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## FUTURE OF COOPERTIVES IN INDIA



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### ABSTRACT :

There is a common feeling that the cooperatives are on a decline. The original rationale for cooperatives has ebbed away. However, a recent study by ILO has provided evidence that cooperatives are more sustainable and can withstand various crises. Experience shows us that cooperatives are strong in countries which have received support from Government in initial stages. Countries with the most significant presence of cooperative membership include India, China and US. The success of cooperatives depends mainly on two factors, The degree of Government Control and the member participation. In spite of these positive aspects the Indian Cooperatives have shown an

uneven growth in recent years. This paper tries to study the history of Indian Cooperatives, examine the reasons for the uneven growth rate, find solution for the same and includes aspects such as Inclusive Growth and New Economic Policy.

**KEYWORDS** : Indian cooperatives, ILO, Government, growth rate, New Economic Policy

### RESEARCH PAPER :

#### FUTURE OF COOPERTIVES IN INDIA

There is a common feeling that the cooperatives are on a decline. The original rationale for cooperatives have ebbed away. However a recent study by ILO has provided evidence that cooperatives are more sustainable and can withstand various crisis. Experience shows us that cooperatives are strong in countries which have received support from Government in initial stages. Countries with the most significant presence of cooperative membership includes India, China and US. The success of cooperatives depends mainly on two factors,1. The degree of Government Control and the member participation.

#### 1.1 HISTORICAL PROFILE OF COOPERATIVE MOVEMENT IN INDIA

Around the world modern cooperatives have developed for over 200 years. Cooperative institutions exist all over the world providing essential services which would otherwise be unattainable. In many Third World countries, cooperatives such as credit unions and agricultural organizations have been very successful in helping

people to provide for themselves where private and other corporate capitals do not see high profitability. In 90 countries of the world, over 700 million individuals are members of cooperative institutions. Globally, cooperatives have been able to elevate its position as a powerful economic model. In some countries they are a sizeable force within the national economy.

During the British rule, Nicholson a British Officer in India suggested to introduce Raiffersen model of German agricultural credit Cooperatives in India. As a follow-up of that recommendation, the first Cooperative Society Act of 1904 was enacted to enable formation of "agricultural credit cooperatives" in villages in India under Government sponsorship. With the enactment of 1904 Act, Cooperatives were to get a direct legal identity as every agricultural Cooperative was to be registered under that Act only. The 1904 Cooperative Societies Act was repealed by 1912 Cooperative Societies Act which provided formation of Cooperative societies other than credit. Under 1919 Administrative Reforms act, Cooperatives was made a provincial subject making each province responsible for Cooperative development. In 1942, the British Government enacted the Multi-Unit Cooperative Societies Act, 1942 with an object to cover societies whose operations are extended to more than one state. The impulses of the Indian freedom movement gave birth to many initiatives and institutions in the post independence era in India and armed with an experience of 42 years in the working of Multi Unit Cooperative Societies and the Multi-Unit Cooperative Societies Act, 1942, the Central Government enacted a comprehensive Act known as Multi State Cooperative Societies Act, 1984, repealing the Act of 1942.

## **1.2 GROWTH OF COOPERATIVE SECTOR IN INDIA**

India has basically an agrarian economy with 72% of its total population residing in rural areas. The rural people need lot of services in daily life which are met by village co-operative societies. The seeds of cooperation in India were sown in 1904 when the first Cooperative Societies Act was passed. Since then, the cooperative movement has made significant progress. Cooperatives have extended across the entire country and there are currently an estimated 230 million members nationwide. The cooperative credit system of India has the largest network in the world and cooperatives have advanced more credit in the Indian agricultural sector than commercial banks. The village cooperative societies provide strategic inputs for the agricultural sector, consumer societies meet their consumption requirements at concessional rates; marketing societies help the farmer to get remunerative prices and co-operative processing units help in value additions to the raw products etc. In addition, co-operative societies are helping in building up of storage go-downs including cold storages, rural roads and in providing facilities like irrigation, electricity, transport and health. Various development activities in agriculture, small industry marketing and processing, distribution and supplies are now carried on through co-operatives. In fertiliser production and distribution the Indian Farmers Fertiliser Cooperative (IFFCO) commands over 35 percent of the market. In the production of sugar the cooperative share of the market is over 58 percent and in the marketing and distribution of cotton they have a share of around 60 percent. The cooperative sector accounts for 55 percent of the looms in the hand-weaving sector. Cooperatives process market and distribute 50 percent of edible oils. Dairy cooperatives operating under the leadership of the National Dairy Development Board and through 15 state cooperative milk marketing federations have now become the largest producer of milk in the world. The groundwork for this was laid in the early 1970's when the largest dairy development programme in the world - Operation Flood - was launched. Operation Flood was a national marketing strategy linked to a dairy infrastructure development programme that created a chain of dairy processing plants, collection stations and a national milk transportation grid. With the passage of the Insurance Act, cooperatives have been allowed to entry into the insurance business. Insurance is a field where the immense potential of cooperatives still remains untapped. The Indian Farmers Fertiliser Cooperative has recently teamed up with a Japanese company and formed a joint venture for undertaking general insurance business in India. This signifies that Indian cooperatives have come of age in formulating strategic alliances.

