



# **THE PRINCIPLES OF COOPERATION**

## **-A Look at the ICA Cooperative Identity Statement**

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## **THE PRINCIPLES OF COOPERATION**

### **A Look at the ICA Cooperative Identity Statement**

Prepared by  
Daman Prakash, Director\*

#### **ICA Statement on the Cooperative Identity [ISCI]**

This Statement was adopted at the 1995 Congress and General Assembly of the International Cooperative Alliance [ICA], held at Manchester to celebrate the Alliance's Centenary. Recommended to the Congress by the ICA Board, the Statement was the product of a lengthy process of consultations involving thousands of cooperators around the world.

The Statement, as adopted by the ICA Congress and ICA General Assembly, is *attached herewith* for ready reference and future use.

#### **Background**

Since its creation in 1895, the International Cooperative Alliance has been the final authority for defining cooperatives and for elaborating the Principles upon which cooperatives should be based. Previously, the Alliance had made two formal declarations on Cooperative Principles, the first in 1937, and the second in 1966. These two earlier versions, like the 1995 reformulation, were attempts to explain how Cooperative Principles should be interpreted in the contemporary world.

These periodic revisions in Principles are a source of strength for the cooperative Movement. They demonstrate how cooperative thought can be applied in a changing world; they suggest how cooperatives can organise themselves to meet new challenges; they involve cooperators around the world in the re-examination of the basic purpose for their Movement.

Throughout its history, the Cooperative Movement has constantly changed; it will continuously do so in the future as well. Beneath the changes, however, lies a fundamental respect for all human beings and a belief in their capacity to improve themselves economically and social through mutual self-help.

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Further, the Cooperative Movement believes that democratic procedures applied to economic activities are feasible, desirable, and efficient. It believes that democratically-controlled economic organisations make a contribution to the common good.

The 1995 Statement of Principles was based on these core philosophical perspectives.

There is no single taproot from which all kinds of cooperatives emerge. They exist all around the world in many different forms, serving many different needs, and thriving within diverse societies. The Statement provides a common base on which all of the main cooperative traditions could prosper and work effectively together.

Cooperatives first emerged as distinct, legal institutions in Europe during the nineteenth century. Achieving their first permanent successes during the difficult years of the 1840s, Cooperatives *grew within five distinct traditions*:

- [i] The **Consumer Cooperatives**, whose beginnings have long been popularly associated with the Rochdale Pioneers;
- [ii] The **Workers' Cooperatives**, which had their greatest early strength in France;
- [iii] The **Credit Cooperatives**, which largely began in Germany;
- [iv] The **Agricultural Cooperatives**, which had their early roots in Denmark and Germany; and
- [v] **Service Cooperatives**, such as housing and health cooperatives, which emerged in many parts of industrial Europe as the century drew to an end. Not only they had their shares of success in respective countries but also found way into the rest of the world in the twentieth century.

### **Rationale for the Reformulation of the Principles**

- [A] There were particular challenges confronting the international Cooperative Movement that made articulation of the Cooperative Identity necessary and beneficial in 1995;
- [B] Between 1970 and 1995 the market economy had expanded its impact dramatically around the world. Traditional trade barriers had been reduced significantly and many of those changes, such as the creation of free trade areas, the decline in government support for agriculture, and the deregulation of the financial industries, threatened the economic framework within which many cooperatives had functioned for decades. To be proper, in many instances, merely to survive, cooperatives had to examine how they would react to these altered circumstances. Economically, many cooperatives found

themselves directly confronting large transnational firms, many of them possessing capital and legislative advantages they did not have;

- [C] In Central and Eastern Europe, the decline of the centrally-controlled economies had also brought into question the role of cooperatives;
- [D] The rapid expansion of many Asian countries, along with economic growth in parts of Latin America and Africa, posed unparalleled opportunities for the expansion of cooperatives. For such opportunities to be seized there was a need to identify clearly how cooperatives should play a role in societies undergoing rapid change;
- [E] There were challenges associated with fundamental changes in the human condition around the world e.g., rapid increases in the global population; growing pressures on the environment; increasing concentration of economic power in the hands of a small minority of the world's population poverty and frequent outbursts of ethnic warfare;
- [F] The Statement of Cooperative Identity must be seen within historical contemporary and future contexts.

