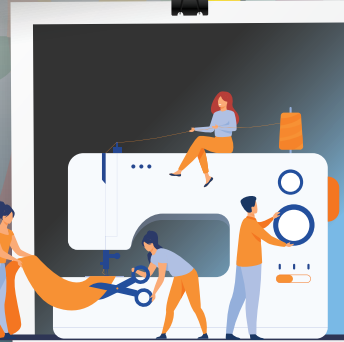


#48

WEEK 2

July 2021

WEEKLY FOCUS



COOPERATIVES

PROSPERITY THROUGH COOPERATION

Introduction

“But my outlook at present is not the outlook of spreading the cooperative movement gradually, progressively, as it has done. My outlook is to convulse India with the cooperative movement or rather with cooperation to make it, broadly speaking, the basic activity of India, in every village as well as elsewhere; and finally, indeed, to make the cooperative approach the common thinking of India.”

Pt. Jawahar Lal Nehru

Recently, the Supreme Court annulled parts of the 97th Amendment of the Constitution passed in 2012, that dealt with issues related to effective management of cooperative societies in India. The ruling has limited the legislative power of the Centre to only Multi State Cooperative Societies. The matter gains significance as the central government during recent expansion of the Council of Ministers created a separate **Ministry of Cooperation** to be led by the Union Home Minister. The Ministry aims at realizing the vision of "Sahkar se Samriddhi",

which roughly translates as "Prosperity through Cooperation", indicating the importance Cooperative sector in India's development.

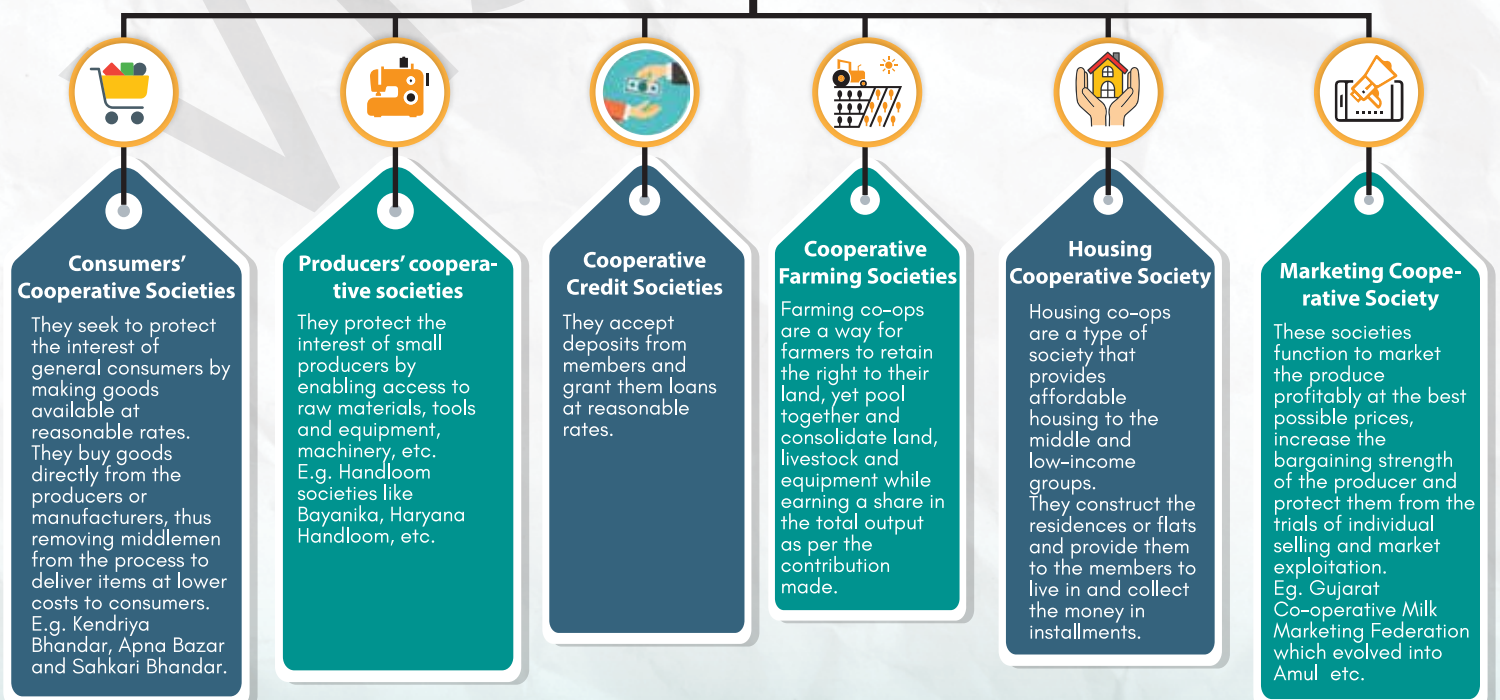
In this backdrop, let us first understand what are cooperatives and what are its different types; what has been the history of the cooperative movement, globally and in India; what is the significance of cooperatives in socio-economic milieu of the country; how are cooperatives presently governed in India; what are challenges faced by cooperatives in India; what steps have been taken to strengthen the cooperative movement in India; and what needs to be done to make cooperative movement a success story in India.

