

## The Journey of Cooperatives in India amidst Challenges: Way Forward

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### *Abstract*

*India has the largest network of cooperatives in the world. As of May, 2023 highest number of cooperative societies is registered in housing sector followed by dairy and PACS. Cooperative societies Act, 1904 gave momentum to the cooperative in India. In Five Year Action Plans it was encouraged to have one cooperative society by one village. This sector has expanded from credit sector to other sectors on large scale like housing and development, fishing markets, banking, etc. With the development, this sector faced a various challenges like lack of professionalism in management, an outdated cooperative legislation, more control and interference by the government, issues with elected leadership, inability to attain financial viability, absence of incentive structures based on performance, internal structure and environment not adjustable or friendly to the growth and development of cooperatives as business enterprise. Government came up with the new initiatives to overcome these challenges. Amendments like Credit Guarantee Fund Trust, Computerization of PACS and cooperative society on GeM platform, PACS as a common service centre, etc. This initiatives brings transparency, efficiency, trustworthiness, financial inclusion, door step banking facility to the customers, customers can get the various services at the one door step. Lack of professionalism, mismanagement, lack of good elected leadership, etc. this constraints can be overcome by giving training to members on management and skills which can be useful to them in professionally management of the society. Government need to take the initiatives, which will help to overcome the above, mentioned challenges.*

*Key Words: Cooperative, credit, challenges, initiatives, development, PACS.*

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## 1. Introduction

India is home to a unique movement called 'cooperatives' which involves citizens and their democratic involvement at a grass root level. A co-operative is a type of business that is quite common in developing nations like India and has a lot of potential as a tool for rural development (Singh and Pundir, 2000). 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" (International Cooperative Alliance, 2023). The motto of co-operation 'each for all and all for each', signifies loyalty, trust, faith, and fellowship. A cooperative society is an organization which is owned and run by the people and for the people using its goods and services and is based on the 'one member-one vote' system of decision making. Cooperatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation (Singh, 2016).

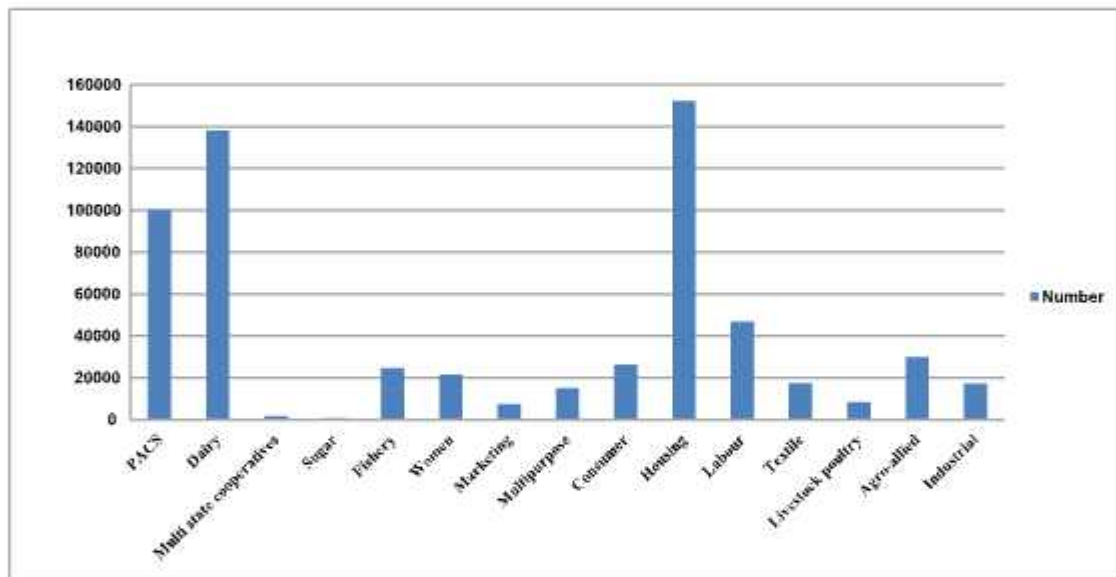
Cooperative is having an immense potential to deliver goods and services in areas where both the public and private sector have failed. As the name indicates, the organization's members cooperate to contribute resources for their common development and benefits. A cooperative society is a group of people with common responsibilities and thoughts for the improvement of the under privileged and the needy. In our country, cooperatives play a pivotal role in advancing agricultural and rural development, especially in the areas like credit, processing, and marketing. Gujarat's dairy cooperatives and Maharashtra's sugar cooperatives are two best examples of cooperatives that may support and advance rural development (Singh and Pundir, 2000). Cooperative plays a crucial role in the development of the agricultural sector particularly in supporting small, marginal and weaker sections of the society.