### **Analysis of the Identity Statement**

Definition of a Cooperative: the Statement defines a cooperative in the following way:

***“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.”***

This definition is intended as a minimal statement; it is not intended as a description of the ‘perfect’ cooperative. It is intentionally broad in scope, recognizing that members of the various kinds of cooperatives will be involved differently and that members must have some freedom in how they organise their affairs. This definition will be useful in drafting legislation, educating members, and preparing textbooks.

The definition emphasizes the following characteristics of a cooperative:

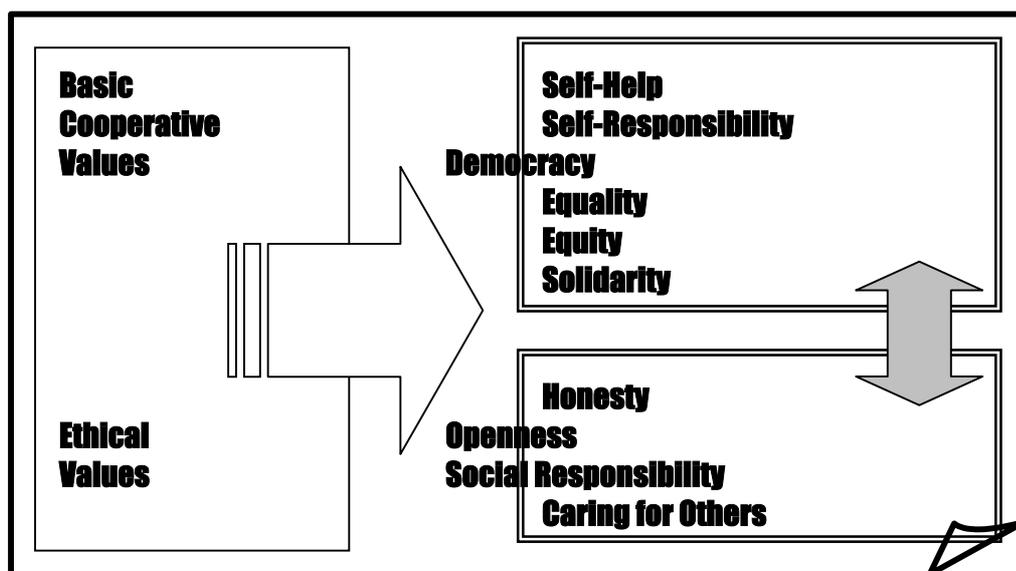
- [A] The cooperative is *autonomous* – it is as independent of government and private firms as possible;
- [B] It is an *association of persons*. Cooperatives are free to define ‘persons’ in any legal way they choose – individual and or legal persons;
- [C] The persons are united ‘*voluntarily*’. Membership should not be compulsory. Members should be free to join or to leave;

- [D] Members of a cooperative *'meet their common economic, social and cultural needs'*. Indeed in the future helping to provide a better way of life – cultural, intellectual and spiritual – may become one of the most important ways in which the cooperatives can benefit their members and contribute to their communities;
- [E] The cooperative is a *'jointly-owned and democratically-controlled enterprise'*. Within the cooperative control is distributed among members on a democratic basis. The dual characteristics of ownership and democratic control are particularly important in differentiating cooperatives from other kinds of organisations.

## The Basic Cooperative Values

The basic cooperative values as enshrined in the Statement are stated as follows:

***'Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.'***



The Cooperative Movement has a deep and distinguished intellectual history. During each of the last ten generations of human history, many theorists in many parts of the world have made major contributions to cooperative thought, and most of that thought has been concerned with cooperative values.

