Co-operatives in India - a Wasted Opportunity?

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Co-operative Century

The co-operative movement in India will be completing 100 years since the passing of the first co-operative law by the British Colonial government in 1904. It is an occasion for undertaking a SWOT analysis of the co-operative movement – considering its strength and weaknesses, opportunities and threats.

Origin During Colonial Era

The co-operative movement in India owes its origin to the initiative of the British Colonial government. Faced with the problem of dealing with growing agrarian unrest, in Western Maharashtra in 1878, accompanied by farmers' violent agitation against the usurious practices of money lenders and their foreclosing lands of peasant given as securities, for failure to repay loans, along with extortionist rate of interest accumulated on these loans; the colonial government decided to set up Raiffeisen type of co-operative credit societies in rural areas. Sir Fredrick Nicholson, a civil servant of British India, was directed to "find Raiffeisen" in India. As a result co-operative credit societies were forced to encourage thrift and savings amongst the rural farmers.

The Co-operative Network

There are 5,42,233 co-operatives with a membership of 236 million and a working capital of 3,405 billion. More than 50 per cent of co-operatives in the world are in India. Co-operatives are present in almost all the 6,00,000 villages in India, and cover nearly 75 per cent of the households.

Principles and Philosophy of Co-operation

If there is anything which provides unity to the co-operative movement in diverse sectors of economic life and different countries, it is its common body of principles and philosophy. Co-operative principles are often described as the 'Rochdale heritage', co-operative principles define the form of organisation. They tell us about the essential properties of a co-operative organisation. Co-operative principles explain the basis of working of a co-operative society.

The first group of co-operative principles is around membership. It is based on the mutuality of needs and the appropriate use. To illustrate, a farmer who needs agricultural credit can become a member of the agricultural credit society. Or a farmer who grows agricultural produce and wants to sell his produce can become a member of the marketing co-operative society. The principle of membership provides the touchstone for identification of genuine co-operatives and the not so genuine ones.

The second philosophy is to provide services through self help and mutual help to the weak or marginal farmer to eliminate their exploitation. When farmers procure inputs like seeds, fertilisers and pesticides through co-operatives, it generally enables them to obtain good quality at lower prices. Marketing co-operatives enable the farmer to get better prices for their produce than if they were sold through a middleman. Sugar, milk and other producers' co-operatives help farmers to own their own industrial ventures and provide better prices to the primary producers. Therefore co-operatives are called "the shield of the weak and not the sword of the strong".

Democracy is a cardinal principle of co-operation. Every member is equal to every other member and every member is the owner of the co-operative enterprise. This is the fundamental idea of co-operative democracy. The management of co-operative organisations are representatives elected from among the member societies.

There is often a hiatus between co-operation as an ideology and co-operation as a business. Co-operation as an ideology cannot spread unless co-operation as business is successful. Conversely the business of co-operative institutions will not serve its purpose if it forsakes co-operative ideology.

Co-operative Legislation

The Co-operative Credit Societies Act was enacted in India in 1904 to provide a legal framework for formation and operations of co-operative credit societies.

The Co-operative Societies Act, 1912

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enlarged the scope of co-operatives to include non-credit institutions and to provide for federal organisations. This Act forms the basis of many State Co-operative Acts even today.

The Maclagan Report, 1915 recommended that the area of operation of a society should be small and limited so that mutual knowledge, social cohesion and close contact amongst the members, which were considered to be the guiding principles of a co-operative association, should be kept and maintained.

As a result of implementation of many of these suggestions, the co-operative movement registered a big expansion between 1912 and 1920-21 and all types of societies began to grow. The consumer co-operative movement owes its origin to the societies created during the period of World War I and later during World War II. Co-operatives covered a range of activities such as credit, marketing, processing, input supply, storage etc. They became an integral part of the country's agricultural system.

Co-operative Planning Committee (Saraiya Committee) 1945

This was the last important committee set up before the attainment of independence.