What are Cooperatives?

- A co-operative society is a **voluntary association of individuals having common needs**, who join hands for the achievement of **common economic interest**.
- Its aim is to provide support to its members, with focus on **the interest of the poorer sections of society**, through the principle of self-help and mutual help.
- Through formation of cooperatives, people come forward as a group, pool their individual resources, utilise them in the best possible manner, and derive some common benefit out of it.
- In a cooperative society, **people can enter it as per their wish**, and also, they are free to leave a cooperative society, but they **cannot transfer their share**.



Types of Cooperatives Working in India





What is the History of the Cooperative

Movement?

- **The cooperative movement first began in 1844 in Britain heralded by 28 weavers.**
 - ◆ The first cooperative society was initiated by **Robert Owen in 1844 A.D. named "Rochdale Society of Equitable Pioneers"**.
 - ◆ The main objective of this society was **to save poor people by providing goods at a lower price** from the market price, eliminate the middlemen and supply better services to its members.
- The **cooperative movements in the 19th century** were fueled by emergence of mass production which made it difficult for the small entrepreneurs to sustain and also led to unfair labor practices.
- Since then, the model has grown into other sectors and inspired the growth of financial co-operatives across the world, supplemented by efforts of international organizations such as **International Co-operative Alliance (ICA)**.
- **In India**, the origin of cooperative movement is underlined by the **Madras famine of 1876** that devastated the Madras Presidency killing an estimated 10 million people and plunging the entire farming community into large debts.
- The government took a number of steps including **setting up a Famine Commission** and in 1892, Sir Frederic Nicholson, then Collector of Madras, was directed to study the problems of farmers.
- He published a report in 1895 which led to establishment of cooperative agricultural credit societies and cooperative banks in India and **paved the way for the 'Cooperative movement'**.
- Therefore, Sir Frederic Nicholson is known as **'Father of the Cooperative Movement'** in the country.
- **Evolution of cooperative movement in India could be outlined as follows-**

International Co-operative Alliance (ICA)

- The global rise of cooperatives is partially due to the work of the **International Co-operative Alliance (ICA)**.
- It is a non-governmental organization, formed in 1895 by E. V. Neale of Rochdale and Edward Owen Greening, a supporter of worker cooperation, in order to
 - ◆ end the present deplorable warfare between capital and labour,
 - ◆ organize industrial peace, based on co-partnership of the worker,
 - ◆ promote the formation of central institutions for helping people to establish and maintain self-governing workshops.

1904

- **British India first enacted the Cooperative Credit Societies Act, 1904.**

1912

- Another Cooperative Societies Act was passed to rectify some of the drawbacks of the earlier law.

1919

- Cooperation became a **'provincial subject'** and provinces were authorised to make their own cooperative laws under the Montague-Chelmsford Reforms.

1942

- The British government enacted the Multi-Unit Cooperative Societies Act, intended to cover such societies whose operations extended to more than one province.

1958

- The National Development Council (NDC) **recommended a national policy on cooperatives** with the setting up of co-operative marketing societies.

1984

- The Parliament enacted the **Multi-State Cooperative Societies Act** to declutter different laws governing the same types of societies.

2002

- The Central government announced a **National Policy on Cooperatives** to support the promotion and development of cooperatives.

2011

- Forming of cooperatives was made a fundamental right through the 97th Amendment Act of the Constitution.

What is the Significance of Cooperatives

in Socioeconomic Milieu of the Country?

