspiration from the cooperative of beekeepers active in the 1950s that had a vast array of activities to promote and support beekeeping in Slovakia (ranging from manufacturing of beehives and other equipment to educational activities). The vision is to gradually build a complex apicultural support structure that would benefit its members in the form of guaranteed marketing of

their products and sales prices and that would both professionalise beekeeping in Slovakia and promote it to the public at large as an activity crucial for preservation of biodiversity and ultimately for the survival of the human kind (bees as pollinators are indispensable in agriculture and food production). In their educational efforts, the leaders of the cooperative organise courses of beekeeping, funded by the governmental programme of apicultural support. In the future, the cooperative would like to cooperate with a secondary agricultural school that teaches beekeeping classes.

The cooperative was initiated by two leading experts in the field and established by 20 founding members – individual beekeepers. One part of the membership fee was a non-monetary contribution in the form of honey. At present, the cooperative operates subregionally in the southern part of central Slovakia. Its membership is quite diverse – ranging from top-notch professionals to small hobby beekeepers and from the generation of older traditional (countryside) beekeepers to younger producers and newcomers who see beekeeping as a return to natural products. The cooperative is chaired by a person who has been in beekeeping for 30 years and for 8 years he has been running his own business in honey and other bee products. On the premises of the chairman's company, the cooperative has its training centre. The company also provides the cooperative with some space to store glass packaging for bee products distribution. Cooperative members can purchase these glass containers for a discount price.

The cooperative is not a member of any cooperative umbrella organisation, but has a close collaboration with the Slovak Union of Beekeepers. At the moment, the cooperative is in stagnation, namely due to low honey production in the past few years and hence little need for its common distribution. Another reason of stagnation is that the cooperative has run into difficulties finding a reliable and stable distribution partner. Especially the sales phase is rather complicated because of the price policy of retail chains.⁴ For this reason, the leaders of the cooperative do not encourage the expansion of its membership.

A qualitative probe into the situation of cooperatives in Slovakia

As the brief descriptions of the studied cooperatives suggests, their current situation in Slovakia is not without difficulties and all cooperatives in our sample grapple with a number of issues that impact their economic standing and financial situation and their overall performance.

After the fall of the previous regime, cooperatives in Czecho-Slovakia in general were impacted by the law on cooperatives transformation which came into force in 1992⁵ and which negatively influenced the situation of all then existing cooperatives. Many cooperatives split into several smaller entities and many ceased to exist. All cooperatives were mandated to transform its ownership structure, issue share certificates to their property and buy them from those who wished to terminate their cooperative membership. This was the case of 4 cooperatives in our sample (2 production and 2 agricultural cooperatives). All cooperatives in our sample that had existed prior to the year 1989 or were established as successors of previously existing cooperatives have encountered several problems stemming from this mandatory transformation. In this process, cooperatives lost control over significant parts of their property, one cooperative in our sample was stripped of almost all its assets. The agricultural cooperatives that are successors of the former "socialist" cooperatives from the previous regime (2 in our sample), have to deal with the fact that their membership interests are subject to inheritance and, as a consequence, cooperatives are obligated to be able to provide financial compensation to those who inherit them. This way, the property of agricultural cooperatives is owned not just by their active members, but also by those who are no longer working for the cooperatives and by their relatives (non-members).