- [A] **'Self-Help'** is based on the belief that all people can and should strive to control their own destiny. Cooperators believe that full individual development can take place only in association with others. Individuals also develop through cooperative action by the skills they learn in facilitating the growth of their cooperative. Cooperatives are institutions that foster the continuing education and development of all those involved with them;

- [B] **'Self-Responsibility'** means that members assume responsibility for their cooperative – for its establishment and its continuing vitality. Members have the responsibility of promoting their cooperative among their families, friends and acquaintances. Members also ensure that their cooperative remains independent;
- [C] Cooperatives are based on **'equality'**. Members, whether an individual or a group, are all equal. It does not depend on the social and economic status of the member;
- [D] Achieving **'equity'** within a cooperative is continuing, never-ending challenge. It also refers to how members are treated within a cooperative. They should be treated equitably in how they are rewarded for their participation in a cooperative, normally through patronage dividends, allocation to capital reserves in their name, or reduction in charges;
- [E] **'Solidarity'** ensures that cooperative action is not just a disguised form of limited self-interest. A cooperative is more than an association of members; it is also a collectivity. All members including the employees and the non-members who are closely associated with the cooperative should be treated fairly.

This also means that the cooperative has a responsibility for the collective interest of its members. It has historical roots. Cooperators and cooperatives stand together. Solidarity is the very cause and consequence of **self-help** and **mutual help** – two of the fundamental concepts at the heart of cooperative philosophy. It is this philosophy which distinguishes cooperatives from other forms of economic organisations;

- [F] **Founders** of the Cooperative Movement have, through their foresight and deep involvement, been able to refine the concept. They are found everywhere. Their contributions were practical, ethical and moral. Many of the early cooperatives of the 19th century, most obviously the Rochdale Pioneers, had a special commitment to honesty – fair dealings in the market place, honest measurements, high quality and fair prices. Over the decades agricultural cooperatives have prospered because of their commitment to high quality, honestly-labelled produce.

Honesty, openness, social responsibility and care for others are values which may be found in all kinds of organisations, but they are particularly cogent and undeniable within cooperative enterprise.

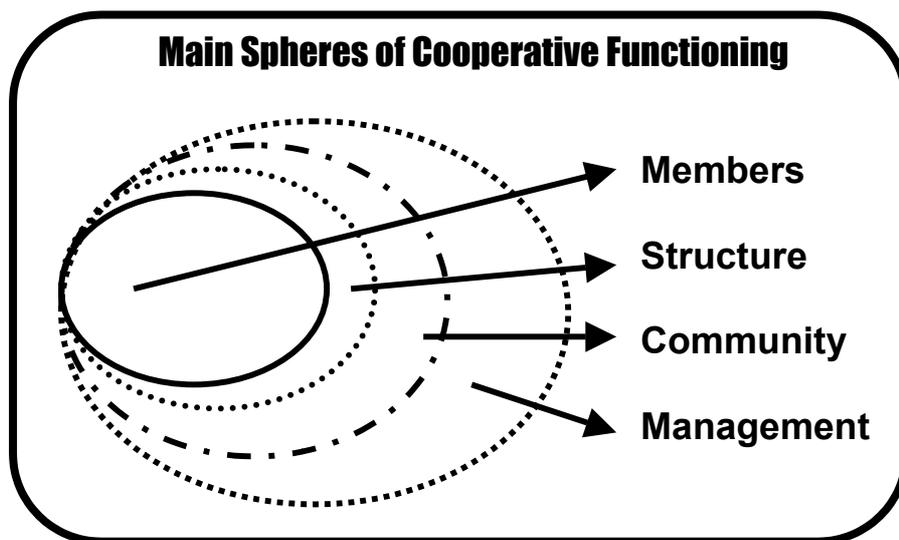
### **The Principles of Cooperation - Standards of Measurement**

Many people understand principles as ironclad commandments that must be followed literally. In one sense that is true in that Principles should provide standards

of measurement. In another sense, they should restrict, even prohibit, certain actions while encouraging others.