The Committee made the following recommendations for the development of co-operative movement in India:

(i) The village primary co-operative society, hitherto working as purely a credit institution should be multi purpose co-operative touching and covering **all** those activities which affect the daily life and business of the agriculturists and artisans.

(ii) Its membership should be open to all persons residing in its area of operation; it should have at least 50 members.

The Committee also recommended organisation of a large number of functional societies, for fruits, land reclamation, animal husbandry and fisheries, agricultural marketing and processing small and subsidiary industry, labour and civil construction, consumers co-operatives, urban credit, health and housing, women's co-operatives etc.

All India Rural Credit Survey Committee Report, 1954

A landmark in the history of Co-operatives has been the Rural Credit Survey Committee, 1954. It recommended the promotion of co-operatives as a state policy in the development of various economic activities supporting agriculture The policy to develop co-operatives as an integrated system has been the foundation of the co-operative movement in India.

The first major step to comprehensively review the growth of the co-operative movement was taken by the Reserve Bank of India (RBI) which appointed a Direction Committee to undertake an all India survey of rural credit in India and on that basis made recommendations. The report recommended an integrated approach to co-operative credit. The RBI as a federal bank of the country was essentially responsible for coverage, finance, and foreign exchange. However it had taken special interest in agricultural and rural credit. It had set up a special department to deal with the subject.

The Report drew attention to the fact that after all the efforts of the Colonial government to set up co-operative credit structure; institutional credit covered only 3 per cent of rural credit. The rest was provided by money lenders at usurious rates of interest. It however struck an optimistic note – "Co-operatives have failed, but must succeed".

It recommended a blueprint of co-operative credit – short term, medium term, and long term. and a three tier structure of co-operative credit institutions - Primary Agricultural Co-operative Societies, (PACS) at the village level, District Central Co-operative Banks (DCCB) at the District level and State Co-operative Banks (SCB) at the apex level for short term and medium credit and Land Development Banks at the tehasil level and State level Development Banks at the apex level for long term credit.

It further recommended that the RBI should provide concessional loanable funds for co-operative credit, set up a a long term operations fund; the newly nationalised Imperial Bank known as SBI should provide remittance facilities. It recommended that co-operative credit should be linked with co-operative storage, marketing and processing. For the latter functions it recommended the setting up of the Co-operative National Development Corporation and Co-operative Warehousing Corporation

Resolution of the National Development Council, 1958

The Council passed the resolution that for the development of co-operatives as a people's movement, it was essential that co-operatives should be organised on the basis of village community as the primary unit.

Committee on Co-operative Credit (Mehta Committee) 1960

Firstly, it recommended that the primary aim should be the promotion of viable units of co-operative services and business. Secondly, in making a society viable and strong, its co-operative character should not be relegated to the background.

Rural Credit Review Committee, 1966

This committee pointed out that co-operative credit was not reaching the vulnerable groups like small farmers, marginal farmers, and agricultural labourers. It recommended that Small Farmers Development Agencies (SFDA) and Marginal Farmers and Agricultural Labor Agencies (MFAL) should be set up to provide subsidised credit to the vulnerable groups.

The CRAFICARD Committee recommended that a National Bank of Agriculture and Rural Development should be set up in which the Agriculture Credit department (ACD) of RBI should be merged.

After Independence - New Promises

A big boost to the co-operative movement in India was given after independence in 1947. A pride of place was given to co-operatives as the chosen instrument of a planned economy for wide spread transformation so as to give *opportunities to the common man* in rural as well as urban areas - As India's first Prime Minister, Pandit Jawarharlal Nehru declared that "the country must be convulsed by co-operatives".

In 1951 the country embarked on a planned process of economic development through successive five year plans. The first five year plan envisaged that there would be three sectors in the national economy - private, public and co-operative; but it is the co-operative sector that would provide a sense of direction, balance, value to the economy as a whole. It would combine the best features of the private and public sector - the freedom and flexibility of the private sector and the social concern and commitment of the public sector. Certain sectors of the economy were identified for the co-operative sector; viz agriculture and rural credit and services, marketing and processing of agricultural produce, retail consumer distribution, urban credit and housing.