Thus, the co-operative societies in India in fact are playing multi-functional roles both in rural and urban areas. An Expert Group constituted by the Govt of India in 1990, recommended

- to facilitate building up of integrated co-operative structure;
- to make the co-operative federation organizations responsive towards their members;
- to minimize government interference and control in the functioning of co-operatives and
- to eliminate politicization from the cooperative sector.

Based on the recommendations, the central govt enacted the Multi State Cooperative Societies Act, 2002 which provided for democratic and autonomous working of the Cooperatives, which came into force with effect from August 19, 2002. Various development activities in agriculture, small industry marketing and processing, distribution and supplies are now carried on through co-operatives. The co-operatives in India have made an all-round progress and their role in, and contribution to agricultural progress has particularly been significant.

RBI played a great role in the development of cooperatives. RBI Act, 1934 made specific provisions for the establishment of an Agricultural Credit Department in the bank for extending refinance to cooperative credit system. A landmark was made in 1954 when an All India Rural Credit Survey was made in the country which

stated that no form of credit organisation will be suitable except the cooperative society. The Five Year plans were also driven by the principle that “cooperation should become progressively, the principle basis of organisation in agriculture, minor irrigation, small industries, processing, marketing, distribution, rural electrification, housing, construction and consumer.” However, the New Economic Policy of 1991 introduced the globalisation, liberalisation and privatization into the cooperative movement. It stopped the financial support to cooperative sector. The importance of Cooperative movements gained another sphere when UN declared 2012 as the “International Year of Cooperation”.

### 1.3 COOPERATION AND INCLUSIVE GROWTH

Over the years, we have seen growth under Socialism and Capitalism. The former is State driven initiative while the latter is Market driven initiative. Globalisation has not brought change equally on both these economies. Thus, the need for inclusive growth matters. The simple meaning of inclusive growth is a process where the poor contribute to the growth and poor benefit from it. Cooperation structure implies the benefits of all its members. Cooperatives don't provide over-financing, one of the main reasons for the decline of banking sector of many countries. Thus, it aims at long term profits rather than short term profits. According to Ban-Ki-Moon, “Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility.”

### 1.4 COOPERATIVES IN THE LIGHT OF GLOBALISATION

It is a well-known fact that the year 1991 marked the beginning of a new era in economic policy of our country. To encourage privatization, policy changes such as deregulation of state enterprise, reduction in tariff barriers, creation of appropriate climate to promote private investment in infrastructure, manufacturing etc. provided for new direction and affected almost all the sectors of the economy, including co-operative sector. But the reform measures under the new economic policy, mainly concentrated only in removing the fetters on private enterprises and in stimulating higher economic growth by promoting industrial sector. The rural and agricultural sector remained somewhat neglected and also the effect of economic reforms on the economic fortunes of the common people was overlooked. Throughout the reform decade i.e., from 1991 to 2000, the role and relevance of the cooperative sector remained on the background, in spite of its predominant position in various fields of our national economy.

There are at present 5.04 lakh cooperative societies of different type with a membership of 22 Crores, covering 100 percent villages and 67 percent rural households. The transition from controlled economy to open competitive economy in the name of globalization or liberalization has thrown a whole lot of challenges to the cooperative sector. It was believed that cooperatives would not be able to survive in the face of stiff competition posed by private sector. In contrast, there were still few, who regarded cooperation as a dynamic enterprise, which had been able to survive for around 150 years. A study of functioning of cooperative societies in various segments such as agricultural credit, agricultural marketing, fertilizer distribution, agro-processing, dairy and sugar industries has shown that there are some strong and viable cooperatives.

**Table 1: Growth of institutional credit to agriculture and allied activities**

		1990-91	2000-01	2004-05	2009-10
Agricultural GDP		1508	4496	5524	10890
Cooperatives Banks	Direct lending	102	482	1053	2978
	Indirect lending	26	994	1433	2237
	Total	128	1476	2486	5215
	% of indirect to total	20	67	58	43
	% of direct to GDP	6.8	10.7	19.1	27.3
Cooperatives	Direct lending	48	273	450	749
	Indirect lending	17	913	1141	1500
	Total	65	1186	1591	2250
	% of indirect to total	26	77	72	67
	% of direct to GDP	3.2	6.1	8.1	6.9

Rbi.org

The table 1 shows that there has been a considerable increase in the lending to agriculture sector. But the gain is mainly accounted to indirect lending. Moreover the growth is uneven.