In the process of economic changes after the year 1989, the already existing cooperatives lost their economic positions on the market and state support. In particular, the lack of the state support is perceived as a serious issue – all representatives of all studied cooperatives from their own perspective emphasised this factor as one of the most relevant. The general opinion is that the state does not pay adequate attention to the creation of more favourable conditions not just for cooperatives, but for all small and local businesses, and that they are disadvantaged vis-à-vis large, often multinational, corporations that enjoy all kinds of investment incentives such as tax breaks and other benefits. Moreover, the state legislation and regulations make the operation of cooperatives difficult – the leaders of cooperatives pointed to the instability of various regulations, frequent changes of rules and a high bureaucratic burden. They also feel that the state legislation and regulations do not take into account a specific nature of many cooperatives, namely their social function. All cooperatives, irrespective of the line of their activity and nature of their membership/ability of their employees, are regarded as regular business entities, which puts them in a disadvantaged position relative to other business actors. This is especially problematic in the case of cooperatives of the disabled ("In the past, the cooperatives of the disabled had paid lower taxes and had other benefits. Then they were defined as 'normal' businesses and we lost this support"). For them, the loss and current lack of the state support as well as frequent changes of conditions for state subsidies have dire consequences. Both cooperatives in our sample that operate

sheltered workshops and employ people with disabilities had to establish parallel limited liability companies to be able to get state subsidies provided to employers of the disabled. This was related to the fact that the state in its effort to prevent subsidy fraud tightened conditions for the provision of subsidies to the businesses employing people with disabilities. However, as the representatives of the studied cooperatives as well as representatives of one of the cooperative umbrella organisations pointed out, this way the state policy in its effect undermined the position of traditional, well-established cooperatives that have been successfully providing employment to the disabled while meeting the criteria for subsidies provisions (such as regular social security and health care payments to the state treasury) and prevented them from applying for further support. Therefore, in order to get the state support, the cooperatives established new entities with *de facto* no previous tradition or long-term experience in employing disabled people. To be able to access the subsidies, one of these cooperatives radically reduced the numbers of its members by changing its by-laws and separating membership from employment in the cooperative.

The lack of support or favourable business conditions, combined with the post-2008 economic crisis and with issues related to the transformation process, is reflected in the financial situation of the cooperatives – especially representatives of the studied production cooperatives have mentioned financial problems and negative financial results. These have their roots in the transformation process when all cooperatives were mandated by the law to pay their membership interests to all members who wanted to terminate their membership. In the process, cooperative lost a significant portion of their property and capital not just because of payments of membership interests, but also of related notarial fees and other expenses. Due to this fact, they have either difficulties with access to credit or it is impossible for them to get a loan from commercial banks. Those production cooperatives that are members of the *Coop Produkt Slovensko* can get a loan from this organisation (2 cooperatives in our sample). Unlike the past, at present there is no cooperative bank in Slovakia to support specifically the development and operation of cooperatives. Given the fact that cooperatives have to compete with other business companies on the market, protracted financial difficulties threaten the sustainability of cooperatives and pose a hindrance to their further development and economic growth – they are unable to innovate and keep abreast with their competitors. The representative of one of the production cooperative mentioned that they were considering closing the cooperative down, the other two highlighted the fact that they were glad they were able to survive and pay salaries to the workers.

The representatives of the studied agricultural cooperatives also referred to specific issues related mostly to the common agricultural policy of the

European Union and the conditions negotiated for Slovakia by its governments, but the analysis of this larger context would go beyond the scope of this chapter.

In general, our informants in their assessment of the situation often pointed to the fact that the cooperative sector has been on a decline since the 1990s when the transformation of cooperatives mandated by the law took place (“cooperativism in Slovakia is deteriorating”). They feel that compared to the past, cooperatives are on the margins of the public interest (“in Slovakia, cooperatives are not in people’s ‘field of vision’...”). This is reflected in a low interest of people to either establish a cooperative or to become members of cooperatives. According to the Slovak Bureau of Statistics, between the years 1995 and 2002 the number of cooperatives decreased from 2,081 to 1,523 and has not changed much since then. Many of the existing cooperatives are losing their members and the age of their members is rather high. These data indicate that the democratic grass-root cooperative movement is practically nonexistent in Slovakia. One reason behind this situation may also be the negative image of cooperatives and cooperativism related to the “socialist past”, and the lack of general knowledge about cooperatives: “I would say that people do not set-up cooperatives because they don’t know what they are about. And maybe they perceive them as a relic of socialism.”

