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## UNIT 3 COOPERATIVES IN RURAL DEVELOPMENT

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### 3.0 OBJECTIVES

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After studying this unit you should be able to:

- define cooperation and principles of cooperation;
- trace the evolution of cooperatives in India;
- compare the characteristic features of cooperative enterprise with other enterprises;
- review the progress and problems of cooperatives in their functioning and their potential in rural development; and
- compare the relevance of cooperative organizations in the mixed economy scenario.

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### 3.1 INTRODUCTION

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India lives in villages where most of the inhabitants are small, marginal, landless farmers and artisans. After independence, *agriculture* was identified as one of the

thrust areas for rural development. Even at that time, the policy makers had visualized the fact that without people's participation and institutional support, the rural development programmes could not be pushed through. Considering the situation of the rural sector, the importance of the panchayati system and cooperatives was recognized and these institutions were assigned specific roles to play. The main task assigned to these institutions was to work for community development, to eradicate rural poverty, to reduce inequalities and to eliminate privileges. Since the 1960s, a number of rural development programmes, such as the Panchayati Raj and land reforms or the Green and the White Revolutions through technical and cooperative missions, have been initiated and implemented. In a village, the cooperative society enjoys a focal position as an important socio-economic institution. The objective of the cooperative society is to provide services to its members (i.e. the rural community) and these services, which you will study in later units, are multifaceted. Although the membership of cooperatives does not include the entire population of a village, it does include a major part and a broad spectrum of the rural population. Besides, in implementing any community development schemes by other agencies (for example, the removal of illiteracy, making people conscious of their environment, health care, poverty alleviation, water management, etc.), the involvement of cooperatives is envisaged to seek consensus of the village community, as the cooperatives comprise a majority and a cross section of the village community. Moreover, a cooperative is a legal entity. It has institutional networks and infrastructure facilities at the grass roots level. It is also involved in social welfare and social protection activities of the rural people, such as village adoption, insurance, promotion of schools, hospitals, development of social forestry, etc. It has also generated rural employment for large sections of rural people through its agro-ancillary activities. In what follows, you will study in detail about the emergence of cooperatives, cooperative principles and their values, structure, functions, institutional networks, types of activity and finally you work through a review of the performance of cooperatives in rural development.

The main aim of this unit is to familiarize you with the concept of cooperatives, their principles, values, policies and the role they have played in the development of agriculture and rural employment. Besides, it also aims at acquainting you with the various types of cooperatives operating in India and their socio-economic goals and development plans for the welfare of the rural people.

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## 3.2 MEANING AND DEFINITION OF COOPERATION

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The word *cooperation* has many meanings, but in common discourse it means *working, living and thinking together*. In our existing socio-economic context, however, we need to define it somewhat differently—"Cooperation is a form of organization wherein persons voluntarily associate with each other as human beings on the basis of equality for the promotion of mutual economic interests".

As per the definition given by the International Labour Organization (ILO), *a cooperative society* is an association of persons, who assemble for their common cause and work together voluntarily on democratic lines. According to *the definition given by the "International Cooperative Alliance" (ICA)*, a cooperative is an association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. It means that cooperatives are based on the *values* of self-help, self-responsibility, democracy, equality, equity and solidarity in the tradition of their founders. Cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others. Therefore, *the cooperatives are different from the private enterprise* in their forms of ownership, control, distribution of profits, values of equality, equity, solidarity and social responsibility.

**Check Your Progress I**

**Note:**i) Write your answer in the space provided.

ii) Check your answer with the possible answer provided at the end of the unit.

1) What are the common features of “Cooperation “ in view of the definitions given by ILO and ICA.

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### 3.3 PRINCIPLES OF COOPERATION

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The principles and the guidelines by which cooperatives put their values into practice are:

- i) **Voluntary and open membership:** It means that the membership shall be voluntary and available without any restrictions/discrimination on the basis of gender or social, political or religious affiliations. All the members can make use of the services of their cooperative and willingly accept the responsibilities of membership.
- ii) **Democratic member control:** Cooperatives are democratic organizations controlled and managed by their own members. The primary members of cooperative societies enjoy equal rights of voting (one member one vote) and participation.
- iii) **Members’ economic participation:** Economic results arising out of the operations of the society belong to the members and shall be distributed among them proportionately according to the size of their transactions with the society, while a part of the funds will be kept aside for specified purposes as per the provisions.
- iv) **Autonomy and independence:** Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with others including governments to raise capital from external sources they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
- v) **Education, training and information:** Cooperative provide education and/or training for their members, elected representatives, managers and employees so that they may contribute effectively to the development of their cooperatives.
- vi) **Cooperation among cooperatives:** All cooperative organizations, in order to best serve the interests of their members and community, shall actively cooperate in every practical way with other cooperatives at local, national, and international levels.
- vii) **Concern for community:** Cooperatives work for the sustainable development of their communities through policies approved by their members.

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## 3.4 EVOLUTION OF COOPERATIVES IN INDIA

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After having studied the concept, values, principles and functions of the cooperative enterprise, it will be appropriate to study the emergence of cooperatives in contemporary India, in particular the way they have evolved since independence. Before we do so, however, let us have a brief account of the pre-independence scenario.