### 1.1 Important Components of Indian Cooperatives are as follows (Anbuman, K. 2007)

- Cooperative education and training
- Agricultural credit cooperatives (production)
- Agricultural credit cooperatives (investments)
- Non agricultural credit cooperatives (urban banks)
- Cooperative marketing
- Tribal cooperatives
- Fertilizer cooperatives
- Consumer cooperatives

- Weaver cooperatives
- Dairy cooperatives
- Sugar cooperatives
- Cooperatives spinning mills
- Industrial cooperatives (Non weaver)
- Fisheries cooperatives
- Housing cooperatives
- Labour cooperatives
- Poultry cooperatives

India has a legitimate claim to having the largest co-operative network in the world. The number of cooperative societies in India as of May 2023 is as follows:



**Fig 1: Number of Cooperative Societies in different sectors in India as of May, 2023**

From the figure 1, it is observed that the highest number of cooperative societies are registered in housing sector, followed by dairy and PACS. Less number of cooperative societies were observed in multi state cooperative societies and sugar cooperative societies, and hence there is need to take initiative to increase the number of societies in a respective field (Ministry of Cooperation, 2023).

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## 2. Evolution of Cooperatives in India

In 1850s, when East India Company started policy of annexation, deindustrialization of traditional industries started which led to huge migration of people towards rural India. This situation created vast potential for cooperative movement for generating self-employment opportunities at grassroots. Farmers in Western Maharashtra protested against the tyranny of money lenders over agricultural loans in the late 1890s, which led to the creation of the first cooperative societies in India. On the recommendation of a committee appointed by the government of India under the Chairmanship of Sir Edward Law, the Cooperative Credit Societies Act was introduced in 1904, providing for the formation of Primary Cooperative Credit Societies. As a result, this act gave momentum in the Cooperative Movement in India. Shortly thereafter India's first "urban cooperative credit society" was registered in Kanjivaram in the Madras Presidency in October, 1904. After this, mostly in all the states of India, cooperatives were registered. Within a few years, the nation realized that the role of cooperatives is helpful for social and economic development of the country.

This "cooperative movement" in India gained momentum after Independence. The government realized that the cooperative sector significantly contributes to the growth of the rural economy. It provisioned for plans for this sector in its Five Year Action Plans. At least one cooperative society was encouraged to exist in every village. It also helped setting up cooperative farms.

### 1. Constraints faced by the Cooperative sector in India

Cooperative movement extended from credit sector, and later to other sectors on large scale, like housing and development, fishing markets, banking, *etc.* This helped the formation of various kinds of cooperative societies. With this development, the cooperative movement began to face various challenges such as lack of coordination between the multiple cooperatives as well as political interference. This challenge is largely faced by the sugar cooperatives in Maharashtra, as members are not aware about the cooperative movement, its rules and regulations and the employees of the cooperatives are not professionally well trained or qualified with skilled people. Hence, the cooperative movement received a set back, as members of the societies do not actively participate in the activities of the societies. In India, cooperative products do not have a the common brand in different states for the same product, for example "milma" in Kerala, "aavin" in Tamil Nadu, "parag" in Uttar Pradesh, *etc.* In order to make cooperative firms

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successful internationally, there is need to make a common brand for the same product in different states. Also, cooperative products are less demanded because cooperative stores do not offer shopping environment to the customers like the place, infrastructure, interior, products not qualitatively and variety wise superior, *etc.* Due to these reasons, buyers are not interested in cooperative products.