○ **Enhancing Social Cohesion:** Unlike other processes of social cohesion that are public and involve a third party, the cooperative way is natural, intimate, private, and does not involve a third party. It makes cooperation, in the cooperative, an alternative approach to social cohesion.

◆ For example, Housing cooperatives represent a crucial intermediate level between residents and urban housing policy, thus providing opportunity structures for bottom-linked citizen participation.

○ **Social Empowerment :**

◆ **Establishing Equal Rights:** As cooperatives function under the mutual cooperation of all the members, all members are equal and free for their rights. Therefore “one-person-one-vote” system prevails here.

◆ **Enhancing the Bargaining Power of Poor:** Cooperatives enable people to harness the power of collective bargaining towards a common goal.

◆ **Promoting Leadership:** Cooperative institutions elect their leaders democratically, with members voting for a board of directors. Thus, in many states cooperative institutions have served as schools for development of leadership. For instance, in the present Maharashtra legislature, there are at least 150 legislators who have had some connection with the movement.

○ **Promoting Financial Inclusion:**

Cooperatives have been revolutionary institutions in providing credit to farmers at a cheaper rate and substituting the role of moneylenders and other non-institutional suppliers of credit from the rural scene. With their massive network, in rural areas and other underserved areas, they hold the key to achieving financial inclusion in India.



Role of Cooperatives in Indian Agriculture

Cooperatives have served well in the past and have great relevance for agricultural production through establishment of Primary Agricultural Credit Societies (PACS), Marketing and Processing Co-operatives etc. They extend support to strengthen both backward and forward linkages in the agriculture supply chain:

- **Provision of Credit:** A substantial proportion of farmers' credit needs are now met by cooperative societies which provide institutional credit by raising funds through loan, membership and deposits.
- **Input Delivery and its Efficient Use:** The co-operative societies have led to the **use of better farming methods** such as the use of improved seeds, fertilizers, etc.
- **Processing and Marketing of Agricultural Produce:** The marketing and processing societies have helped members to buy their requirements cheaply and sell their agricultural produce at acceptable prices.
- **Storage Facilities:** Cooperatives also provide good storage facilities to the farmers to wait for appropriate time to sell their produce at higher prices.
- **Information Sharing:** Cooperative farming enables the pooling of scientific knowledge of members where one or two talented farmers on the farm can educate their lesser aware co-workers.
 - ◆ Moreover, it is easier for the government agricultural officers to introduce new techniques and educate the farmers about them if they are organized into institutions aimed at a common cause of agricultural production and profitability.

Some Successful Cooperatives in India

- **The Uralungal Labour Contract Cooperative Society Limited (ULCCS Ltd):** The society obtains construction contracts through competitive bidding process from Government and other reputed organizations for activities like formation of road, highways, culverts, bridges, and modern building structures.
- **Self Employed Women's Association (SEWA):** SEWA, Ahmedabad based union comprised of self-employed women was registered in 1972 as trade union under the Indian Trade Unions Act. It facilitates convergence of labour, cooperation, women's mobility and organizes the women workers through the strategy of struggle and development for its



Reducing Inequality of Wealth:

Cooperative societies help in facilitating equal distribution of wealth by enhancing accessibility to loans at affordable rates and providing financial and other assistance to marginalized and economically weak sections of the society. It also creates self-employment opportunities and encourages the members to compete with others.

two main goals, full employment and self-reliance.

The Indian Coffee House (ICH): The Indian Coffee House is a restaurant chain in India, run by a series of worker co-operative societies having strong presence with 400 coffee houses in the country, particularly in major cities.

Shri Mahila Griha Udyog (Lijjat): It is an Indian women's cooperative engaged in manufacturing of various food items and fast moving consumer goods like detergents.

Promoting Moral Principles: Cooperative society plays an important role in teaching moral principles like unity, trust, honesty, order, cooperation etc. to its members, which ensure social order.

How are Cooperatives Presently

Governed in India?