### 3.4.1 Pre-independence Scenario

In India, the cooperative movement began its work with the objective of making breakthroughs in the stagnation of the poorer classes who were heavily indebted and were fully in the grip of Sahukars. With the enactment of the 1904 Act, the first cooperative credit society was registered on 8<sup>th</sup> May, 1905 in the then state of Bombay in the Gadag Taluka of the Dharwad district under the name of Kanginhal Agriculture Credit Cooperative. By 1911, the number of registered societies rose to 5321 with a membership of 305,060. Subsequently, the 1904 Act was replaced by another passed in 1912, with a broader base, opening registration to non-credit cooperatives also. The Reform Act was passed in 1919, when cooperatives became a state/provincial subject. The decade from 1919 to 1929 was a period of unplanned expansion and some re-organization. During the period 1930/31-1937/38, the movement underwent a number of changes. This period is known for *the great depression*, which was a major setback for the cooperatives in India, mainly due to our backward economy and the disturbed political atmosphere. The arrears of the loans of cooperatives rose from 39% in 1930-31 to 63% by 1937-38. But the *Second World War* (1939 to 1946) came as a boon for agriculturists, as the prices of agricultural commodities rose significantly, and the cooperatives revived. The repaying capacity of the farmers increased significantly, they were able to clear off their old debts and the arrears came down from 63% in 1937-38 to 39% in 1945-46. This period is considered the recovery period.

### 3.4.2 Post-independence Scenario

After the independence of India in 1947, the country adopted the policy of planned economic development for establishing an integrated and just society, providing individual liberty, equality of opportunity and a basic economic minimum for all. *Cooperation* was accepted as an effective and important instrument for achieving the objectives of rural economic development.

The first five-year plan (1950-51 to 1955-56) emphasized that all agricultural families/households may join as members of primary agriculture cooperatives. In turn, these societies would take care of their needs and safeguard the interests of farmers and artisans. During this plan period, the number and membership of cooperatives went up from 115,462 and 5.2 million in 1950-51 to 159,939 and 7.8 million by 1955-56 respectively.

In the year 1951, the RBI set up a committee known as the All India Rural Credit Survey Committee and its report was published in 1954. At that time, the main thrust was on the *viability concept*. It was observed that only 20% of the cooperatives were found to be economically viable due to their limited operations and it was recommended that large size cooperative societies should be organized to procure more business. It was also recommended that a government, with a share capital to the extent of 51%, be allowed to become a partner in cooperatives. Besides, it was recommended that the credit delivery system be *three-tier* for short and medium term loans, and long-term credit be arranged through land development banks. Also, the need for an effective *cooperative training system* to develop a sound network

of institutions from the village to the national level was emphasized in order to guide and implement the rural programmes effectively. Fortunately, the Government accepted all the recommendations of the committee.

### 3.4.3 Five-year Plans (Second to Fifth)

The broad objective of the second five-year plan (1956-57 to 1960-61) was to evolve a socialistic pattern of society. The plan envisaged building a cooperative sector as a part of the scheme of planned development. Subsequently, the National Cooperative Resolution 1958 recommended that credit and marketing should be linked and it was resolved to organize service societies instead of re-organizing large sized societies at the village level. This subject was referred to the Vaikunth Mehta Committee, which having studied both the aspects, recommended the middle path, i.e. the organization of medium sized societies for them to be viable and manageable. The third five-year plan concentrated on workers, consumer cooperatives and employment generation. Accordingly, eight different types of committee were set up. The need for the development of cooperative activity was emphasized in the fourth plan (1969-70 to 1973-74). During this period, the education and training setup was strengthened. Also the All India Rural Credit Review Committee was appointed to review the rural credit supply in the context of the fourth plan. On the basis of its findings, the committee emphasized (a) re-organization of rural credit, (b) the need for relevant primary education, (c) setting up of SFDA, MFDA, and IADP agencies and (d) ensuring adequate flow of credit for agriculture through cooperative and commercial banks. The fifth five-year plan recognized the cooperative society to be an important institutional framework for the development of weaker sections, particularly for providing relevant inputs and the management of the public distribution system. In 1977, the policy resolution of 1958 was reviewed in the context of the political, social and economic changes that had taken place during the period. The resolution, now adopted, recommended that a) a strong and viable cooperative system should be put in place for rural development, b) the Consumer Cooperative Movement should be developed to strengthen the public distribution system, c) cooperatives should be built to function as one of the major instruments of decentralized labour-intensive and rural oriented economic development, and d) professional management of cooperatives should be put in place as early as possible.

### 3.4.4 Five-year Plans (Sixth to Ninth)

The main emphasis during these plans was on a) the strengthening of the primary agriculture cooperatives (PACS) to act as multi-purpose societies to meet the diverse needs of their members, b) the development of professional manpower, and c) a re-examination of the existing cooperative policies and procedures in order to ensure that the programmes actually improve the economic condition of the rural poor. During this period, a committee to review the arrangements for the institutional credit for agriculture and rural development (CRAFICARD) was constituted. The seventh plan emphasized the need for cooperatives to a) increase food production, b) generate employment avenues, and c) increase productivity generally. This pointed to the importance of diversifying activities and also the consolidation of the efforts of the cooperative movement. During the Ninth plan period, it was emphasized that greater autonomy should be given to all the cooperatives. As a result, the Multi State Cooperative Societies Bill was passed and a new Act 2002 came into force to provide greater autonomy to the cooperatives. The other achievement of this period was that a new *cooperative policy* was declared. Among other things, it recognized the contributions of cooperatives and also pointed to their future role in rural development.

### 3.4.5 10<sup>th</sup> Five-year Plan and Cooperatives

The current, i.e. the 10<sup>th</sup> Five-year Plan has shouldered greater responsibility in relation to cooperatives for purposes of:

- a) actualizing the vast potential of agriculture,
- b) promoting more value additions to safe guard the interests of farmers,
- c) transferring technology to cooperatives to bring them at par with other sectors of economy,
- d) identifying new areas for cooperative action, such as insurance, tourism, health, irrigation, electricity cooperatives, etc., and
- e) improving the social and economic health of the rural people.