The Principles that form the heart of cooperatives are not independent of each other. They are subtly linked; when one is ignored, all are diminished. **Cooperatives should not be judged exclusively on the basis of any one principle; rather they should be evaluated on how well they adhere to the principles as an entirety.** The first three principles essentially address the internal dynamics typical of any cooperative; the last four affect both the internal operations and the external relationships of cooperatives.

Cooperatives function in four main spheres. These are:



**Members:** there is special emphasis on members. They are the owners, managers and controllers of their cooperative, and they are the ones who have formed the cooperative serve them;

**Structure:** There are two clear structures – the cooperative organisational structure and the government structure which provide a legal identity to the cooperative. Although cooperatives are autonomous organisations it does not mean that they do not need government structure. Both of them are needed and necessary;

**Community:** It deals with the social structure of the society which sponsors cooperative members and cooperative leaders and which also has certain social and economic needs which need to be satisfied; and

**Management:** There are two dimensions of management – one is which strives to make the organisation efficient and effective, and the other is relating to the management of cooperative by board members and the employees of the cooperative.

## **Cooperative Legislation vis-à-vis Principles of Cooperation**

The Principles are the philosophical attributes on which a Movement is built. Principles are based on certain ethical values and such values reflect the aspirations and behaviour of the community. Legal norms are the rules set by people for the behaviour of people among themselves. They set out what to do and what not to do. Such norms are based on general ideas in which people believe, which influence their way of thinking and acting. One precondition for the effectiveness of legal norms, especially of those based on new concepts, is that these rules must be understood, accepted and applied by people. A better approach to using legal norms as instruments for development is to empower the citizens, to inform them of their new rights and to encourage them to claim and defend such rights. It requires that people unite to fight for their right, that they form associations, federations, pressure groups and cooperatives to exercise legitimate power.

The purpose of a cooperative law is, among other things to distinguish cooperatives from other forms of organisation. This can be done best by stressing particular features of cooperatives which give them a strong profile e.g., that cooperatives pursue the goal of promoting the interests of their members, do business only or mainly with their members, distribute surplus in proportion to business done by the members with the cooperative enterprise.

The new Cooperative Principle of autonomy and independence defines cooperatives as possible development partners. However, it is now stressed that such collaboration, for instance between government and cooperatives has to be on mutually agreed terms and without effect on the independence of the cooperatives.