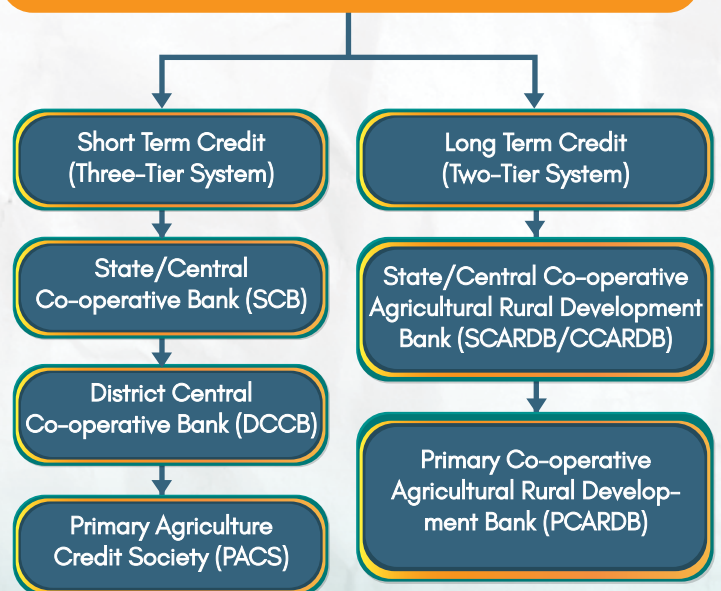
Governance



Governance Mechanism of Cooperative Banks

- The Rural Co-operative Credit System: They are primarily mandated to ensure flow of credit to the agriculture sector. It comprises short-term and long-term co-operative credit structures. The short-term co-operative credit structure operates with a three-tier system (refer to the infographic).
- PACS are outside the purview of the Banking Regulation Act, 1949 and are not regulated by the RBI.
- SCBs/DCCBs are registered under the provisions of State Cooperative Societies Act of the State concerned and are regulated by the RBI. Powers have been delegated to National Bank for Agricultural and Rural Development (NABARD) under Sec 35 (6) of the Banking Regu

Co-operative Agriculture Credit Structure



lation Act to conduct inspection of State and Central Cooperative Banks.

- ◆ **Primary Cooperative Banks (PCBs), also referred to as Urban Cooperative Banks (UCBs),** cater to the financial needs of customers in urban and semi-urban areas. UCBs are primarily registered as cooperative societies under the provisions of either the **State Cooperative Societies Act** of the State concerned or **the Multi State Cooperative Societies Act, 2002** if the area of operation of the bank extends beyond the boundaries of one state. The sector is **heterogeneous in character with uneven**

geographic spread of the banks. While many of them are unit banks without any branch network, some of them are large in size and operate in more than one state.



What are Challenges Faced by

Cooperatives in India?

- **Lack of Democratic Spirit:** Cooperatives are expected to run on well-established democratic principles and elections should be held on time in a free and fair manner. However, following factors impinge upon the democratic functioning of cooperatives-

- ◆ **Government Interference:** Government is the major source of finances for the cooperatives and has the power to regulate the functioning of the cooperatives through various rules. Therefore, over time government has put restrictions on borrowing, restrictions on other transactions with non-members, restriction on investment of funds which may hamper the efficient performance of cooperatives.

- ◆ **Politicization of Cooperatives:** Many cooperative societies are dominated by locally powerful members of the society, with strong political affiliations.
- ◆ **Lack of Awareness:** It has been observed that majority of the members as well as directors of the society are ill-informed about the activities of the society due to their illiteracy & indifferent attitude. Besides people are not well informed about the objectives of the movement, the contributions it can make in rebuilding the society and the rules and regulations of cooperative institutions.
- ◆ **Internal Quarrel and Rivalries:** As a result of the internal quarrels, rivalries, and tensions, general body members cease to take any interest in the working of the organization.

- **Skewed Geographical Penetration:**

- ◆ **Regional Imbalance in Growth:** The cooperatives in northeastern areas and in areas like West Bengal, Bihar, Odisha are not as well developed as the ones in Maharashtra and Gujarat. There is a lot of friction due to competition between different states which affects the working of cooperatives.
- ◆ **Limited Coverage:** The cooperative movement has also suffered on account of two important limitations on its working-