#### Check Your Progress II

**Note:** i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

Tick mark the appropriate box:

1) a) The first cooperative society in India was registered in

i) 1904    ii) 1882    iii) 1885    iv) 1905

b) Under which Act did the *cooperatives* become a State/provincial Subject?

i) 1904    ii) 1919    iii) 1912    iv) 1922

c) Who appointed the All India Rural Credit Survey Committee?

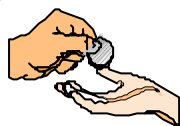
i) GOI    ii) NABARD.    iii) Planning Commission    iv) RBI

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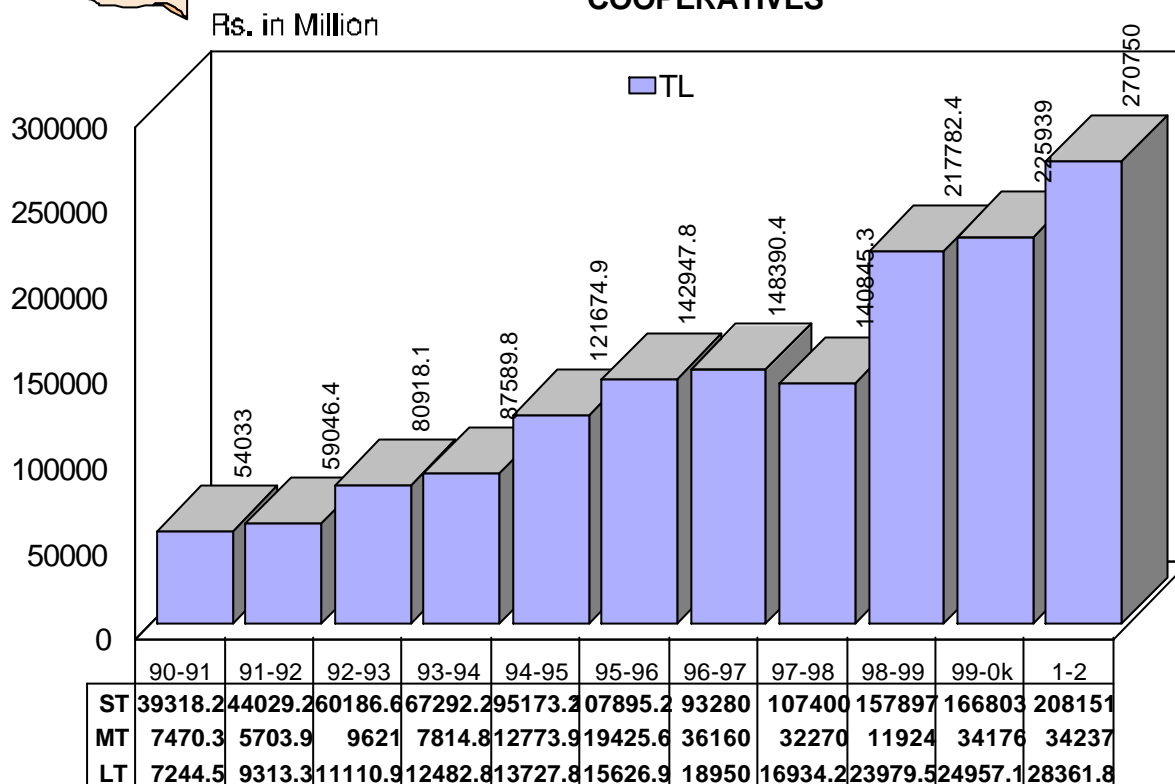
## 3.5 GROWTH AND DEVELOPMENT OF THE CREDIT COOPERATIVES

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Let us now study the mechanism of the credit cooperatives and their delivery system. Since *cooperatives* in India constitute a state subject, the primary responsibility for the development of cooperatives vests in states. Cooperative credit has been classified into three category: a) Production Credit, i.e. short and medium term credit, b) Investment credit, i.e. long-term credit and c) Urban credit for urban areas. These credit systems are managed by different types of institution. The growth of the cooperative credit disbursement in recent years has been depicted through a graphic presentation as follows.