Year	No. of Credit societies	No. of Non Credit societies	Total	Membership Credit('000)	Membership Non - Credit('000)	Total
2000-01	142723	408290	551013	152882	66057	218939
2001-02	146206	243874	390080	158488	50834	209322
2002-03	122475	251849	374324	149974	50680	200654
2003-04	120803	266581	387384	139502	51404	190906
2004-05	121866	266053	387919	144928	51284	196212
2005-06	NA	NA	NA	NA	NA	NA
2006-07	NA	NA	NA	NA	NA	NA
2007-08	150593	441125	595215	183369	65879	249248
2008-09	NA	NA	NA	NA	NA	NA
2009-10	147991	458068	610020	181150	68216	249367

Rbi.org

Table 2 reveals the growth of credit and non credit societies overtime. There has been a decline in the number during some period but however the number is on an increasing trend in the later stages. Thus, there exists an uneven growth in the cooperative sector.

The rural credit cooperatives have been continually losing their market share from 7.2 per cent in 2001-02 to 3.7 percent in 2010-11. They are losing their role as an important player in rural credit. The rural agri-credit share of cooperatives declined from 62 percent in early 1990s to 16 percent in 2009-10. State policies and political interventions are affected the functioning of cooperatives. Non conduct of elections, delay in audit and suspension of boards are often seen. Moreover, it is seen that the NPA's of Primary Cooperative Agriculture and Rural Development banks and State Cooperative Agriculture and Rural Development banks have risen from 16.5 to 38 percent of advances and 18.6 to 33.1 percent respectively from 1997 to 2011-2012. Commercialisation of cooperatives has also reduced the status of customers as partly active ones. Some of the reasons behind this disappointing performance of Cooperatives are:

**a. Government Interference:**

The cooperative movement in India was initiated in 1904 under the auspices of British government. Right from the beginning, the govt has adopted an attitude of patronizing the movement. Cooperative institutions were treated as if these were part and parcel of the administrative set up of the government. The govt interference thus became an essential element in the working of these institutions. As a result, people's enthusiasm for the movement did not grow. The movement's independence and self-reliance existed only on paper and files. After attainment of independence in particular after beginning of the planning, some healthy changes in the attitude of the govt did take place. It was not given proper importance that it deserves in any plan. But, even the cooperative movement has not become full-fledged people movement. Even today quite often cooperative societies are imposed upon the people. This does bring about an increase in the membership of the societies. But, the spirit of cooperation cannot flower fully in these circumstances. Neither its growth took place according to any plan nor did it become a people's movement. It just grew very slowly and that too haphazardly. It was a state driven institution.

**Other Weaknesses:**

- Weak structure at primary level.
- Lack of responsiveness from federal organizations towards the needs of their member organizations.
- Working of different cooperatives in isolation rather than unified system.
- Lack of participation of user-members

Some of the other weaknesses are lack of professional management, lack of adequate infrastructure, lack of capability to withstand competition, over-dependence on government for financial assistance and restrictive provisions of cooperative law. Some of these main weaknesses observed in the cooperative movement have to be tackled on war-footing in the years to come in the best interest of the survival of cooperative movement.

The current status of cooperatives reflects both a threat and an opportunity. It is a threat because cooperatives have failed to a large extent in delivering efficient goods and services unlike the private sector and an opportunity because the new economic scenario will offer enough opportunities which could be effectively utilized by the cooperatives to prove their case of continuation. Some of the new challenges to be faced by cooperatives in the new millennium are briefly categorized as follows:

**New Challenges :**

- A borderless system of economic activity is coming into being. Big multinational companies will take full advantage of the borderless world without hindrance of national boundaries to undertake large-scale economic activities which will dominate the world market. Such a new economic scenario presented a threat to cooperative movement's ability to survive.

- Since the government now has withdrawn support due to changed economic priorities, many cooperatives encounter difficulties in generating their own resources and have to completely reorganize themselves to survive and succeed in a competitive environment without depending on any state support.
- At present, there are about 207 national and 8 international organizations which are the backbone of ICA and there are about 754 million individuals spread over 90 countries of Asia, Africa, Europe and America who are members of ICA. With such a huge and diversified structure around the world, one cannot question the ability of the cooperatives to survive and succeed, but what needs to be deliberated upon is the new direction towards which cooperative movement should move with firm determination.
- Internal and structural weaknesses of cooperative institutions combined with lack of proper policy support have neutralized their positive impact and resulted partly in the mismanagement, inefficiency and corruption in the financing of cooperatives. This has necessitated the need for a clear – cut policy on cooperatives to enable sustained development and growth of healthy and self-reliant cooperatives. Keeping in view the challenges ahead, cooperatives have to reorient their strategies in the changed economic environment of our economy. Some of the strategies to reorient and renew their development thrust in the new environment are:

**Development Thrust :**

1. To face the challenges in a liberalized economy, the cooperatives have to reorient their structural functioning and management. It may include:
  - i. Enhancing the competitive strength in cooperatives by their merger and division wherever necessary.
  - ii. Non-viable societies that do not have scope for revival should be liquidated.
  - iii. Ensure active participation of members in their day-today business and de-listing or removing the inefficient or inactive members from membership.
  - iv. Federal organizations of cooperatives must give sufficient financial and other support to their constituent societies.
2. With the growing diversification and size of operations in cooperatives, there is a need for constituting two separate boards namely, policy-board, consisting of elected representatives of the members and executive-board, consisting of senior executives headed by the chief executive with clear demarcation of areas of their powers and functions. In other words, besides elected co-operators there should be a provision to co-opt outside experts in areas requiring high degree of specialization or technical and managerial expertise.
3. Large-scale enterprises in the cooperative sector may require huge funds. To mobilize more funds, cooperatives may enter capital market and mobilize funds by means of deposits, debentures etc. At the same time, cooperatives must evolve deposit-insurance scheme, to instill confidence among the depositors, both in urban and rural areas. Effective deposit mobilization will help them build their own bendable resources for profitable and diversified lending. They have to adopt efficiency parameters, in terms of cost-effectiveness and a reasonable return on investment if they have to survive in the competitive atmosphere.
4. According to some experts, there are a number of agricultural commodities like rice, sugar, fruits, vegetables; spices etc. that have strong competitive advantage in export markets. This has positive implications for agricultural cooperatives. Moreover, some cooperative thinkers interpreted that the historical attributes of cooperatives namely, countervailing power, access to capital on favourable terms, scale-economies and income improvement provide them with necessary strength to overcome the challenges of a competitive market.
5. Intensified enrolment drives to cover maximum number of small and middle sized agrarian producers, processors etc., intensified linkages with NGOs or Self-help Groups or panchayats and intensified efforts on the part of the government of India and promotional bodies like NCDC to attract funds and other forms of assistance from international agencies like world bank, Asian development bank, EEC, FAO, ILO, etc. for specific development projects in the cooperative sector will go a long way in strengthening cooperatives in order to complete in the new economic environment.
6. For the development of rural sector, which is still very largely in the Informal spheres, the parameters of the new system do not apply. In such cases, we should identify:
  - i. The areas where the cooperatives cannot penetrate or cover,
  - ii. The areas where the cooperative sector has a comparative advantage, and
  - iii. The areas where cooperatives can build up strategic alliance with private sector, public sector and International agencies. Such an understanding will greatly help in the vertical and horizontal integration of support services for agro-industrial production processes.
7. For building up professionalism in the management of the cooperative enterprises, it is necessary on the one hand to upgrade the quality of the staff with latest developments and on the other hand, develop proper and cordial relationship between the managers and members of board of directors. Proper and continuous training must be provided to both cooperative leaders and profession executives.

8. It is only now that cooperatives have an opportunity to thrive for years, despite their relevance restricted by a hostile legal and policy environment fell far short of their promise. The extensive powers conferred on the registrar of cooperative societies, are a drag on the efficiency of the cooperative system. The dawn of the new era began in 1995, when Andhra Pradesh legislature passed the AP mutually aided cooperative societies Act, 1995. By the end of 1999, three more states viz., Bihar, Jammu and Kashmir and Madhya Pradesh have enacted similar parallel acts for self-reliant cooperatives. Maharashtra, Tamil Nadu, Orissa, Punjab and Himachal Pradesh are considering similar laws. Recently, Karnataka state legislature has passed & implemented Souharda Cooperative Society Act since 2000. It is this changing environment that provides the opportunity for genuine cooperatives to arise and compete. Parallel-laws for self-reliant cooperatives provide a legal environment that allows cooperatives to function as autonomous, democratic, member-sensitive, member-controlled, self-reliant enterprises.

#### **CONCLUSION**

In a developing country like India with huge deficits in terms of quality and quantity, the State has to shoulder the primary responsibility of providing cooperative credit. Considering the low living standards of common man, incomplete and imperfect markets, and other socio political considerations it is the primary duty of the government to ensure that its citizens have easy access to cooperative credit. The need of the hour for the cooperative sector in the era of liberalized environment is to seize every opportunity available to it. Thus, the future vision of cooperative movement will have to be based on efficiency parameters relating to promotion of excellence, improvement of operational efficiency and strengthening of financial resource base.

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