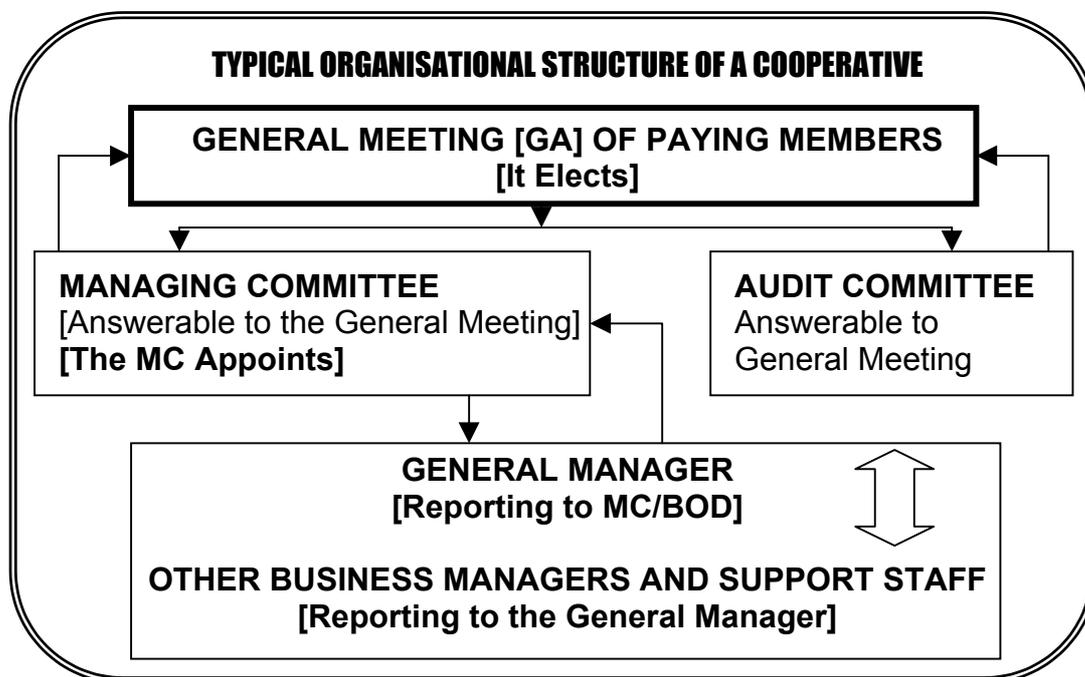
The lawmakers should keep in mind that cooperative law is made for cooperators and not for lawyers and accordingly should be written in simple language that ordinary people can understand. If the laws governing cooperatives are too complicated and too rigid, they will remain 'laws on the books', and people will find their ways around them. Cooperative law will only serve its purpose if it becomes a 'law in action'. To achieve this goal, the cooperators must be associated with the development of the legal norms governing their cooperatives. They must understand the norms of the law and must accept them as reasonable, just, equitable and fair.

The crisis in the economy in the South-East Asian Region in the recent past had only marginal impact in India so far. However, due to liberalization and globalisation of the economy it is hard to insulate the economy completely from upheavals in the region. Competition in the economy is growing and efficiency is the key word for cooperatives to be competitive. Those cooperatives which are financially weak and operationally non-viable will have no future as government patronage and government support will be out of tune as a matter of government's new economic policy and reforms packages. This could lead to certain structural adjustments even in cooperatives with emphasis on self-reliance, financial viability and operational efficiency. Cooperatives – as economic enterprises have to be more business-like

and less as agencies promoted and supported by the government for implementing the government-sponsored programmes for realizing the socio-economic objectives. This calls for drastic changes in the government policies towards cooperatives and comprehensive amendments in the laws governing operations of cooperatives. Cooperatives need to be free and independent of government official controls and influence.

### Organisational Structure of Cooperatives

Cooperative legislation where it does exist, or through the national consensus, cooperative institutions have been following a certain logical structure which takes care of democratic and business needs. In a majority of cases cooperative institutions throughout the Asia-Pacific region have adopted the following organisational structure:



The byelaws of the cooperative lays down rights and duties of the General Meeting, Board of directors, Audit Board and other committees besides frequency of their meetings and the methods of convening such meetings and the procedures for holding elections.

### The Cooperative Advantage

Values, principles, ethics and business competence constitute the cooperative advantage for members and for the communities in which they operate. Cooperatives put people first – they are member-owned; they are controlled under democratic principles; and they are competitive enterprises which are at least as efficient in their business operations and use of capital as others in the market place.

Yet, they are not driven by profit, but rather by needs. These important differences from traditional enterprises will enable them to compete and prosper in the new Millennium.

Flexibility is one of the greatest advantages of the cooperative form of enterprise. Despite tougher market conditions, cooperatives continue to be strong players in national and, indeed increasingly, people are starting new cooperative enterprises in such areas as social care and informational technology.