### AGRICULTURAL CREDIT DISBURSEMENT BY COOPERATIVES



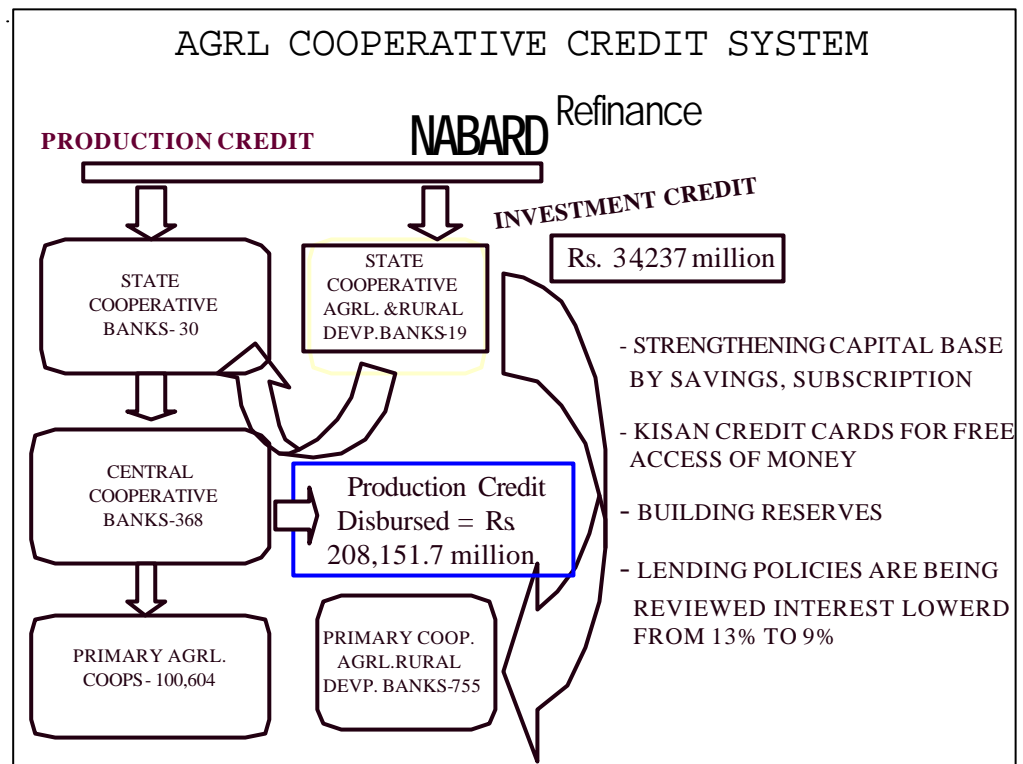
Year 2001-2002

Value in Million Rupees

Names of Cooperatives	No. of Societies	Total Membership	Share Capital Total	Capital
Primary Agrl. Cooperative Societies	100604	109832118	361943.59	4408333.25
Primary Cooperative Agri. Devp. Banks	730	7181650	68019.52	926090.17
Primary Urban Cooperative Banks	2038	17684798	214489.56	9102197.35
Employees Credit Societies	47491	22448844	292267.24	1343646.79
<b>CREDIT TOTAL</b>	<b>150,863</b>	<b>157147,410</b>	<b>936,719.91</b>	<b>15780,267.56</b>

### 3.5.1 Structure of the Cooperative Credit System

By and large, the structure of production credit is a three-tier system comprising the State Cooperative Bank at the state level, the District Cooperative Bank at the district level and the Primary Agriculture Cooperative Society at the village level. The investment credit structure has two tiers, i.e. the State Cooperative Agricultural and Rural Development Banks at the state level and Primary Agricultural Cooperative Rural Development Banks at the grass roots level. But wherever there is no structure for providing the investment credit, it is routed through the production credit system as explained in the diagram below. Beside, there are national level Federations which take care of policy, planning and promotional works in this case. The *refinance* to cooperative banks comes largely from the National Bank for Agricultural and Rural Development (NABARD).



### 3.5.2 Primary Agricultural Cooperative Society (Production Credit)

The first Primary Agricultural Credit Cooperative Society was registered in 1905 at Dharwad in the former state of Bombay. By March 2003, the number had increased to 106,004 with a total membership of 109 million in the country. In 1960-61, the number of such societies was 2.12 lakhs, but the process of re-organization brought this number down considerably. Almost cent percent of the villages and 71% of the rural households have now been covered by these societies. Initially, the PACS used to provide only short and medium term credits (i.e. crop loans) to farmers, but after they were granted the status of multi-purpose societies, the PACS extended the number of services, which include distribution of inputs like fertilizers, certified seeds, insecticides, consumer goods, storage facilities and marketing of agricultural produce to farmers at the village level. By 2001-2002, the total loans advanced by these societies amounted to Rs. 247.38 billion to 42.69 million borrowers. These societies are also actively involved in the public distribution system and procurement of wheat, cotton and jute on behalf of the Government. Nearly 58% of the PACS are involved in consumer business and the distribution of inputs. During the year 2001-2002, these societies marketed 132.3 billion rupees worth of agricultural produce and also distributed consumer goods worth Rs. 9127.4 million. During the mid review period of the fourth five-year plan, it was emphasized that there were SFDA, MFDA and Tribal areas where PACS could not meet their requirement of inputs and seeds, nor market the tribal produce easily. As a result, Farmers Service Societies were organized in the SFDA/MFDA areas and LAMPS in the tribal areas to meet their needs in their respective areas. But later on, in 1989, Khusro Committee reviewed the viability norms of *primaries* and recommended that to materialize the viability of PACS, these societies should be transformed into multi-purpose institutions. The recommendations were accepted. Accordingly, PACS, LAMPS and FSS became multi-purpose institutions and are now involved, besides the credit services, in the distribution of inputs, consumer goods and also in the marketing of agricultural produce. They are, however, operating under differing nomenclature in their respective areas. Even after re-organization, nearly 36% PACS are not viable. The main problems are low participation of members in the business, high overdue amounts, lack of professionalism and little transfer of technology.



### 3.5.3 District Central Cooperative Banks

The District Central Cooperative Banks are the nodal banks for production credit at the district level. By 2002-2003, there were 368 DCCBs, which operated through 12,763 branches. These banks provide finances to Primary Agriculture Cooperative Societies at grass roots level. The borrowings from these banks flow largely from NABARD, which accounted for 87% of the total borrowings from the DCCBs by the end of March 2002. The rest of the finances come partly from the respective state governments (10.8%) and partly from the commercial banks (3.5%). The DCCBs function as fully-fledged banks at the district level and accept deposits from non-members also, but advance loans only to the members. By 31<sup>st</sup> March, 2001-2002, these banks had advanced loans to the extent of Rs. 506 billion. There are 1,12,692 employees deployed in these banks.