- ◆ **Small size of societies:** Most of these societies are confined to a few members and their operations extend to only one or two villages. As a result, their resources remain limited, which makes it difficult for them to expand their means and extend their area of operations.
- ◆ **Dominance of single purpose societies :** For this reason, these societies are unable to take a total view of the people seeking help, nor can they analyze and solve problems from different angles.
- **Operational Challenges:**
 - ◆ **Lack of Fair Audit Mechanism:** It is well known that audits are done entirely by department officials & are neither regular nor comprehensive. Further, delays in the conduct of audits and submission of reports are widespread.
 - ◆ **Lack of coordination** among cooperatives existing at different levels.
- **Functional Weaknesses:**
 - ◆ **Absence of Economies of Scale:** Cooperatives lack financial, managerial, and technical resources to take the advantages of large-scale operations.
 - ◆ **Shortage of Skilled Workforce:** The cooperative movement has suffered from inadequacy of trained personnel right from its inception primarily due to lack of institutions for the purpose of training and the inability of cooperative institutions to attract efficient personnel.
 - ◆ **Lack of Professionalism:** The absence of a proper system of placement and skill upgradation inputs constrain professional management in cooperative banks.
- **Challenges faced by Cooperative Banks:**
 - ◆ **Diminished share in agricultural lending:** According to the RBI despite a crucial role played by the sector, its share in total agricultural lending diminished considerably over the years, from as high as 64 per cent in 1992-93 to just 11.3 per cent in 2019-20.
 - ◆ **Sinking balance sheet:** In recent years, Urban Cooperative banks (UCBs) have witnessed a sharper decline in terms of both loans and deposits.
 - ◆ The government recently detailed that the Non-Performing Assets (NPA) for Cooperative banks were higher than scheduled commercial banks – an indicator of higher stress.
 - ◆ **Dual Control:** For years, such banks have escaped scrutiny despite failures and frauds due to dual regulation by state registrar of societies and the Reserve Bank of India. While the role of the Central Registrar of Cooperative Societies (CRCS) includes incorporation, registration, management, audit, supersession of board of directors and liquidation, RBI is responsible for regulatory functions.
 - ◆ **Many Cooperative Banks Lack Modern Banking Practices:** They don't have modern practices of banking in there working viz. net banking, mobile Banking, online banking, e-banking, ATM banking and all other modern banking practices.
 - ◆ **Governance Issue:** Lax corporate governance standards combined with political influence and interference was a prominent reason for the downfall of the Punjab and Maharashtra Co-operative Bank (PMC).
 - ◆ **Covid-19 Pandemic:** The Cooperative sector faced certain financial challenges during 2019-20 with episodes of fraud affecting asset quality and profitability of UCBs. Besides, the onset of Covid further affected the operations of this sector, according to RBI.

What steps have been taken to strengthen

the Cooperative Movement in India?

- **Ministry of Cooperation:** With a focus to help deepen cooperatives as a true people-based movement, the ministry is mandated to "provide a separate administrative, legal and policy framework for strengthening the cooperative movement". The ministry will streamline processes for 'ease of doing business' for cooperatives and enable development of multi-state cooperatives.
 - ◆ Prior to this move, the Ministry of Agriculture and Farmers Welfare had the **Department of Agriculture, Cooperation and Farmers' Welfare** for the cooperative movement in the agricultural sector.



○ **The Banking Regulation (Amendment) Act, 2020:** Key provisions of the Act are as follows–

- ◆ It gives the RBI powers to supersede boards of the Cooperative banks.
- ◆ It also enabled mergers and restructuring of banks in public interest, without having to order a moratorium, which not only limits withdrawals by depositors, but also disrupt the bank's lending operations.
- ◆ Cooperative banks are also allowed to raise money via public issue and private placement, of equity or preference shares as well as unsecured debentures, with the central bank's nod. Currently, access to capital for cooperative banks is limited.



◆ **Applicability:**

- ◆ It is applicable to **primary cooperative banks or urban cooperative banks, state cooperative banks and central co-operative banks**, but not to primary agricultural credit societies (PACS) and co-operative societies whose main business is to provide long-term finance for agricultural development.
- ◆ Also, this Act does not affect the existing powers of the state registrars of co-operative societies under state laws. Nor do the changes apply to primary farm credit societies or cooperative societies, the main business of which is long-term finance for agricultural development.

○ **Strict surveillance by RBI:** through steps like–

- ◆ Entering into **Memorandum of Understanding (MoU) with state and central governments to facilitate coordination of regulatory policies**, formation of task force for UCBs, a comprehensive set of capacity building initiatives, measures to bring in efficiency through adoption of technology, etc.
- ◆ Directing **cooperative banks not to outsource core management functions** such as policy formulation, internal audit and compliance, compliance with KYC norms etc.
- ◆ Prescribing **educational qualifications and 'fit and proper' criteria** for managing directors (MDs) and whole-time directors (WTDs) of primary urban banks and barring MPs and MLAs from these posts.