Most cooperatives also feel that they get little or no support from the local authorities in the towns and communities in which they are located and in which they operate. The chairman of one of the cooperatives pointed out that basically the main support they get from their municipality is that they can get a better place for their promo stand at the local wine harvest festival. The representative of one cooperative employing people with disabilities said that local authorities from time to time order some services from them, but this is just on an *ad hoc* basis and the scope of the services is not very large. The chairman of another cooperative of the disabled mentioned that when they were in a very dire situation they asked the local mayor to give them some tax break, but that was not possible. Even if the local authorities would be inclined to provide some benefits to their local cooperative (and understand the indispensable social function), there is no systemic support structure for them to use or they are not aware of any such scheme that would enable them to provide some support to the cooperatives operating within their local jurisdiction – despite the rather firm embeddedness of the studied cooperatives in the local context (in contrast to other employers and especially foreign investors and enterprises) and the social role that they play in the place of their operation.

Two of the studied cooperatives run sheltered workshops and employ people with disabilities who would not otherwise find regular employment, but the social

function was emphasised by all representatives of the studied cooperatives. They provide jobs to people in a pre-retirement age (50+), people with lower education and the Roma. These are among the social groups most disadvantaged on the labour market, threatened by unemployment and at risk of poverty (especially the Roma and women of 50 years of age and older). Four of the studied cooperatives used to be in the past among the biggest employers in their localities/sub-regions or in their field of activity and still play a significant role in providing jobs to the local people.

One of the studied cooperatives has its own social fund that pays for various recreational activities of its members and employees and for trips to cultural events. In a shop operated by one of the studied cooperatives people can sell their own garden produce grown privately outside of the cooperative. Especially two of the agricultural cooperatives in our sample provide help in the form of small services for a low price or *pro bono* (such as renting machinery, lending a bus or van, helping with delivery of construction materials, mowing meadows or ploughing fields and the like) not just to their current members and employees but also to their retired members and employees and other locals and to the local authorities (renting or lending cars and machinery or providing wine and other produce for some local events and social functions organised by the local office, and the like). These cooperatives also provide wine and other products to social events organised e.g. by local sport clubs, schools and take part in local fairs and other social activities. As a matter of fact, even the annual membership meeting may be organised in the form of a social event (with refreshments from cooperative's products), and mostly the retired cooperative members view it as an interesting social occasion and an opportunity to maintain their ties with the cooperative and participate in its life.

The local embeddedness and concern for the local community of some cooperatives (4 in our sample) is apparent also in their ties with the past and local traditions – be it in the tradition of local association of small producers or in continuation of the local agricultural production (wine production, fruit growing, bee-keeping). The mission of the AC3 is, among others, to continue in the tradition of locally based beekeeping in Slovakia and educate people about the importance of beekeeping for the environment and sustainable development.

Although there was some variation in the assessment of advantages of being a working member or employee of a cooperative, most of the interviewed working members and employees mentioned good atmosphere, friendly almost family-like relations, no workplace surveillance (e.g. no surveillance cameras), job stability (no unexpected lay-offs) and the guarantee of regular income (which is not always

the case with other employers in Slovakia). Our informants believed that everyday interaction of people in their cooperatives was less alienated than in other business companies where the employees are left “at the mercy of management who is not interested in people’s well being”. These were seen as advantages especially by those who also experienced working for private businesses or have relatives who work for them. One informant, who had experiences with working both for a private business company and a cooperative explicitly said that she would never trade her work in a cooperative for a job in a private business company again, not even for a higher salary.

Hence, members and employees of the studied cooperatives appreciated non-material, non-monetary benefits, including participation in decision-making and their personal involvement in the life of the cooperative. Another member mentioned that she had fully realised these advantages when her child was born – it was less stressful for her to combine her work and family life. Nevertheless, the observation was that younger people or those who have not experienced working for a cooperative are not aware of these advantages or they do not perceive them as such.