### 3.5.4 State Cooperative Banks

The State Cooperative Banks (SCBs) are the apex cooperative organizations for production credit, i.e. short and medium term loans, at the state level. These banks are classified as scheduled banks and perform all the business that a normal bank performs. There are 29 State Cooperative Banks, which operate through their 880 branches. The share capital of these banks is Rs. 6752.7 million and the government participation in the share capital accounts to only 8.5%. Major borrowings (nearly 80.5%) from these banks come from NABARD. The SCBs provide finances to their respective District Central Cooperative Banks, and also supervise, monitor and control their operations. The total amount of loans disbursed by these banks during the year 2002-2003 was about Rs. 366.4 billion. The deposits of these banks increased to Rs. 35992.8 million in 2001-2002 from Rs. 7525.1 million in 1990-91, and 80.50% of the total deposits are from the cooperatives.

### 3.5.5 State Cooperative Agriculture and Rural Development Banks

There are 19 State Level Cooperative Agriculture and Rural Development Banks (SCARDB). Of which 11 (those in Assam, Haryana, Himachal Pradesh, West Bengal, Karnataka, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan and Tamil Nadu) have a Federal Structure, i.e. they function at both the state and the primary levels, and 8 (those in Bihar, Gujarat, J&K, Tripura, Uttar Pradesh, Maharashtra, Andhra Pradesh and Pondichery) have a Unitary Structure, i.e. they function only at the state level. In all there are 1421 branches of SCARDBs spread all over the country. These banks provide investment or long-term loans to farmers and to 726 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs). Long-term credit is given for minor irrigation projects, farm mechanization, plantation and horticulture, diversified purposes, land development, rural housing and non-farm sectors. The total amount of loans advanced during the year 2001-2002 by these banks was Rs. 25185.8 Million, of which 80.04 % was advanced for farm sector development, 14.1% to non-farm sector and the remaining 5.58% to the rural housing sector. These banks raise their funds by floating special and ordinary debentures. The institutional membership of these banks has risen to 5556 members. The participation of the government in the total share capital of SCARDBs is 13.4%. In addition to their own operations, SCARDBs operate through the 1214 branches of PCARDBs also. The membership of the PCARDBs stands at 7.11 million. These banks have disbursed long-term credit to the extent of Rs. 17844.7 million, of which farm sector constitutes nearly 64.1% and non-farm sector 16.3%. The remaining 5.8% was disbursed to the housing sector. These banks are guided, controlled and supervised by their respective SCARDBs.

**Check Your Progress III**

**Note:**i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) What is the structural difference between production credit and investment credit?

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2) Name the cooperative institution that takes care of the tribal people at the village level.

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3) Who provides credit for non-farm sector development?

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4) Who is the major refinance provider to Credit Cooperatives?

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### 3.6 GROWTH AND DEVELOPMENT OF THE NON-CREDIT COOPERATIVES

In the previous units, you have learnt about the importance and role of credit cooperatives in the development of agriculture in India. Equally important are the non-credit cooperatives and their role in rural development. The important segments of non-credit cooperatives are Marketing, Consumers, Dairy, Fishery, Fertilizers, Handloom and Handicrafts, Labour, Irrigation, Agro-processing, Transport, Weavers, Industry, Farming, Electricity, Poultry, etc. The non-credit cooperatives came into existence partly out of necessity and partly out of ideological reasons. The non-credit sector has played a significant role in developing infra-structural facilities, which have helped in providing value additions to the agricultural produce as well as boosted employment in the rural sector.

#### Growth and Development of Non-credit Cooperatives In India

Year 2001-2002

(Value in Million Rupees)

Names of Cooperatives NON-CREDIT COOPERATIVES	No. of Societies	Total Membership	Share Capital Total	Capital
Marketing Cooperatives.	8869	5096863	49066.16	212459.00
Consumer Cooperatives	23975	7055185	10984.39	33772.05
Student Cooperatives	7688	14782458	1571.16	5214.44
Agro-Processing Coop.	1564	508862	2890.66	25555.32
Dairy Cooperatives	103305	11536704	27953.53	146678.67
Women Cooperatives	11374	999673	2896.23	13572.38
Housing Cooperatives	92000	6600000	36160.70	520000.00
Farming Cooperatives	7149	349589	709.68	4714.90
Irrigation Cooperatives	7315	571756	2648.19	82476.18
Electricity Cooperatives	56	939551	3543.52	30831.99
Industrial Cooperatives (Other than Weavers)	45017	2439291	9089.63	44811.39
Weavers Cooperatives	20037	2015600	22399.27	87209.24
Fisheries Cooperatives	13649	2130217	4043.54	17477.82
Poultry Cooperatives	4900	441694	2100.27	13008.43
Labour Cooperatives	30428	1671825	2711.43	23178.39
Forest Labour Cooperatives	3408	739530	535.72	17516.68
Transport Cooperatives	10446	156374	2326.69	14617.25
Sugar Cooperative Mills	281	4484000	216218.00	873661.00
Spinning Cooperative Mills	326	783635	94253.75	177561.25
Tree Growers Cooperatives	633	49618	3.36	61.35
Hospital Cooperatives	181	111824	1130.94	3508.35
<b>NON - CREDIT TOTAL</b>	<b>391370</b>	<b>63461007</b>	<b>493236.82</b>	<b>2347886.08</b>

