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ON THE RESULTS OF THE ECONOMIC ACTIVITIES
OF PRODUCTION COOPERATIVES IN THE ESTONIAN SSR*

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* The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been formally edited.

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At present the socio-economic development in the Soviet Union is proceeding under the conditions of the renewal of the economic mechanism aimed at creating prerequisites needed for the development of the economic independence, initiative and entrepreneurship of working collectives. A specific feature of perestroika is the growth of various forms of small businesses (cooperatives, small state firms, self-employment, team contracts, lease holding, etc.). Their main task is to attract additional resources for production, intensify production and raise the interest in the final results.

The development of cooperatives and individual activities is necessitated by the objective need to better meet the people's demand for high-quality goods and services, to make the economy more democratic and to create conditions for competition on goods markets.

The first cooperatives engaged in purchasing and processing recoverable resources were founded in the Estonian SSR already at the end of 1986 in accordance with the decree of the USSR Council of Ministers from 14 August 1986. This decree can be regarded as the first normative act aimed at the rebirth of industrial cooperatives in the Soviet Union. However, the year 1987 should be considered as the starting point of cooperative movement, as it was then that decrees on the establishment of cooperatives for producing consumer goods, public catering, everyday services, trade and purchases of goods and making confectionary and bakery goods were issued. Also the Law on Individual Labour Activities came into force, which laid down the regulations for activities in the home and artisan industries, everyday services and the socio-cultural sphere. The first year was difficult for both cooperatives as well as the enterprises and organizations participating in the formation of cooperatives. A new impulse for the growth of the cooperative sector was given by the adoption of the Law on Cooperation. By now the most promising reserves and fields for further growth of cooperation have become clear. That two-year experience also permits an evaluation of the activities of the new economic sector.

As of 1 January 1989 the number of cooperatives registered in the Estonian SSR was 1,499. Out of them, 969 cooperatives or 64.6 per cent had started operating. Cooperatives sold 101.6 million roubles worth products. As compared to 1987, the number of cooperatives increased in 1988 3.9 times, and the volume of their output, 12.1 times. The highest growth was enjoyed by cooperatives engaged in the production and purchasing of consumer goods (15.5 times).

Notable changes occurred in the structure of cooperatives by fields of activities (Table 1). In 1987 the bulk of the goods and services produced by the cooperatives was realized in the field of everyday services (57.7 per cent). In 1988 the share of the production of consumer goods and that of the so-called miscellaneous cooperatives increased considerably (respectively by 15.4 and 26.0 per cent). The latter included a large number of the so-called mixed cooperatives with varied activities. Many of them render services to the population or operate in the field of catering, etc. This shows that grouping cooperatives on the basis of their activities is quite arbitrary, and does not give a survey of their real composition.

The experience accumulated in Estonia in developing the cooperative sector shows that during the initial period the establishment of cooperatives depends to a large extent on the development levels of the economic sectors, their innovation potential. Estonian economists note the successful start of the services cooperatives of the ESSR Ministry of Services. The decisive factor in the further development is the structure of the population's demand.

In 1988, various repairs and mending services (for clothes, footwear, electrical appliances, cars, furniture, flats, etc.) made up 55.1 per cent of the volume of the goods and services produced by service cooperatives, clothes and footwear were in the order of 11.5 per cent, services rendered in carrying out marriage, funeral, etc. rituals accounted for 3.9 per cent, photographic services 3.2 per cent, production of furniture 4.7 per cent, sauna 0.7 per cent, hairdressers' and barbers' 1.6 per cent, processing of agricultural products 1.4 per cent. The largest number of cooperatives were engaged in building and redecorating flats. Last year there were 65 such cooperatives which gave 32.2 per cent of the total volume of the goods and services produced by services cooperatives. Early this year their number doubled, this shows that these services are in high demand.

Among the cooperatives producing consumer goods the biggest number - 30.4 per cent - made clothing, 6.5 per cent produced footwear, 4.9 per cent confectionery and bakery products, 3.2 per cent furniture, 2.7 per cent souvenirs and other decorative items. Some production cooperatives are engaged in fishing, drying fish and canning fish.