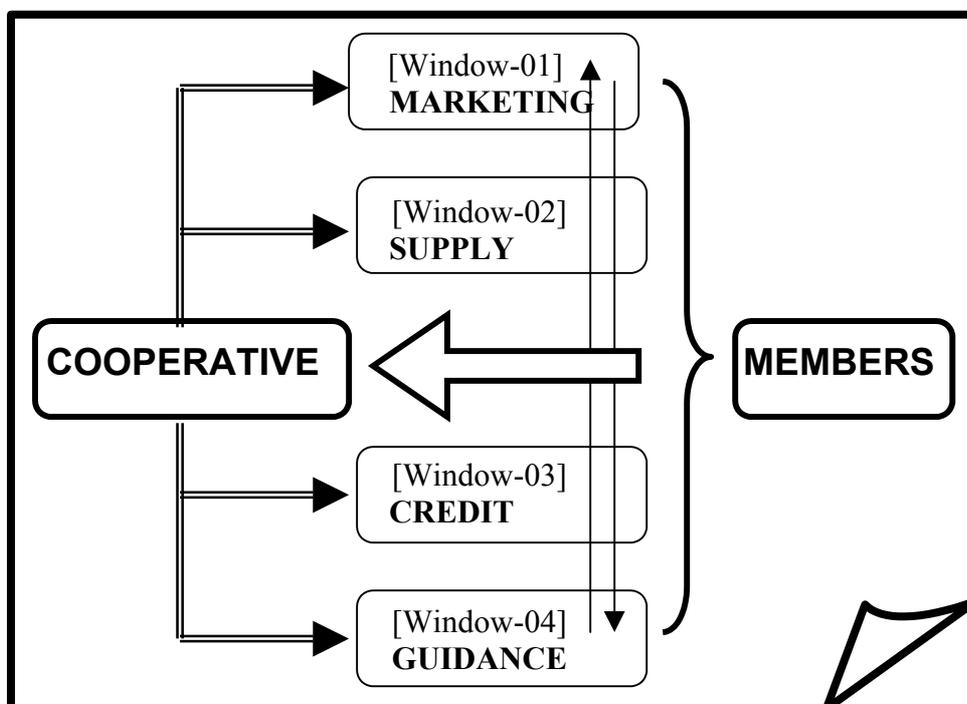
Members are not only the winners. The cooperative advantage extends to the users of the cooperatives and indeed to the communities in they operate. Cooperatives set industry standards by putting into practice their values and ethics. Cooperative advantage is improving the lives of people everywhere.

The Cooperative Movement has two faces. One is the face that looks sternly, even harshly, inward, concerned about how cooperatives can become increasingly more effective. The second face looks thoughtfully outward, interested in how more people might learn about the benefits of cooperative activities.

### **Basic requirements for Promotion of Cooperatives**

Ideally an agricultural cooperative or a farmers' organisation should have four 'operational windows' for their members. These are explained in the figure below:

#### **Basic Requirements for Promotion of Agricultural Cooperatives**



- 01 **Marketing:** Members should be able to market their products to their cooperative and the cooperative should be able to purchase the product;
- 02 **Supply:** the members should be able to obtain their household and professional requirements from the cooperative, and the cooperative should be able to provide this service. The cooperative can undertake a joint indenting on behalf of the members and negotiate favourable prices with the supplies;
- 03 **Credit:** Members should be able to obtain the required credit from their cooperative, and the cooperative should be able to deliver the required credit and accept deposits from its members in order to build some capital for itself;
- 04 **Guidance** [which includes education, training and extension services]: The members should be able to receive spontaneous guidance and advice from their cooperative, and the cooperative should be able to deliver expert advice to the members.

When these four services are in place, the business operations of the cooperative run smoothly. Cooperatives are not social institutions. They are economic institutions, and there is, therefore, the need for the members to remain tied up with their cooperative in business. If any of the above four services is missing, the business operations will be hindered.

## **Conclusion**

The Cooperative Movement is a Movement of perpetual promise, a Movement of becoming, not of ending. It never achieves a state of perfection; it never rests satisfied with what it has accomplished. It is a Movement that is always torn between what its philosophy suggests and the contemporary world requires. It is a Movement that fails unless committed, pragmatic cooperators continuously consider the choices their cooperatives must make in responding to members' needs, in achieving broader goals, and in adhering to Cooperative Principles in their daily activities. They are choices that are never finally made. There are no decisions that are completely perfect.