#### 3.6.1 Cooperative Marketing

The need for cooperative marketing was realized in view of the growing malpractices prevailing in buying and selling of agricultural produce. The producers were not getting the due share of their agricultural produce. They were forced to sell their produce on through away prices. So as to protect farmers, marketing cooperatives emerged after the enactment of Cooperative Societies Act 1912. Accordingly, an integrated programme of cooperative marketing was planned and a cooperative

marketing structure was set up at various levels. The significance of cooperative marketing was recognized as early as 1928 by the Royal Commission on Agriculture, which remarked that *group marketing would be more efficient than marketing by individuals*, especially in conditions that prevailed during that period in India. The objectives of promoting the marketing cooperatives were: a) to strengthen the bargaining capacity of the member cultivators so as to secure them a better price for their produce, b) to help in improving the socio-economic conditions of producer members, c) to help in stabilizing marketing conditions to regulate the supply of commodities, d) to eliminate the middle men and moneylenders, e) to restrict the intermediaries and benefit the consumers directly asking them for reasonable prices, f) to systematize fair trading practices, g) to educate and persuade the farmers to grow better quality products, h) to arrange and provide the facilities of transportation, grading and storage of agricultural produce, i) to protect the economic interests of members by educating them about the latest techniques of farming and j) to inculcate the habits of self-help and thrift among the members of the cooperative marketing society.

The cooperative marketing structure in the country has two tiers, except in Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Maharashtra, Manipur, Punjab, Tamil Nadu, Uttar Pradesh and Pondichery, where it has three tiers, i.e. primary at the block level, district marketing at the district level and state cooperative marketing federations at the state level. Initially, general purpose cooperative marketing societies were organized and later attention was shifted to more specialized or commodity marketing cooperatives, such as those for Fruits and Vegetables, Cotton, Tobacco, Areca nut, Coconut, Rubber, Sugarcane, Tea, etc. At present, there are 30 general purpose and 22 specialized state level cooperative marketing federations, 394 district marketing and 8869 primary marketing societies in operation. Besides, NAFED and TRIFED are two national level federations. NAFED has been recognized as the nodal agency for marketing agricultural commodities, price support and export channeling of agricultural produce.

### **3.6.2 Processing Cooperatives**

The marketing cooperatives did not seem to help much, as many of the earlier problems continued. And it was felt that without making any value additions to the agricultural products, the cooperatives would not be able to help much in ensuring better prices for the products. In order to reduce the number of middlemen and to obtain a greater return on the agricultural produce, processing of crops by the marketing cooperatives was felt to be necessary. This resulted in the emergence of *processing cooperatives*, such as those for paddy processing, ginning and cotton baling, rice mills and those for pulses, and gradually the operation was extended to Fruits and Vegetables, Cashew, Rubber, Cocoa, Copra, Isabgol and Straw Board. Later on, the All India Cooperative Planning Committee recommended that in the cases where the marketing/sales society was unable to put up a processing plant, separate processing societies be organized. As a result, sugar, spinning, dairy and many other processing cooperatives came up. The important ones among them are the sugar, spinning and dairy processing cooperatives, which have not only helped in promoting the economic well being of the farmers in the rural areas, but also generated rural employment by deploying a large number of local people and the promotion of ancillary activities.

### **3.6.3 Cooperative Sugar Mills**

The second five-year plan also included a programme for starting cooperative sugar factories. In the middle of 1958, licenses under the Industries Act 1951 were granted to 38 cooperative sugar factories. By 2002, the number of cooperative sugar factories had increased to 281, of which 137 were in Maharashtra. The cooperative sector contributes nearly 59% of the total sugar produce in the country. By and large, sugar cooperatives have a two-tier structure, i.e. sugar mills at grass roots level and State

Cooperative Sugar Federations at the state level. Most of the sugar cooperative mills are concentrated in 15 states. These mills have promoted a number of ancillary units such as distilleries, paperboard units and baggasy. Besides, a number of educational and social institutions such as medical colleges, engineering colleges, schools, polytechnics, health centers, etc. are being promoted by these mills at their respective rural sites. Also, they are helping the rural youth in their efforts for higher education and are generating rural employments. During the year 2002, these sugar factories crushed 96,272 million tones of sugar cane and produced 10,499 million tones of sugar. These factories have not only assured a fair return to the primary producers but are also providing extension services to farmers for producing high yield varieties. Obviously, all walks of rural life have benefited directly and indirectly from rural industrialization.

### 3.6.4 Dairy Cooperatives

Dairy in India is closely interwoven with agriculture and plays an important role in the rural economy. Besides having vast employment potential, dairy provides not only milk, but also stabilizes farm incomes. Small farmers and landless Labourers account for 53% of the animals and 51% of milk production. Thus small, marginal and landless farmers play a very important role in milk production in the country. The need to form the dairy cooperatives emerged due to continued exploitation of these weaker sections of the rural population by the private local dairy owners and other traders. With the declaration of the National Policy on Dairying in 1956, the growth and development of dairy cooperatives received a major boost.