Among catering cooperatives two main types of enterprises can be distinguished - those which have the complete production cycle with consumption on the premises (2/3) and those which produce only. The output of the latter is sold at cooperative outlets, state public catering enterprises or retail trade stores, at temporary trading places or from vehicles (by streets and highways, in recreational areas, during festivities, etc.). The prevailing types of establishments are cafes and snack bars with a total of over 3,000 seats which have improved the population/seats ratio by 7 per cent. These establishments have predominantly a limited choice: one or two hot dishes, salads, snacks, bread and butter, cakes and buns. As to hot dishes, shashlyk and pork chop are the most common, being served by 25 per cent of the establishments. The menus of 73 per cent of the catering establishments include cakes and buns.

Catering cooperatives offer some additional services: reservation of tables, selling delicatessen and pastry, arrangement of cultural programmes and entertainment, etc. Video shows are organized by 20 per cent of the cooperatives. Besides, about 100 production cooperatives offer catering among their other services. About 1/5 of the catering cooperatives raised cattle or pigs and grew fruit and vegetables themselves. Still they bought the bulk of the raw materials at the collective farm markets and retail trade establishments.

The miscellaneous activities include building cooperatives (23.8 per cent), those rendering transportation services (14 per cent), providing lodging (9.8 per cent), and arranging excursions and other recreational activities. Recently the number of cooperatives rendering information and consultation services, health services, providing sports facilities and making designs has been growing.

In the first half of 1989 the number of active cooperatives increased 1.4 times as compared with 1988, the volume of the goods and services realized was 26.6 per cent bigger than in 1988 (Table 2). As of 1 July 1989 out of the total number of cooperatives registered, 83 per cent were operating. The growth rate of the registration of cooperatives has decreased notably. One of the most significant reasons is the Government's unstable policy with respect to the development of cooperatives, the regulation of the fields of activities permitted, taxes, etc.

Nearly 3 per cent of the able-bodied population of the Estonian SSR are employed by cooperatives. In 1988, 68.8 per cent of them had a full-time job somewhere else and worked for cooperatives part-time. It should be noted that Estonia has the highest percentage of people employed part-time in cooperatives among the Union republics; one of its reasons is undoubtedly the general high level of employment in Estonia.

Today a cooperative is a small firm with an average staff of 22; the average number of employees of catering cooperatives is 8, that of trade cooperatives 10, cooperatives producing consumer goods employ an average of 20 people, those purchasing and processing recoverable resources 20, construction and designing cooperatives 39 and 36 people respectively. The average production volume during the first half of 1989 was 99,300 roubles, with catering cooperatives producing on an average 28,100 roubles worth of products, consumer goods cooperatives 94,500, servicing cooperatives 76,600 those purchasing and processing recoverable resources 232,800, etc. The volume of goods and services produced per employee and the average pay differ greatly.

The amount of the goods and services produced by cooperatives is still insufficient to fill consumer markets, but it is growing at a rapid pace. While in 1987 the cooperatives sold goods and services for 5.3 roubles per one inhabitant of Estonia, this increased in 1988 to 65.1 roubles and in the first half of 1989 to 88.3 roubles.

An analysis of the income declarations of cooperatives showed that in 1988 the expenditures made up 45.9 per cent of their total income. In the first half of 1989 the expenditures increased, mainly due to increased costs for acquiring raw materials and other materials (Table 3). Depreciation allowances also increased. At the same time expenditures for social insurance, put to other firms and some other expenditures were reduced. 68.5 per cent of the income which remained after the deduction of expenditures was allocated to the wages fund, 14.2 per cent to the development fund, and 4.8 per cent to the insurance fund.

The effect of cooperative activities on money circulation has increased. As the volume of goods and services sold to enterprises and institutions increases, an even growing amount of clearing roubles is turned into cash. Moreover, the growth rate of the wages fund has been higher than that of the total volume of goods and services produced by cooperatives. The tax system valid presently does not stimulate allocation of resources into the development fund. Besides, the bank loans given to cooperatives have been intensively increasing, but the share of loans paid back is small.

The growth rate of the goods and services sold to people has been lower than that of the total output. This is the reason why the activities of cooperatives have not yielded the expected results in saturating the goods markets.

During the first stage of the operation of cooperatives they were mainly concentrated around state departmental structures, which guaranteed certain assistance to them at the start and in forming suitable growth rates. In numerous cases departments were able to create cooperatives. According to the Law on Cooperatives, the cooperatives can exist also independently. This expands considerably their freedom and decreases their economic dependence on the state sector. However, after the Law on Cooperation was adopted, a number of constraints have been imposed on the activities of cooperatives (certain activities have been banned, and cooperatives are not free to choose where to sell their output). This has caused anxiety and uncertainty among cooperators in planning their activities. Under such an unstable economic policy, cooperatives have set themselves the target of making quick and easy money. That is why the prices of their goods and services are high, and they try to get extremely high profits. Another reason why cooperative prices are high is that they must pay more for raw materials than the firms belonging to the state sector.