○ **97th Amendment Act:** This Amendment Act relates to effective management of co-operative societies in the country. The change in the Constitution has **amended Article 19(1)(c)** to give protection to the cooperatives and **inserted Article 43 B and Part IX B**, relating to them.

- ◆ **Article 19(1)(c):** It guarantees freedom to form association or unions or cooperative societies subject to certain restrictions.
- ◆ **Article 43 B:** It says that **states shall endeavor to promote** voluntary formation, autonomous functioning, democratic control and professional management of **cooperative societies**.
- ◆ **Part IXB of the Constitution:** It dictated the terms

for running co-operative societies. It went to the extent of determining the number of directors a co-operative society should have or their length of tenure and even the necessary expertise required to become a member of the society.

○ **Establishment of key institutions to promote Cooperative Movement in India:**

- ◆ **The National Cooperative Union of India (NCUI):** It is the apex organisation representing the entire cooperative movement in the country. It was established in 1929 as All India Cooperative Institutes Asso-

Why did the Supreme Court annul part of the 97th Constitutional Amendment Act?

- SC observed that 'Cooperative' is a 'State' subject and 97th Amendment Act was passed by the Parliament **without getting it ratified by State legislatures as required by the Constitution**.
- Hence, in a majority judgment the SC held that **co-operative societies** come under the **"exclusive legislative power"** of State legislatures.
- The Court declared that **Part IXB of the Constitution is operative only in so far as it concerns Multi-State cooperative societies** both within the various States and in the Union Territories.



ciation and was reorganized in 1961. It is involved in activities such as expressing opinions on matter of cooperative policy, organizing cooperative education and training programmes, lends publicity to the activities of cooperatives, provide consultancy services to the cooperatives, etc.

- ◆ **The National Agricultural Co-operative Marketing Federation (NAFED):** It was organized in 1958 and represents the entire marketing structure at the national level. The main objective of the Federation is to assist the Marketing Co-operatives in the States to develop their marketing business and to help them render better services to their members.
- ◆ **The National Co-operative Development Corporation (NCDC):** It was set up in 1963 under an Act of Parliament with the object of **planning and promoting programmes for the production, processing, storage and marketing of agricultural produce** and notified commodities through co-operative societies. It provides assistance to schemes of marketing, processing, storage, and practicing in a share capital of cooperative sugar, cooperative spinning & weaving mills, in the form of loans and subsidies.



What needs to be done to make cooperative

movement a success story in India?

◎ Structural Reforms:

- ◆ **Weaker and inefficient societies should be winded and merged with strong and efficient societies.** With large amount of resources at its disposal, big societies can avail certain facilities, which small societies cannot secure.
- ◆ For example, these societies can afford to engage highly trained and competent personnel and thus conduct their business efficiently.
- ◆ **Promoting Multipurpose Societies:** Multipurpose societies can have a balanced and integrated view about the needs of its members and can meet them accordingly.

◎ Ensure Efficiency in Functioning:

- ◆ The **loan from credit societies should be granted in a manner and under such conditions that these are used productively and prevents misuse.** It is in this way that the recourses of the movement will be rightly used and their repayment is ensured.
- ◆ Maintaining **close coordination of activities among different constituents of the cooperative structure.** Their relations and the coordination among their working should be so institutionalized that they work together, mutually helping instead of opposing one another.
- ◆ Enlisting **the services of trained administrators and devoted workers in order to impart efficiency to its working and functioning.**
- ◆ Making the procedures of work of cooperatives simple, straight and convenient.



Capacity building:

- ◆ **Skilled Employees:** Cooperative training must not only be imparted to employees in cooperatives, but also extend beyond cooperatives, to children in schools, colleges, universities, technical and professional institutions, and also for those who want to form cooperatives, but who are not aware of the various modalities, and requirements.
- ◆ **Infrastructure Development:** Digitisation especially in governance, banking and businesses can ensure a transparent, accountable and efficient system.
- **Awareness:** There is a need for evolving strong communication and public relations strategies, which can promote the concept of cooperation among the masses. For instance, the Government can spread the movement as people's movement in form of Jan Andolans.
- **Imparting Value Based Education:** that ensures ethical behavior & spirit of cooperation among members of the society from a tender age.
- **Legislative Reforms for improving Functioning of Cooperative Banks:** The Narasimham committee in its report had rightly observed that a legal framework that clearly defines the rights and liabilities of the parties to contracts and speedy resolution of disputes are the essential bedrocks for the process of financial intermediation and cooperative banking.
- **Complete Transparency in Working:** To ensure transparency in the working of cooperatives following measures can be undertaken–
 - ◆ Cooperative societies can be brought under the purview of the Right to Information Act.
 - ◆ The eligibility criteria for becoming the director of the society may include the mandatory provision of declaration of assets every year.
 - ◆ All the documents along with the remarks/notes etc. of the persons dealing with any financial matter being uploaded on the website of the society.