The present structure of dairy cooperatives in India is three-tier. The main objectives of the dairy cooperatives are: i) to increase the number of milk animals from the present average holding of 1-2 animals, ii) to collect and sell milk to *milk unions*, iii) to ensure regular and remunerative payment to producers, iv) to help members in increasing milk production, v) to provide veterinary first aid and artificial insemination services, vi) to sell cattle feed, vii) to increase timely flow of milk (which is a perishable commodity) to far off markets and viii) to make value additions to dairy products and the related activities. The present network of cooperatives serves more than 11.5 million farmers in over one lakh villages. The average milk procured by these cooperatives per day, is around 165.0 lakh liters and the liquid milk marketed per day comes to 133.6 lakh liters. The total turnover per annum was Rs. 5957.90 million by 2001-2002. Over the years, the dairy cooperatives have not only changed the economic situation of the rural people, but also taken care of improving the health of the animals. The production of milk has gone up from 38.8 million tones in 1983-84 to 81 million tones in 2002. The other important development related to these cooperatives is the empowering of the rural women. Now, women play a major role in dairying, as over 7000 village dairy cooperatives are now run by women. They have given many a woman some degree of economic independence. Almost two million women belong to these women's cooperatives. Overall, dairy cooperatives have played a significant role in the White Revolution. Today almost every district and state cooperative is engaged in processing activities and is manufacturing quality milk products, which compete favourably with the products of multinationals. Dairy cooperatives have also diversified their activities and entered into new commercial areas, such as oil manufacturing, food processing, water bottling and salt manufacturing through their subsidiary companies. They are also serving the farmers in providing nutritious feed for their animals, hygienic containers, veterinary services, artificial insemination and in organizing camps, study tours and educational programmes for their benefit.

### 3.6.5 Fertilizer Cooperatives

With the growing population and the increasing demand for food grains, pressure continued on farmers to grow more. So as to increase productivity, farmers were

required to ensure adequate and quality inputs at reasonable prices. Faced with this requirement, farmers were facing immense problems in relation to the timely availability of quality chemical fertilizers. To solve these problems, a cooperative fertilizer plant was set up in 1967 at Kalol in Kandla in Gujarat under the aegis of the Indian Farmers Fertilizer Cooperatives with three major objectives: a) to produce chemical fertilizers and ensure that they reach the door steps of farmers, b) to educate the farmers how to use fertilizers effectively, and c) to transfer the required technology for modern farming to Indian farmers. With the success of the IFFCO fertilizer production and its network of distribution, the demand for quality and reliable fertilizers increased significantly. As a result, another plant under the aegis of Krishak Bharati Cooperatives was set up in 1980 at Hazira. These giant fertilizer cooperatives produce 29% of the total fertilizer needs and distribute 36% of the fertilizer requirement of the country through rural channels. Besides, these institutions continue to provide social services, such as developing the village farm forestry, setting up of storage-cum-community centers, adopting villages for integrated rural development, extending funds for building rural houses to earth quack affected people of Gujarat and for promoting educational and cultural activities.

### **3.6.6 Industrial Cooperatives**

Along with agricultural production, it was thought necessary to promote village industries for rural development. The second five-year plan recognized the need for developing village and small-scale industries on cooperative basis as far back as the 1950s. With the acceptance of the recommendations of the first Working Group on Industrial Cooperatives in 1958, the industrial cooperatives made rapid progress. As against 7101 Industrial Cooperatives with a membership of 7.66 lakh in 1950-51, their number had gone up to 33266 with a membership of 25.64 lakh in 1960-61 and by 2001-2002, the number of industrial cooperatives had increased significantly: Weavers' cooperatives (20,037), Non-Weavers' (43,786) and Handicrafts' (1778), with memberships of 2.01 million, 2.436 million and 1.09 million respectively. The industrial cooperatives have a three-tier structure, but it is facing difficulties in obtaining finances, availability of raw materials and marketing due to competition and modernization. Well, this is a sector that has vast potential to assist the weaker and rural artisans and also to preserve the traditional arts. This sector has not received the needed support, and is now being reviewed to see how this sector may be improved.

#### **Check Your Progress IV**

**Note:** i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) In what way do the marketing cooperatives help the farmers?

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2) List the types of processing cooperatives that are run by marketing cooperatives.

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3) Name the major processing cooperatives, which have generated significant rural employment and have also promoted the various types of social institutions.

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### **3.7 REGIONAL IMBALANCES IN THE GROWTH AND DEVELOPMENT OF COOPERATIVES**

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The growth and development of the cooperative movement in the country has been reviewed from time to time by various committees and measures devised to minimize imbalances in their development. Here we must remind you that with the enactment of the Cooperative Societies Act 1919, cooperatives became a state subject. Consequently, all the states enacted their own laws as per their connivance. The cooperative movement in this country emerged with the blessings of the government, which also works as an active partner in this enterprise. The laws framed by the government, however, were restrictive and in certain cases contrary to the principles of cooperation. The movement did not develop wherever the government equity was more, but it went well where the government control was minimal. For example, in the states of Gujarat and Maharashtra, where the governments did not have any stake in the equity of cooperatives, the movement has shown steady progress and the government control has been minimized. But in a number of other states, particularly in the North–East, Bihar, Uttar Pradesh, Rajasthan, Orissa and Madhya Pradesh, development got restricted. The major reasons for imbalances in the development of cooperatives are: a) excessive government control exercised through restrictive legal provisions; and b) the absence of definite policy on cooperatives. The Registrar of a cooperative society is considered to be the supreme authority empowered to supersede and suspend the elected board, nominate the board of directors and appoint the managing director. In absence of autonomy, the cooperatives could not develop professionalism, enlist the services of professional manpower, and manage the affairs efficiently. Secondly, the cooperatives were used as agents of governments to implement their schemes which did not help in achieving the viability of cooperatives due to the lack of profit margins in most of the activities they engaged in.

