

Module Four

Cooperative Principles and Practices



Handout

I. COOPERATIVE PRINCIPLES OF INDONESIA

- **1st Principle: Voluntary and Open Membership:** Cooperatives are voluntary organizations 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.

A cooperative is formed by a group of individuals who agree that, by pooling their resources in an association, they can obtain social and economic benefits not available to them individually. An individual's decision to apply for membership should be based on her understanding of cooperative values and potential economic advantage.



While membership in a cooperative is voluntary, it is not entirely open in the strict sense. A fishing cooperative may confine its membership to small fishermen and exclude "bigtime" fishermen who have large boats who could become obstacles to the cooperative's goals. As long as the cooperative imposes these membership restrictions for the purpose of protecting the majority of its members and not on the basis of personality, then restrictions may be justifiable. Although cooperatives are open organizations, they should however, aspire to:

- Recruit intelligent and efficient members who recognize the need for the organization and the objectives of a cooperative;
 - Expel irresponsible and chronic agitators; and
 - Limit membership through application for specific periods.
- **2nd Principle: Democratic Member Control:** Cooperatives are democratic organizations controlled by members who actively participate in setting their

policies and making decisions. Men and women serving as elected representatives are accountable to the members. In primary cooperatives (for definition, please refer to Module 4 Session 4- Types and Categories of Cooperatives), members have equal voting rights (one member, one vote).

In a cooperative, it is the individual who votes. This gives the member dignity, honor, and the rights he deserves. Poor or rich, in primary cooperatives, each member has exactly one vote, irrespective of the number of shares he owns. In other kinds of cooperatives, administration might be conducted through other suitable democratic forms.

- **3rd Principle:** Member Economic Participation: Members contribute equitably and 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 result from membership. Surpluses are allocated for any or all of the following purposes:
 1. setting up of reserves;
 2. benefiting members based on their contribution within the cooperative; or
 3. supporting other activities as approved by the membership.

This principle emphasizes the following basic value of cooperatives: cooperatives exist to enable a more equitable distribution of benefits.

The profits of a cooperative are called “net surplus.” This reflects the idea that a cooperative operates not to make profit but to provide a needed service to its members.

- **4th Principle:** Rewards for members are limited for the good of the cooperative and its members: Since the principal goal of a cooperative is common growth, not personal enrichment, the individual return (or dividend) must be reasonable. This means that the amount will not be higher than the current interest rate offered by the banks.
- **5th Principle:** Autonomy and Independence: Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations or raise capital from external sources, they do so on terms that ensure democratic control by the members and maintain their cooperative independence.

II. COOPERATIVE PRACTICES

- **Capital Formation:** Capital structure strongly influences the success or failure of cooperatives. Cooperatives have non-withdrawal savings programs. This provision encourages members to be thrifty and community-centered.
- Private donations and government assistance are welcomed, but care should be taken to guard against dependency.
- **Cash Trading:** Business transactions of the cooperatives should be done on a cash-and-carry basis. This way, the customers can immediately enjoy the goods and services for which they paid. Cash trading promotes equality since anybody with cash can enjoy the service and patronage. This practice can train members to balance spending and avoid bad debts. This helps to stabilize business operations.
- **Selling at market price:** Cooperatives should offer goods and services at prevailing market prices. This promotes stability and helps the cooperative cope with operational expenses, depreciation, and losses. Likewise, cooperatives should avoid selling at a much inferior price, thus breaking the competition.
- **Constant Expansion:** Cooperatives are associations for the development and business of community services. Expansion is a must, and new members should be recruited. Also, cooperatives should provide continuous training to members, officers, and staff.
- **Quality Standardized Goods:** Cooperatives are intended to develop communities through the production of high-quality goods and the provision of better services. Patronizing only services with standardized, high-quality products would facilitate this process. This forces goods and services to be improved. This, in turn, could be instrumental in improving life in the country.
- **Minimize Expenditures:** A significant factor favoring the growth of cooperatives is being a community project. Usually (especially at the initial stage) expenses should be minimized (for example, officers could get allowances, per diems and honoraria but should restrain the remuneration). Minimizing expenses does not mean that the cooperative is weak. Rather, it is a way to strengthen a cooperative and help it reach its objectives faster by creating capital availability.