Following the recommendations of the Reports of the various Committees in rural areas co-operatives were set up for:

1 Giving short term, medium term and long term credit to the farming community.
2 Co-operative Credit was sought to be linked with marketing of agricultural produce through co-operative marketing institutions so as to get better return and ensure timely repayment of loan.
3 Co-operative Agro-processing was supported for giving opportunities to farmers to be the owners of the manufacturing units processing the agricultural produce grown by them like sugar cane or milk.

Table 1 - Share of Co-operatives in National Economy

Agriculture credit disbursed by co-operatives	46.15%
Sugar produced by sugar co-operatives (10,400 million tonnes)	59%
Retail fair price shops	22%
Milk procurement to total production	7.44%
Spindleadge in co-operatives. (3,518 million)	9.5%
Handlooms in co-operatives	55%
Fishermen in co-operatives (active)	21.0%
Storage facility (Village Level PACS)	65.0%
Rubber processed and marketed	95.0%
Arecanut processed and marketed	50%
Employment generated	15.46 Million
Direct employment generated	1.07 Million
Self-employment generated for persons	14.39 Million
Salt manufactured (18,266 metric tonnes)	7.6%

Source: Indian Co-operative Movement, A Profile 2002, NCUI, p16

4 Poverty alleviation by rescuing the small and marginal farmers and landless laborers above the poverty line This was on the basis of the Rural Credit Review Committee's recommendation, to set up SFDA and MFAL.
5 Supporting cottage and traditional industries through industrial co-operatives engaged in disbursement of credit and marketing of products.

It was the state policy to support co-operative development on these lines by providing share capital, loanable funds, at concessional rates and subsidies.

As a result of State support to co-operative institutions, they underwent rapid expansion. A network of co-operative institutions were set up throughout the country. They started playing a significant role in the national economy (Table 1).

Sucessful Co-operatives

Some examples of good co-operatives that one can cite are the milk societies of Gujarat which ushered in the 'white revolution' in the country, and the giant fertiliser co-operatives – the Indian Farmers Fertilisers Co-operative (IFFCO), and Krishi Bharti (KRIBHCO). In the field of sugarcane, Maharashtra became the forerunner in the co-operative movement with the maximum number of sugar co-operatives and integrated co-operative complexes at Warana, Pravaranager and Akluj. In the banking sector there are illustrations of the SEWA Bank at Gujarat and the Bhagini Nivedita Bank in Pune which are promoted and run by women.

In the urban areas, co-operatives played a special role in

1 Retail distribution of consumer goods at fair prices to the common man.
2 Urban co-operatives credit societies and banks to promote thrift and provide loans to middle and lower income groups.
3 Co-operative housing.

Qualitative Deterioration

However, the quantitative expansion with State support, led to qualitative deterioration and as a consequence, the opportunities available to the co-operatives were wasted for the following reasons

1 The weaker sections of the rural society could not avail themselves of the credit facilities even though they were members; 50 per cent of whom did not get credit - most of them were marginal farmers and landless.
2 Credit could not be linked with marketing because performance of marketing co-operatives left much to be desired.
3 Many processing units like co-operative sugar factories failed because of wrong location and over ambitious spread.
4 State sponsorship led to the interference of politicians. Co-operatives could not be self reliant and autonomous. They were

Table 2 Indian Co-operative Movement at a Glance

All Co-operatives 2000-2001	(Value Rs In Million)
Number of co-operatives (all level)	542,233
(a) Primary agricultural and credit co-operatives	150,863
(b) Primary non-credit co-operatives (all types)	391,370
Membership of co-operative (all level and types)	236.226 Million
(a) Membership of primary agricultural/credit co-operatives	157.147 Million
(b) Membership of primary non-credit co-operatives	63.461 Million
Share capital (all level and all types)	Rs198,542.5
Working capital (credit and non credit)	Rs34,00,555.7
Reserves	Rs 280,222.3
Deposits	Rs 17,75,211.3
Coverage of Rural Households	100%

handicapped by restrictive co-operative laws.