But with the passing of the Reform Act, i.e. the Multi State Cooperative Societies Act-2002 and the enactment of parallel Acts in 9 states, namely Andhra Pradesh, Bihar, Chhattisgarh, Delhi, Jammu & Kashmir, Karnataka, Madhya Pradesh, Orissa, and, Rajasthan, the powers of the Registrar have been limited only to register, audit and hold timely Annual General Body Meetings. With these reforms, cooperatives will have more autonomy to function freely, take their own decisions to plan and manage their business hopefully effectively. Moreover, with the announcement of the National Cooperative Policy –2002, for the first, the ideology and principles of cooperatives have been recognized along with their current role in the rural economic development and also their future role in the overall developmental process. Once these reforms are implemented by all the states and cooperative policies endorsed by all of them, the movement will be able to contribute effectively in the development of rural economy and actualize vast agricultural potential, which should boost rural employment significantly.

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### **3.8 ASSESSMENT AND EVALUATION**

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The size and volume of cooperative business during the post-independence period has shown rapid growth and multiplied many fold. The coverage of villages by cooperatives, which was 30% in 1950-51, has reached cent percent and by 2001-2002, 75% of the rural households were brought into the cooperative fold. Cooperatives have entered into every sphere of economic activity and emerged as one of the significant segments of Indian economy. Their contributions in shaping the rural economy also are substantial. The share of cooperatives in rural credit disbursement amounted to 49.3% during the year 2001-2002, fertilizer distribution was 36.0%, fertiliser production 29.0%, sugar production 59.0%, branded oil marketing 50%, ice cream production 45%, animal feed production 50%, spinning 12%, fabrics production 22.0%, handloom cooperatives 55%, wheat procurement 36.0%, jute procurement 21%, fishermen's cooperatives 11%, rural fair price cooperatives 28%, salt manufacture 7% and employment was created for 15.1 million people. The contribution of milk cooperatives in milk production, procurement and distribution is significant. Cooperatives were also organized at grass roots level for fisheries, forest labour, farm forestry, poultry, weavers, handlooms, handicrafts, and irrigation to organize the rural people and provide them necessary services for the development of rural community. The education and training networks of cooperatives have promoted awareness regarding development, advantages and techniques of living under the umbrella of cooperatives. This has helped in curbing the migration of the rural people from rural to urban areas. The cooperative venture and its programmes have also promoted diversification in crop production; effective use of chemical fertilizers, insecticides and better seeds; new techniques for improving the fertility of the land and various ancillary activities. The setting up of marketing and processing cooperatives has not only helped the farmers in ensuring better prices for their produce but have also generated significant rural employment.

With the present size and network of the cooperatives, their contribution should have been much more than what it is today. The major problems that have limited the size of their contribution are, to name the important ones, the increasing amount of non-performing assets (NPA), limited resources, lack of infra-structural facilities and professionalism, absence of modernization and little technology transfer, over dependence on governments, absence of effective monitoring and poor market information systems.

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### **3.9 LET US SUM UP**

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In the introductory part of the unit, we explained the concepts, values and principles concerning rural cooperatives in order to distinguish them from other cooperative



enterprises. Then we moved to the circumstances, which forced us to organize the cooperatives, i.e. details about the evolution of cooperatives during the pre-independence and the post-independence periods were presented. The post-independence developments were presented sequentially with plan-wise responsibilities assigned to cooperatives along with the details regarding their progressive stages of development. Besides, details about the important committees, which were constituted to review the progress and shortcomings of the cooperatives at various stages, were also presented. Later on, the development of credit and non-credit cooperatives was presented with details specifically about their structure, functions and operations. Here, we described every level of working with facts and figures and also detailed the extent to which the services of cooperatives have helped in shaping the rural economy. Some of the problems inhibiting speedy development were also highlighted.

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### 3.10 SUGGESTED READINGS AND REFERENCES

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### 3.11 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

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#### Check Your Progress I

- 1) Both the definitions of cooperatives have certain common elements, such as:
  - a) association of individuals/persons, b) achieving common goals and c) working voluntarily on democratic lines. So, we may say that *cooperatives* are democratically run institutions managed and controlled by their members.
- 2) The cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity.

#### Check Your Progress II

- 1)
  - a) iv)
  - b) ii)
  - c) iv)

#### Check Your Progress III

- 1) *Production credit* has a three-tier structure, i.e. it operates at the state, the district and the primary levels, whereas *investment credit* has a two-tier structure, i.e. it operates at the state and the primary levels.
- 2) The name of the cooperative institutions organized for tribals at the village level is LAMPS, i.e. Large Size Agricultural Multipurpose Cooperative Societies.
- 3) The non-farm sector is covered by investment credit. Therefore, State Cooperative Agriculture and Rural Development Banks and Primary Cooperative Agricultural and Rural Development Banks provide the non-farm credit.

- 4) The National Bank for Agriculture and Rural Development (NABARD) is the major refinance provider for Cooperative Credit Institutions.

**Check Your Progress IV**

- 1) The marketing cooperatives have been established to fulfil various objectives, namely: a) to ensure that the producers get remunerative prices for their produce, b) to increase the retention power of producers by storing their produce in godowns, c) to stabilize the marketing conditions to regularize the supply of commodities, d) to eliminate the middlemen and moneylenders, e) to stabilize fair trading practices, and f) to promote value additions to all the products and services.
- 2) The *processing societies*, mostly promoted by marketing cooperatives, are: paddy processing, rice mills and those for pulses, rubber, coca, copra, isabgol, etc.
- 3) The important processing cooperatives are sugar cooperative mills, spinning mills and dairy cooperatives, which have not only generated significant employment, but are actively involved in promoting social activities and institutions for the welfare of their members.