The effectiveness of cooperative enterprises is often hampered by rising corruption and fraud, mismanagement and manipulation, non accountability, people joined cooperatives for their personal motives (K Anbuman, 2007).

Cooperative business are loss making and dormant with few exemptions. Particularly the increasing bad debts and non performing assets in credit cooperatives have made their financial shape worse. The reasons for their losses include increased number of willful defaulters, interference by the politicians in loan recovery, waiver practices of governments, poor and sluggish recovery tribunal procedures, ineffective credit administration and monitoring, inflated profits reported in the books, a growth in fraud and money theft, *etc.* Their failures in non-credit cooperatives are primarily related to weaker product portfolio, an inability to draw customers due to subpar quality or a small selection, a lack of effective advertising, and unsuccessful marketing strategies (Jyoti, K. 2014).

The challenges that are frequently observed in cooperative sector are lack of professionalism in management, archaic cooperative laws, excessive control and interference by government and no any reward system on the basis of performance (Singh and Pundir, 2000).

The majority of cooperative societies lack the financial stability to provide innovative goods and services and maintain their market dominance. The cooperatives are facing this as a basic constraint. If the cooperative societies are financial stable then most of the other constraints can overcome. The government has given several benefits to cooperatives, but because of lack of accountability, these cooperatives have become more and more lethargic. Due to lack of good leadership and small size of business, cooperative societies are unable to attain financial viability, work culture and environment, which is hampering their growth (Khanapur and Naik, 2022). Government has taken initiatives from time to time to overcome the financial constraint. Recently government has taken new initiatives to overcome these challenges which are as follows:

### **3. Recent Amendment in Cooperative Sector in India**

Government has taken many steps to overcome the constraints of the cooperative sector. Among them some recent initiatives which are taken by the government to overcome the financial issue and to make the cooperative societies financial stable are as follows:

#### **3.1 Credit Guarantee Fund Trust (CGTMSE)**

Through the circular No. 194/2021-22 dated 03.02.2022 has notified non-Scheduled Urban Co-operative Banks, State Cooperative Banks and District Central Cooperative Banks as Member Credit Institutions of the Scheme with specified eligibility criteria. This will increase the reach of the CGTMSE scheme to the cooperative sector and help in providing adequate, affordable and timely credit to cooperatives to promote cooperative-based economic development models.

#### **3.2 Cooperative Societies on GeM Platform: A step towards a transparent, efficient, and economic procurement system. (2<sup>nd</sup> June, 2022)**

The Government e-Marketplace (GeM) platform's registration of cooperative societies as "Buyers" has been accepted by the Union Cabinet. This made it possible for the cooperative societies to use a single platform to reach more than 45 lakh vendors and to follow a transparent, cost-effective, and effective procurement system. A total of 279 service categories and 9,702 product categories total almost 54 lakh goods. In the FY 2021–22, savings of almost 10,000 crores of rupees were reportedly made.

#### **4.3 On June 08, 2022, RBI announced very important policy decisions for the cooperative sector:-**

- a) First, the individual housing loan limit for Tier-I Urban Cooperative Banks (UCBs) was increased, from Rs. 30 lakh to Rs. 60 lakh, and for Tier-II UCBs, it was increased from Rs. 70 lakh to Rs. 1.40 crore. For Tier-II Rural Cooperative Banks (RCB), the limit was more than doubled to Rs. 20 lakh and Rs. 30 lakh, respectively. It is now worth Rs. 50 lakh and Rs. 75 lakh.
- b) Rural cooperative banks have also been given permission to lend to the residential real estate sector.
- c) Thirdly, urban cooperative banks are now permitted to offer door-step banking services to their clients in a manner similar to those of

commercial banks. These decisions will fulfill the cooperative banks' long-standing needs and provide new inputs to the sector's growth.