In general, the interest of people to become new members of cooperatives is rather low. Our informants attributed this to low salaries and membership fees payments, but also, as mentioned above, to the fact that people perceive cooperatives as something belonging to the past or are unaware of their advantages. The observation that was repeatedly voiced by several informants – leaders of the studied cooperatives was that nowadays people do not have a “cooperative mindset”, “do not want to cooperate” or do not realise the advantages of cooperation and pooling of their skills and resources. However, the level of members’ involvement in the life of the cooperatives was in our sample quite uneven and the attitudes of leadership of the cooperatives towards attracting new members was rather ambivalent – most of them at the time of our research did not strive to extend their membership. Membership in one of the studied cooperatives (PC2) was limited only to its five founding members who were all relatives and the cooperative did not accept new members. The operation of one of the cooperatives (AC3) is basically managed by its chairperson, the cooperative’s membership is rather inactive, people are not fully taking advantages of their membership in the cooperative or do not always preferably use its services. This chairperson proclaimed that he did not want to attract new members also due to the fact that he could not promise them that the cooperative would survive and be able to fulfil their needs. Another cooperative (PC3) had to radically reduce its membership and move most of its previous members/employees to a limited liability company – in order to be able to receive state subsidies as a newly established business entity with no previous obligations or debts.⁶

This suggests that the daily practice may be at odds with some basic cooperative principles and hence the cooperatives are not always able to fully uphold them. The principle of participatory decision making might in some cases clash with the requirements of effectiveness, flexibility and innovation, especially when a cooperative had to compete with other businesses within the parameters set forth by the market economy. As the leader of one agricultural cooperative in our sample admitted: the fact that all important decisions must be approved by the membership majority poses a hindrance in the speed and nature of cooperative's development and fulfilment of the visions and plans of its leadership. Nevertheless, in the case of this cooperative the decisive variables seem to be a larger number of its members as well as the fact that most of them are retired and hence no longer in touch with both the daily life of the cooperative and current agricultural trends, but this assumption would require more comparative data and further study. In another cooperative, the fundamental principle of 'one member – one vote' no longer applies because its ownership structure changed and the limited liability company which became its member (and which basically "saved" the cooperative from being sold to another business company) holds the majority of votes.

Nevertheless, in spite of the above stated inconsistencies and flaws, the principle of cooperative participatory decision-making may be regarded as one of the main benefits of cooperative membership appreciated by our informants: "We can decide about our own business. We are doing it for ourselves." "I like the fact that we are openly informed about everything that's going on in the coop." "We collectively decide about everything, such as our salaries or profit distribution ..." This "spirit" of cooperativism was particularly pronounced in the PC1 and the cooperative's representatives and members perceived themselves as one of the "last bastions of cooperativism in Slovakia". Members of this cooperative convene at membership meetings several times a year to discuss the situation of their cooperative, and in the times of its worst financial situation voted to shorten their work week to only 4 days and to increase their membership contribution in order to prevent the cooperative from closing. This case would suggest that cooperatives can be more resilient against crises when people are involved in the decision-making process and are highly motivated to keep the cooperative running even during recessions.

Our research findings, although limited in scope, suggest that despite the fact that in the period after the year 1989 the state has not recognised and acknowledged the importance of the cooperatives in creating jobs, fostering development of local economies and communities or in providing social care, there is a base for cooperativism as there are people motivated in their work not

solely by profits or income, but by concern for their fellow citizens, their communities or environment. The cooperative movement in Slovakia is waiting for this recognition, which could become an impulse to its revival.

Notes:

¹ See the chapter on the media coverage and analysis.

² See: <http://en.wikipedia.org/wiki/Comecon>

³ See the organisation's website: http://www.cpscoop.sk/cps_sk/index.php

⁴ The leaders of the cooperative hoped to establish a stable partnership with a retail chain run by the nation-wide consumers' cooperative, but the conditions they were offered were comparable to, or even slightly worse, than those of corporate food retailers.

