

# Cooperative Principles

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## **Preliminary remarks:**

1. No country's cooperative system can be duplicated by another country. Social, economic, historical and ethnic factors in individual countries require a corresponding adaptation.
2. Raiffeisen never considered his principles as something rigid. They are much more crash barriers along which cooperative activities can orientate themselves according to current economic, legal and social conditions. These principles are so flexible that they can extremely easily be adapted and put into practice.
3. Friedrich Raiffeisen (1818 – 1888) joined the public service in 1843 and in 1845 became the mayor of the district of Weyerbusch in Westerwald, Germany. During the famine of 1846/47 he formed the benevolent assistance organisation – *Society for bread and grain supply* – which ran a bakery as a means of relieving starvation. Over the next 20 years a number of other pre-cooperative societies based on the principle of benevolent assistance were established by Raiffeisen. However he increasingly realised that lasting successful work could only be achieved through pooled self-help and set about transforming the benevolent societies into *Thrift and Loan Societies*. The first rural cooperative society was established in 1864. During the next 8 years the number of small credit societies grew and in order to secure their financial viability the first cooperative union (bank) was created in 1872.

## **Basic Principles:**

### **1. Self-help**

People in the same or similar situation join forces, raise the necessary finance for a joint cooperative undertaking themselves, and are prepared to mutually support each other.

They expect that membership in the Raiffeisen cooperative society will compensate for the lack of access to competitive markets and capital and improve one's own

position in the market and better satisfy their economic needs. They expect in the broadest sense both access to the marketplace and to capital.

## **2. Self-administration**

The members organise the internal conditions of Raiffeisen cooperative societies themselves. Thereby they protect the cooperative society from external influences.

This means that internally Raiffeisen cooperative societies are not subject to any third party's direction or orders.

The members decide through their internal bodies on the economic activities of their joint enterprise.

This internal democracy is a vital element of the Raiffeisen cooperative system.

## **3. Self-responsibility**

The members themselves are responsible for establishment and upkeep of the cooperative enterprise and also answer for it to third parties.

Mutual joint liability establishes confidence towards other organisations in economic life.

## **4. Voluntary participation**

Membership in a Raiffeisen cooperative society is voluntary; whoever decides to become a member does so of their own choosing. However membership comprises both a set of rights in the cooperative society but also essential duties.

Everyone has the right to join or leave a cooperative. But as long as one is a member of the cooperative, one has the duty to cooperate with it.

## **5. Member's promotion**

The activities of the Raiffeisen cooperative society focus on the member. The basic purpose of a Raiffeisen cooperative society is to offer the membership the services needed by the members. This member services orientation needs to stand at the forefront of the cooperative's purpose.

The member's interest gets promoted. In the long run, the fulfilment of promoting the member's interest can only be achieved if market share is kept and added to, growth is achieved and asset values and solvency are safeguarded.

*Therefore*

The fulfilling of any socio-political interest, general economic task or even tasks assigned by the State can neither be the aim nor the task of a Raiffeisen cooperative society.

## **6. Open membership**

Everyone who wants to join a cooperative should have the possibility to do so within the framework of legal and statutory regulations. Raiffeisen cooperative societies are

not based on a restricted number of members so that the cooperative's existence does not depend on members joining or leaving.

### **7. Identity principle**

The cooperative society is at the same time an association of persons, an association of members and a business enterprise. The enterprise is jointly owned and used. There also exists a threefold connection between a member and a Raiffeisen cooperative society. The member is a financial owner, the member holds decision-making powers and control functions and the member is a recipient of cooperative services.

The business relations between members and the relations in the social group of the association of persons are interdependent: if the cooperative enterprise does not function, then the association of persons does not function either and vice versa.

### **8. Linking-up principle**

Raiffeisen cooperative societies join together through a linking-up system. They do so because of their size, their decentralisation and often because of their regional orientation. This enlarges the principle of self-help. The linking-up system increases the promotion capacity of each cooperative belonging to the link-up system. The carrying out of tasks by enterprises engaged in the link-up system results both in ensuring that comprehensiveness is retained and on the other that competitiveness is increased.

Link-up enterprises carry out only the tasks which cannot be carried out by the local cooperatives themselves. The cooperative principle of subsidiarity is also the basis of collaboration within the link-up system.

### **9. Comprehensiveness – the regionalism principle**

It should be possible to comprehend a cooperative's geographical range of action.

The principle of decentralisation is based on the fact that smaller units guarantee a high degree of flexibility, more proximity to the market and customers – and therefore have a strategic competitive advantage. In this way a cooperative can both fulfil the needs and satisfy the interests of its members.

Having an exact knowledge of the conditions on the spot in the broadest sense makes it possible to have a short communication chain and also a shorter decision-making period. This closeness helps to enhance personal relationships and social control, preserves member proximity, even if this locality principle is exceeded in a narrow geographical sense.

### **10. Principle of the independence of cooperatives from the State**

Raiffeisen cooperative societies belong to their members and are committed to them. They are independent from the State.

Raiffeisen cooperative societies are not instruments to realize social, socio-political or economic policy objectives of the State. They cannot and do not want to replace governmental action. Raiffeisen cooperative societies expectations of the State are that it guarantee equal chances, no competitive distortion and a clear political and legal framework.

Cooperatives fulfil social functions only indirectly. They contribute to the strengthening of their members through spreading wealth and asset ownership. They embody democratic principles, they strengthen the self-responsible action of free citizens, they affirm free competition, and they put the individual and their performance at the centre of their work. Cooperatives demand solidarity but they deny collectivism.

They do not realise common weal objectives and have no public assignment, they only promote the economy and the income of their members. They are denominationally and politically independent.

### **Concluding remarks**

The principles of self-help, self-responsibility, and self-administration are as valid as ever. Only the forms of how these principles have been put into practice have changed. Concentration, industrialisation, structural changes and globalisation of many economic activities force cooperatives the same as all other enterprises to adapt their own organisational structures in order to be able to face competition, to fulfil best their promotion task in favour of the members, this is the highest entrepreneurial dictum.

Cooperatives from Raiffeisen's period cannot be compared with the ones existing today. What is more important is that the Raiffeisen's principles influence in spirit today's cooperatives. However, regarding the practical way of pursuing economic affairs, these principles have to be steadily adapted to current conditions, societies and national economies so that cooperative organisations are also able in the future to serve the people they are bound with, the members.

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