#### **4.4 Cabinet approves Computerization of Primary Agriculture Credit Societies (PACS) on 29<sup>th</sup> June 2022.**

13 crore farmers, the majority of whom are small and marginal farmers, will gain from it. It will bring transparency, efficiency, enhance trustworthiness and help PACS to become nodal delivery service point at Panchayat level. In addition to promoting financial inclusion and enhancing service delivery to farmers, particularly Small & Marginal Farmers (SMFs), computerization of PACS would also serve as a nodal service delivery point for a variety of services including the distribution of inputs like seeds, fertilizer, *etc.* Besides promoting digitalization in rural areas, the project will contribute to expanding the reach of PACS as outlets for both banking and non-banking activities. The DCCBs can then enroll as one of the important option for participating in a variety of government programs (where credit and subsidy are involved) that can be implemented through PACS.

#### **4.5 The Multi State Cooperative Societies (Amendment) Bill, 2022**

Intends to amend the Multi State Cooperative Societies Act, 2002 by incorporating the provisions of the Ninety-seventh Constitutional Amendment and completing current law in order to improve governance, transparency, accountability, and other aspects of the Multi State Cooperative Societies. The Multi-State Cooperative Societies (Amendment) Bill 2022 was passed by the Cabinet during its meeting on October 12, 2022. The bill was introduced in Lok Sabha on December 7, 2022, and on December 20, 2022, it was referred to the Joint Parliamentary Committee.

#### **4.6 63,000 PACS to work as CSC; provide 300 services to villagers and 13 crore farmer members of PACS**

To enable its network of Large Area Multipurpose Societies (LAMPS) and Primary Agricultural Credit Societies (PACS) to operate as Common Service Centres, SCS SPV signed a Memorandum of Understanding (MoU) with the Ministry of Cooperation and NABARD in February 2023. According to the agreement, 13 crore farmer members of PACS and 63,000 LAMP/PACS will be directed to operate as CSCs and provide 300 services to rural areas.

## 5. Conclusions

India witnessed the largest network of cooperatives in the world. It played an important role in different sectors of the economy like credit and non credit. It helps to make the financial independent to the poor and needy people. As of May, 2023 highest number of cooperative societies is registered in housing sector, followed by dairy and PACS. Cooperative credit societies act, 1904 gave momentum to the cooperative movement in India. After independent it provisioned for the cooperative sector in its Five Year Action Plans. It was encouraged to have one cooperative society by one village. Cooperative societies in India expanded from credit sector to other sectors on large scale like housing and development, fishing markets, banking, *etc.* As a result, several kinds of cooperative societies began were formed. The cooperative sector however faced various challenges such as lack of professionalism in management, an outdated cooperative legislation, more control and interference by the government. There were also issues with elected leadership, small scale of business, inability to attain financial viability, absence of incentive structures based on performance, internal structure and environment not adjustable or friendly to the growth and development of cooperatives as business enterprise.

To overcome the above mentioned constraints, and challenges, government time to time come up with a various schemes and initiatives. Amendments like Credit Guarantee Fund Trust helps in overcoming the challenges like weak economic base *i.e.* financial related issues by providing adequate, affordable and timely credit to cooperatives. Computerization of PACS and cooperative society on GeM platform will bring the financial inclusion, transparency, efficiency trustworthiness in the ecosystem of cooperative society and procurement system. RBI announced important policy in which rural cooperative banks were allowed to lend for commercial real estate residential housing sector. There were also allowed to provide door step banking facility to the customers of urban cooperative banks and also increases the housing loan limit for Urban Cooperative Banks. This initiative brings the financial inclusion in the cooperative sector. PACS as Common Service Centre will provide all the services listed on the Digital Seva Portal. Through these initiatives people can get the various services at the one door step.

## 6. Way Forward

As we seen the recent amendments has overcome the various constraints and challenges particularly financial challenges of cooperative sector. Other



than these challenges, other constraints such as lack of professionalism, mismanagement, lack of good elected leadership, *etc.* must be overcome through imparting training to the members on management and skills. This can help in professional management of the society. There is need to increase the members contribution so that society can become a financially strong enough. Increased use of digital technology, sales promotional activities like powerful advertisements, personal selling, disseminated selling, common branding of the different products will increase the sale of the product along with will give the identity to the product in the market. Along with this, government needs to take the initiatives to overcome the above challenges, which will help to push the cooperative sector on higher level.

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