5 Lack of professionalism because of wrong recruitment and lack of professional standards, norms and systems.
6 Inadequate programmes of co-operative training and education.
7 Growing corruption and practices.
8 No adherence to co-operative principles, values and standards.

In urban areas too, the opportunities were wasted because of the same kinds of reasons given in the context of rural co-operatives. More specifically, the consumer co-operatives which did well in the era of shortages could not hold their own in a more abundant economy where they could not profit by trading in rationed commodities but had to adapt modern management practices like high stock of goods, good display and a variety of consumer service. Today consumer co-operatives are marginalised.

The housing co-operatives became a breeding ground of disputes because most of them were not genuine housing co-operatives but set up by builders as a mechanism for bringing their own projects to be set up.

The urban credit co-operatives and banks did well but in recent years have suffered because of 'scandals' which have brought bad name to the whole movement.

Reforms in Co-operatives - Cases and Initiatives

1 Liberal non–restrictive co-operative law is introduced. Five states in India - Andhra Pradesh, West Bengal, Madhya Pradesh have adopted the Model Act.
2 Co-operatives seek to become self reliant and not dependent on subsidies and concessional loans.
   The southern Indian state of Karnataka introduced a new "Karnataka Souharda Saahakari Act" in January 2001, to help create a new enabling environment for co-operatives who will manage their own resources without expecting any assistance from the Government.
3 Accountability and Transparency. In the central state of Maharashtra, there are 22,000 credit societies, 658 urban co-operative banks and 30 district Central Co-operative banks. By mid 2003, some co-operative banks and credit societies in Maharashtra, got into trouble because they did not follow sound banking and credit policies. In a bid to bring accountability and transparency, the Maharashtra Co-operative department took measures to streamline the audit system for effective monitoring and strengthening of Management Information System (MIS). The Department commissioned a software agency to prepare 18 software programmes to help monitor the monthly MIS reports to the Department
4 Professional management. To enhance professionalism in co-operative organisations Vaikunth Mehta National Institute of Co-operative Management, an apex training institute based in Pune is imparting training in areas of financial management, project management, credit appraisal, marketing management, and computer literacy co-operatives are paying greater attention to HRD and modern management practices. In an effort to build a competent workforce, co-operatives are preparing job manuals for managerial personnel as well as Board members under the guidance of the National Institute. The co-operative banks are obliged to follow 'international prudential norms' and sound corporate governance, for which their personnel attend the training programmes conducted by the National Institute.
5 Training of Trainers. The National Institute also plays a pivotal role in conducting Faculty Development Programmes for co-operative training establishments in the country. The author after undergoing training by ICA, ILO and BIRD in Curriculum Development, Leadership Training for women and Self Help Groups conducted courses for faculty of regional co-operative training institutes.

Conclusion

In the new environment of liberalisation and globalisation, co-operatives would have to adhere to stringent business practices. They would have no future unless they rid themselves of deep rooted maladies and completely renew themselves to meet the new opportunities. There are reports of co-operatives which are running into losses because of mismanagement of funds by vested interests. Without professional efficiency, of a high order and high standard of ethics consistent with co-operative principles and values co-operatives cannot succeed in the new competitive environment. Unless they do so, they will find that all the century old history of the co-operative movement has been a tale of 'wasted opportunity'.

A time has come when the profitability of the enterprise has to be judged. Co-operatives as an instrument of marketing has to be encouraged and credit should be linked to marketing. Instead of the tail wagging the head, the head should wag the tail.

If these reforms are not speedily introduced, we may be writing the epitaph of the co-operative movement in its centenary year! It is the responsibility of all concerned – members, leaders, and officials of co-operative organisations to put their house in order.

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