⁵ See the chapter on History. The process of transformation specifically of agricultural cooperatives is discussed in Jana Lindbloom, *Neistý majetok a sporné rozhodovanie: návrh, interpretácia a zapájanie transformačného zákona v postsocialistických poľnohospodárskych družstvách* (Ambiguous property and contentious decision-making: proposal, interpretation, and enactment of the transformation law in post socialist agricultural cooperatives), PhD Dissertation, Masaryk University, Brno 2013, available at http://is.muni.cz/th/124336/fss_d

⁶ This cooperative is still liable for debts incurred by the previous chairperson who stripped the cooperative of a part of its assets and established his own separate business company. This debt was the major hindrance for the cooperative to apply for the state subsidies.



Conclusion

Peter Vittek and Eva Riečanská

A glimpse at the history of cooperativism in central Europe shows us that crucial activities leading later to the emergence of cooperatives occurred in the first half of the 19th century. By the mid-1800s, first modern cooperatives were already set up and numerous intellectuals were spreading the idea throughout the region. The second half of the century brought about the first legislative measures defining cooperative associations and the movement was growing – at the end of the century, the process led to creation of cooperative umbrella organisations and supporting institutions. In the first half of the 20th century and especially during the inter-war period, cooperativism flourished and numbers of cooperatives and their members grew rapidly. This development was coercively interrupted by the rise of non-democratic forces before the World War II and after its end. Attempts to control the movement through umbrella organisations directly managed by the state or political parties, which from time to time occurred, soon led to the curtailment of fundamental democratic principles on which the cooperative movement was built. Forcible collectivisation, constraints on membership or elimination of autonomous decision-making were the most negative traits of undemocratically governed cooperativism and the cooperative ideas were distorted and misused by totalitarian states to gain control over their citizenry. In the 1990s, after the authoritarian regimes fell, the transformation of state regulated cooperativism to democratic one started, but often with confusing results.

Cooperativism in the Visegrad region is still marked by the legacy of its undemocratic past, but there are seeds of a genuine democratic movement aware of its democratic traditions and of its own social value. Its picture in the media is therefore often ambivalent. On one hand it can be perceived as a remnant of the unattractive totalitarian past, on the other as a means of truly democratic organisation of society and an instrument of social inclusion and sustainable economic, social and environmental development. The former view lies at the base of arguments against cooperativism as a useless and outdated economic form, the latter forms the core of argumentation in favour of more intense support of cooperative economy as a specific sector which is not primarily focused on profit seeking, but promotes other values beneficial for society and as such it can even be an interesting theme in election campaigns.

These varying views on cooperativism are reflected in legislation of the Visegrad countries as well. Cooperatives in general are frequently regarded as regular corporate enterprises with no special role in the economy. A different approach to the position of cooperativism was adopted at the beginning of the 21st century when the model of social cooperative constructed predominantly on experiences from the Italian cooperative movement was introduced in the region. This move was partly motivated by the European Union funding provided for development of social economy in the programming period 2007 – 2013. On the basis of this incentive, a form of the social cooperative was defined in the Czech, Hungarian and Polish law. The new regulation stimulated a jump growth of this specific cooperative sector. Although the process of allocation of the EU subsidies can be seen as controversial, because it created relatively large amount of cooperatives which were established for the sole purpose of getting the funding, there are still hundreds of new cooperatives in operation, fulfilling their social role. Slovakia is in many respects in a specific position – it is the only Visegrad country where there is no specific legal definition of the social cooperative. Many cooperatives of the disabled (*Výrobné družstvá invalidov – VDI*) that are still in business were established in the previous regime, in which they played a role similar to present-day social cooperatives. Nowadays, they are either surviving on the brink of collapse or were transformed into other types of corporate enterprise, because as some of the practitioners pointed out: “...there is no difference” due to the fact that the *VDI* cooperatives lost their specific status although their social and economic role remains the same. Another specific form of cooperatives – credit unions – once very common predominantly in the territory of the Slovak and Czech Republic are no longer the kind of institutions that they used to be in the 19th century when they provided low-interest loans to their members on the basis of mutual self-help. In Slovakia it is not possible to establish a credit union at all and in the Czech Republic the members are obliged to apply for a license and therefore pay 35 million Czech crowns in advance. This situation can be seen as partly responsible for difficulties of the cooperative sector to access loans when needed. The institutional support of cooperativism is most visible in Poland where there is a network of incubators providing information, consultations and other supportive activities for existing social cooperatives and those who wish to start one.