Analyzing the prevailing management methods it seems that cooperatives are created as a separate sector. At the same time the state sector has remained within the inflexible framework of directives which does not allow to implement self-repayment and self-management. No doubt, such unequal conditions bring to cooperatives ever new constraints from the stronger. Even the Law on Cooperation expresses the need for the collaboration of state and cooperative sectors with both enjoying equal rights, but under the conditions where the state property has the leading role, it is highly doubtful whether it is possible to secure all sectors equal development conditions if one of them enjoys the leading role.

On the other hand, however, the cooperative sector has much better conditions because its economic mechanism is more flexible than that of the state sector. If the management of state enterprises is not becoming more democratic, there will be no competition between the two sectors.

To stimulate real competition, equal management conditions are to be established for all sectors. For this purpose improvement of material and technical supplies, pricing, training and other elements of the economic mechanism is needed.

No doubt, only improvement of the Law on Cooperation or the Law on State Enterprises will yield notable results. Economic sectors require uniform legal basis which should become the foundation for equalizing management conditions. The draft law on entrepreneurship and other laws which are important for Estonia will be elaborated with a view to put into practice the economic reform of Estonia.

The tax law will serve as the economic basis of regulating entrepreneurship. Cooperators and self-employed workers have been an active factor in developing the ownership structure and forming a consumers' market. Therefore, it is necessary to promote the development of all kinds of entrepreneurship, among them also cooperatives. Primary rights for developing entrepreneurship should be transferred to local authorities.

The economic mechanism must be continuously improved. The main task at the present stage is to create equal management conditions for all sectors.

Table 1

The structure of production cooperatives, %

Field of activities	Number of coops		Number of employees		Volume of goods and services	
	1987	1988	1987	1988	1987	1988
Production of consumer goods	8.8	16.9	4.3	15.0	7.1	15.4
Trade	-	0.6	-	0.5	-	7.0
Trade and purchasing	0.4	3.6	0.2	1.3	4.8	6.1
Catering	15.5	9.3	6.1	3.0	10.1	3.6
Service	66.9	34.2	79.1	34.5	57.7	31.0
Purchasing and processing of recoverable resources	8.4	4.2	10.1	5.4	20.3	10.9
Miscellaneous	-	31.2	-	40.3	-	26.0

Table 2

Basic indicis of production cooperatives in the first half of 1989

Field of activities	Number of operating coops	Volume of goods and services sold, thous. roubles			Number of employees	Pay		Number of employees per coop
		Total	Average per coop	Average per employee		total, thous. roubles	per employee, roubles	
Production of consumer goods	257	24 294	94.5	4.8	5 064	9 629.4	1 902	20
Catering	109	3 059	28.1	3.6	853	838.0	982	8
Trade	71	24 270	341.8	35.0	693	1 532.0	2 211	10
Service	240	18 390	76.6	3.8	4 850	4 526.4	933	20
Purchasing and processing of recoverable resources	46	10 710	232.8	8.2	1 308	4 265.0	3 261	28
Building services	175	22 504	128.6	3.3	6 748	12 119.5	1 761	39
Designing, research	17	2 195	129.1	3.5	619	1 116.9	1 804	36
Agriculture	10	808	80.8	4.4	186	307.5	1 653	19
Entertainment, recreation	83	3 443	41.5	2.1	1 652	1 096.6	664	20
Medical services	12	407	33.9	2.2	181	262.3	1 449	15
Miscellaneous	376	28 608	76.1	3.2	8 925	18 458.3	2 068	24
TOTAL	1396	138 688	99.3	4.5	31 079	54 151.8	1 742	22

Table 3

The expenditures of the cooperatives
(in per cent)

<i>Indicator</i>	<i>1988</i>	<i>1st half of 1989</i>
Total income	1000	100
Expenditures	45.9	51.1
Materials	74.9	79.8
Depreciation allowances	1.9	3.0
Pay to other organizations	8.8	6.2
Using short term credits	0.5	0.3
Social Insurance	1.5	1.0
Other expenditures	12.4	9.7
Income after deduction of expenditures	54.1	48.9
Tax to the state budget	3.6	3.9
Tax to the insurance fund	3.3	4.8
Tax to development fund	14.5	14.2
Tax to wages fund	73.2	68.5