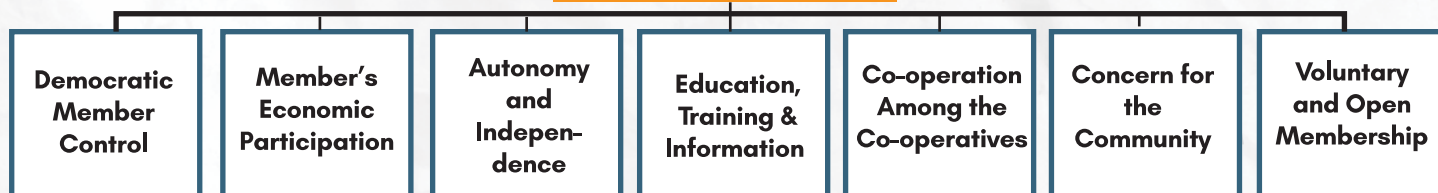
Conclusion

The history of cooperatives in India goes back to more than a hundred years and they continue to stay relevant due to their grassroots reach and ability to bring economic growth to underserved sections. Success of cooperatives would mean success of best hope for the marginalized section of India particularly rural India. Therefore, it is necessary to ensure the autonomous and democratic functioning of co-operatives, by ensuring the accountability of management to the members and other stakeholders and enhancing deterrence for violation of the provisions of the law. We must move in the direction of greater decentralisation with accountability, member democracy and partnership with SHG networks.

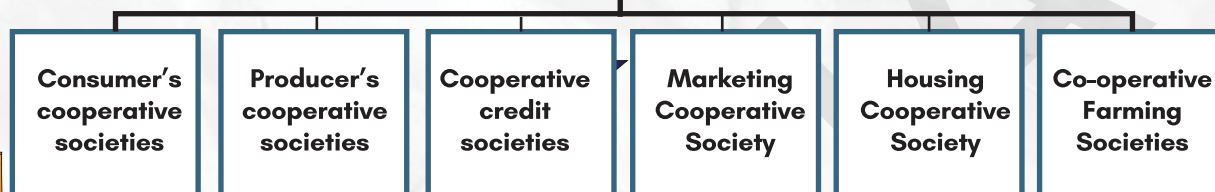


TOPIC AT A GLANCE

Cooperative Principles



Types of Cooperatives working in India



History of the cooperative movement

- The cooperative movement first began in 1844 in Britain by 28 weavers.
- The cooperative movement in the 19th century was fueled by emergence of mass production.
- In India, the origin of cooperative movement is underlined by the Madras famine of 1876.

Evolution of cooperative movement in India

- 1904: British India first enacted the Cooperative Credit Societies Act, 1904.
- 1919: Cooperation became a 'provincial subject'.
- 1984: The Parliament enacted the Multi-State Cooperative Societies Act.
- 2002: The Central government announced a National Policy on Cooperatives.
- 2011: Forming cooperatives made a fundamental right through the 97th Amendment Act of the Constitution.

Challenges faced by cooperatives in India

- Lack of Democratic Spirit.
- Skewed Geographical Penetration.
- Operational Challenges.
- Functional Weakness.
- Dual control, sinking balance sheet of cooperative banks.

Significance of cooperatives

- Enhancing social cohesion.
- Social empowerment.
- Promoting financial inclusion.
- Reducing inequality of wealth.
- Promoting moral principles.

Steps Taken

- Ministry of Cooperation.
- The Banking Regulation (Amendment) Act, 2020.
- Strict surveillance by RBI.
- 97th Amendment Act.
- Establishment of key institutions to promote cooperative movement in India.

Way forward

- Structural reforms.
- Ensure efficiency and transparency in functioning.
- Capacity building.
- Awareness.
- Imparting value Based Education.
- Legislative Reforms.