Experiences from the field show that in practice the development of cooperative economy needs support in the form of an adequate legislative framework and systematically implemented public policy to create an enabling economic environment fostering the growth of cooperativism. In particular, it could, for example, create conditions for (or restrict) certain forms of cooperativism and set

up supporting institutions or incentives for establishment of cooperatives. Stable legislation can help cooperatives realise their long-term plans and goals. Subsidies can boost numbers of established cooperative enterprises, but they can also open grounds for speculations. As seen on examples from Hungary and Poland, a number of new cooperatives founded through the EU funds have been able to ensure their sustainability even after the EU funding was spent. On the other hand, there are cooperatives established on the EU funding that are run by people not fully committed to cooperative principles and values, who are mostly interested in getting the subsidies rather than promoting some social goals. However, as examples from Slovakia suggest, even in an adverse economic environment and in the absence of any supporting legislative framework and funding scheme there are people who strive to keep cooperative principles alive working towards the advancement of the social function of cooperativism. Therefore, the activity of the people from the bottom is indeed crucial for the further development of the cooperative movement. Some of the cooperative chairpersons and managers are true leaders who put cooperative principles into practice. In some cases, it is the whole collective of all cooperative members who try to find a way to very creatively promote and maintain them in each situation and often under very difficult circumstances.

Finally, it needs to be stressed that there is a real demand for cooperative and social economy in the Visegrad countries. Many people subscribe to ideas and values of cooperation, solidarity, self-help or democratic and participatory decision-making, and democratic states providing services to their citizens should be addressing also these demands.

This publication was prepared as a part of the project:

**in
econ**

Inclusive local economies
through cooperatives development

inecon.utopia.sk

The project *Inclusive Local Economies through Cooperatives Development (INECON)* started in September 2013 with four partners from all Visegrad countries – Utopia, Alternativa Zdola, Szatyor and Fundacja Instytut Spraw Publicznych. The main aim of the project was to contribute to the revival of the cooperative movement in the region by mapping its actual situation and historical events that formed it in order to identify actors and factors which could be crucial for the future development of cooperativism and social economy. Institutions of cooperative and social economy can encourage economic activities in the territories and sectors which are not within the scope of interest of strong economic actors. Numerous studies stress that social enterprises and coops are resilient in times of crisis and provide sustainable jobs in communities in which they operate. Cooperatives are also considered to be the school of democracy, because they engage their members into discussions and decision-making processes. As such, they can be key to active citizenship and inclusive local economic and social development, especially in communities or regions with higher levels of unemployment and social exclusion. The revival of the cooperative movement could also help address various social pathologies.

The *INECON* project was comprised of research, the exchange of practical know-how, several networking events and preparation of a supporting institution or initiative to promote cooperative and social economy. The research was aimed at comprehensive mapping of the general conditions of cooperative and social economy (including historical and media overviews, the legislative framework analysis and field study). The output of the research provides an overview of a situation in this sector and can be taken as a basis for further, more detailed study and analysis and for articulation of public policies recommendation that might help public authorities and other organizations and individuals to support cooperativism and social economy. Another part of the project focused on col-

lecting and mutual exchange of practical experiences and good practices in the field of cooperativism and social enterprise and strengthening of relation between various actors interested to take part in cooperative and social economy development. The long term aim is to contribute to vivid relations and cooperation between all who are striving to promote inclusive local economies. One of the networking events during the course of the project was the international multi-disciplinary conference in December 2014 in Bratislava *Visions 4 a Cooperative Future: Cooperativism for the 21st Century Europe & Beyond*. The project was finished in March 2015.