The *Principles cumulatively are the lifeblood of the Movement*. Derived from the values that have infused the Movement from its beginnings, they shape the structures and determine the attitudes that provide the Movement's distinctive perspectives. They are the guidelines through which cooperators strive to develop their cooperative organisations.

They are inherently practical principles, fashioned as much by generations of experience as by philosophical thought. They are, consequently, elastic, applicable with different degrees of detail to different kinds of cooperatives in different kinds of

situations. Above all, they require cooperators to make decisions: for example, as to the nature of the democracy of their institutions to make decisions: for example, as to the nature of the democracy of their institutions, the roles of different stakeholders, and the allocation of surpluses that are created. They are the essential qualities that make cooperators effective, cooperatives distinct, and the Cooperative Movement valuable.

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## The Rochdale Principles

*[Established by The Rochdale Society of Equitable Pioneers]*

The Cooperative Movement had its origins in Great Britain early in the 19th century. It was inspired by social-economic reformers such as Robert Owen. Early cooperative attempts were not successful, however, because they frequently also involved experiments in communal living--idealistic communities set apart from society.

Societies that were composed of independent owner-producers had a more lasting success. The first and best known was the **Rochdale Society of Equitable Pioneers**. It developed and set forth the principles that distinguish cooperatives from ordinary business corporations.

A group of weavers in Rochdale, near Manchester, decided to set up their own grocery store so they could share the profits. They formed the Rochdale Society, and each member contributed an equal amount of money from their savings. In 1844 they opened their store on Toad Lane, stocked with small supplies of butter, sugar, flour, oatmeal, and candles. The principles under which the store was operated have served as a guide for cooperatives ever since. The more significant Rochdale principles are:

- [01] Each member has only one vote, regardless of how many shares he holds.
- [02] Anyone may join regardless of his race or religion.
- [03] Goods and services are sold at market prices. After business expenses have been paid, the profits are returned to the members in proportion to their purchases, not their share holdings.
- [04] The interest on capital invested in shares is limited.
- [05] Selling only for cash to avoid credit risks.

Most cooperatives carry on education programmes for their members. At Rochdale a fine library with a newsroom was acquired, classes were held, and lectures given. The Society was the principal educational body in the town for many years and was something of a pioneer in adult education.

At Rochdale activities were not confined to the development of the Society alone. In the first 25 years it assisted or took part in other cooperative enterprises: a cooperative flourmill, a sick and burial society, a building society, and a cotton manufacturing society. It also played a leading role in establishing the Cooperative Wholesale Society and the Cooperative Insurance Company.

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## ICA COOPERATIVE IDENTITY STATEMENT

*The ICA General Assembly held on 23<sup>rd</sup> September 1995 in Manchester, adopted the new Principles of Cooperation recommended by the ICA Board of Directors and the ICA Congress after global study and review by a committee headed by Prof Ian McPherson from Canada. The following is the finally-adopted version of the Cooperative Identity Statement.*

### DEFINITION OF A COOPERATIVE

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.

### BASIC COOPERATIVE VALUES

Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

### THE PRINCIPLES OF COOPERATION

The Principles of Cooperation are guidelines by which cooperatives put their values into practice.

**First Principle: 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.*

**Second Principle: 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.

**Third Principle: 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.

**Fourth Principle: 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.

**Fifth Principle: Education, Training and Information:** Cooperatives provide education and training for their members, elected representatives, managers, and employees, so that 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.

**Sixth Principle: Cooperation among Cooperatives:** Cooperatives serve their members most effectively and strengthen the Cooperative Movement by working together through local, national, regional and international structures.

**Seventh Principle: Concern for the Community:** Cooperatives work for the sustainable development of their communities through policies approved by their members.

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