Project was funded by International Visegrad Fund



www.visegradfund.org

Project partners:



Utopia (Slovakia, <http://utopia.sk>)

Utopia is a civic association whose main goal is to support deepening of democratic processes in society, building citizens' participation and increasing social inclusion. Utopia is part of the OpenData movement promoting open and transparent public administration. It started to implement participatory budgeting in various Slovak cities and fosters the cooperative and community-driven action as a tool of local economic and social development.



Alternativa Zdola (Czech Republic, <http://alternativazdola.cz>)

Alternativa Zdola strives to transfer systemic alternatives from across the Globe to the Czech conditions. These alternatives help local economies to thrive and they bring about zero unemployment rates, foster true participation of people in decision-making, introduction of modern technologies and environmental sustainability. As the organisation supports participation of citizens in political and economic life of the country, it focuses on many themes and issues which – although necessary for functioning democratic society, still largely remain outside of the mainstream politics such as social housing, decentralization of the energy sector, development of local economies, cooperativism, alternative financial system or employees participation.



Szatyor Association (Hungary, <http://szatyorbolt.hu>)

The Szatyor Association aims to promote environmentally and socially conscious alternatives and lifestyles. The Association itself runs a local social enterprise called Szatyorbolt that operates its business on eco-conscious values offering shopping alternatives for those who care about the environment, their health and the community. It supports actions leading to minimisation of environmental impacts of food production and distribution while also supporting small scale farming. The Szatyor Association organises workshops and trainings about conscious consumption and lifestyle. It also organises visits to farmers to enhance better understanding of how food in the countryside is produced.

**INSTYTUT SPRAW
PUBLICZNYCH**

Fundacja Instytut Spraw Publicznych (Poland, <http://www.isp.org.pl>)

ISP is a leading Polish think tank and an independent centre for policy research and analysis, established in 1995. Its mission is to contribute to informed public debate on key Polish, European and global policy issues. Its main areas of study include European policy, social policy, civil society, migration and development policy as well as law and democratic institutions.

The analysis of Slovak legislation was prepared by the law firm BAK&PARTNERS. We would like to thank the authors of the analysis.



BAK & PARTNERS

<http://www.bakpartners.sk>

We are an independent law firm with personal approach and strong local background. We provide comprehensive legal services focused on strategic consulting from the overall business perspective. We successfully protect your interests even in the toughest situations.

The firm possesses a wide range of valuable knowledge and experience in all main areas of law. Our practice encompasses a broad spectrum of expertise including WEEE legislation.

Strategic consulting is an essential part of our approach to legal services. We work with our clients already in the initial phase of the business plan evaluation. Our standard services include consultations on legal cases, business plan feasibility studies from legal perspective, legal solutions proposals, contract drafts and revisions and participation at business negotiations.

We are experienced professionals in the area of litigations and representation of clients in courts of all levels and before public authorities. Our attorneys are entitled to represent clients before the Supreme Court of the Slovak Republic and the Constitutional Court of the Slovak Republic. We apply the European Union law as an integral part of our daily practice and we have detailed knowledge of the practice of the Court of Justice of the European Union and the European Court of Human Rights.

All our lawyers have extensive experience with mergers and acquisitions, including legal audits and due diligence reports, transactional documents and proceedings before the Antimonopoly Office of the Slovak Republic.

Supervising our cooperating partners we provide legal services in the Czech Republic, Austria, Germany, Italy, France, Poland and the Russian Federation.

Close cooperation with project finance specialists enables us to identify the best way to execute your business plan in accordance with the legislative framework.



