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Sapovadia, Vrajlal and Patel, Sweta

Shanti Business School

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# **Humanization: Explaining the Law of Cooperatives in India**

Dr. Vrajlal Sapovadia, Director, SBS Ahmedabad, India

Prof. Sweta Patel, LJ Institute of Management, Ahmedabad

## **Historical Perspective:**

International Cooperative Alliance defines a cooperative as 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. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, mutual cooperation, and solidarity. Members of the cooperative society believe in the ethical values of honesty, openness, social responsibility and caring for others. Cooperatives enterprises across the globe provide economic values coupled with social flavor. Cooperatives provide an important channel for bridging market values and human values. If set within an agreed framework for inclusive growth, cooperative ideals and cooperative organization will be more effective in meeting their people-centered objectives. Cooperatives run for economic reasons but also enhance humanization. Several models of cooperatives across the globe are engaged in various activities. Cooperatives in one continent may be different in terms of size, business volume, model, economic emphasis and activities than other continents, but one thing is unique; cooperatives main axle is humanization.

This paper aims to present legal framework around cooperatives in India; its role in growth of cooperative movement, the later part of the chapter describes live examples of cooperative experiences in India and to show how this legal framework has helped the cooperatives in process of humanization.

The Cooperative movement in India has its own status, role and impact in the socio-economic development of the country, especially for providing organizational and financial support to give impetus to income generating activities for weaker sections, such as small and marginal farmers, artisans, weavers, landless agriculture labors, fisherman and urban poor etc. Today there are more than half a million various types of cooperative societies with a membership exceeding 230

million with total working capital exceeding INR 3400 billion (USD 170 billion). Over the years, cooperatives have made concerted effort to improve the neglected and downtrodden sections of the society. The Indian society and economy particularly the rural sector is largely influenced by Cooperatives. More than 550,000 cooperatives are working in Urban & Rural area which are engaged in providing economic & social services to the poor masses through carrying out various types of activities.

Even before formal cooperative structures came into being through the passing of first cooperative law in 1904, the practice of the concept of cooperation and cooperative activities were prevalent in several parts of India. Village communities collectively creating permanent assets like village tanks or village forests called *Devarai* or *Vanarai* was fairly common. Similarly, instances of pooling of resources by groups, like food grains after harvest to lend to needy members of the group before the next harvest, or collecting small contributions in cash at regular intervals to lend to members of the group viz., '*Chit Funds*', in the erstwhile Madras Presidency, '*Kuries*' in Kerala, '*Bhishie*;' in Maharashtra, '*Vishi*' in Gujarat & Rajasthan are the examples of informal cooperatives prevailing in the local regions. The '*Phads*' of Kolhapur where farmers impounded water by putting up bunds and agreed to ensure equitable distribution of water, as well as harvesting and transporting of produce of members to the market, and the '*Lana*' which were yearly partnerships of peasants to cultivate jointly, and distribute the harvested produce in proportion to the labour and bullock power contributed by their partners, were similar instances of cooperation without any state legislation support.

Taking cognizance of these developments and to provide a legal basis for cooperative societies, Government of India under leadership of Lord Curzon appointed Sir Edward Law Committee with Mr. Nicholson as one of the members in 1901 to examine and recommend a course of action. The Cooperative Societies Bill, based on the recommendations of this Committee, was enacted on 25th March, 1904. As its name suggests, the Cooperative Credit Societies Act was restricted to credit cooperatives. By 1911, there were 5,300 societies in existence with a membership of over 300,000.

Since then, cooperatives has grown leaps and bound, and now cooperative sector is third major force in Indian economy after Public and Private enterprises, having special characteristics of

both apart from its inherent. Numerous activities were started by villagers, and then came the cooperative laws in series. Cooperation being in the concurrent list, Union and States enacted cooperative laws to curb exploitation of members by their managers and co-operators. Cooperative societies in India played an important role in development of agriculture, banking, credit, agro processing, storage, marketing, dairy, fishing and housing sectors. Cooperatives role in poverty alleviation, food security and employment generation is well established. It is observed that cooperatives may deliver goods and services in areas where both public and private sectors have failed. It is estimated that cooperatives generate direct & indirect employment for more than 10 million people, through more than half million cooperatives with patronage of 250 million plus members.

In socio-republic country like India, the Government plays an important role to preserve interest of under privileged people. By enacting suitable legislation capable to take care of under privileged people, Government of India provides strong legal framework and constitutional mandate to serve weaker sections of the society. The Constitutional Law of India is source of all powers, including that of enacting any Law. It provides basic framework for enacting any legislation, division of powers between Union and States, and the manner of delegation of powers by Union & States. Directive Principles of State Policy in the Constitution which gives guiding light to the government on progressive policy includes Article 39 that mentions, “The State shall, in particular direct its policy towards securing – that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.” This empowers government to restrict fundamental rights guaranteed by constitution in the matter related to cooperatives and create exceptions to help weaker section by giving more to them, ignoring general equality. The Indian Constitution provides a distinct legal space to social capital & civil society institutions (a) through its Article on the right to form associations or unions – Article 19 (1)(c); (b) through Article 43 which talks of States making endeavour to promote cooperatives in rural areas; and (c) through explicit mention in entries made in Schedule VII. Moreover, Article 246 of The Constitutional Law of India empowers Union Parliament and Legislative Assembly of States on the subject matters for which they can enact the law.

### **Cooperative Movement and Legislations**

Cooperative Legislation is now about 150 years old in the world and nearly one century in India. The first Cooperative Credit Societies Act of 1904 was passed to encourage thrift, self-help and cooperation. The Government of India stated that, "Legislation is called for not only in order to lay down the fundamental conditions which must be observed but with a view to giving such societies a corporate existence without resort to the elaborate provisions of the Companies Act" It was the Royal Commission which made the observation "if cooperation fails, there will fail the best hope of rural India". By this time, the State was already deeply involved in promoting agricultural credit cooperatives. The number of societies reached impressive proportions and diversified their activities well beyond agricultural credit. Debates centred on whether or not each village should have a cooperative and whether there should be a single purpose or a multipurpose cooperative at the village level.

The Cooperative Act was further refined in 1912. Provinces like Bombay, Madras, Bihar, Orissa and Bengal made all out efforts to expand cooperatives in their territory and made their own enactments on the pattern of the 1912 Act. The Reserve Bank of India which was established in 1934 had agriculture credit as one of its primary functions and by extending refinance facility to the village cooperative system it played an important role in spreading the cooperative movement to all corners of the country.

The State Cooperative Laws as they exist today notably have been framed as a result of the reports of Committees, Conferences, National Policies and various Programmes such as All India Rural credit Survey Committee Report (1954), Committee on Cooperative Law (1957), National Development Council Resolution (1958), Committee on Cooperation (1964), Cooperative Laws vis-à-vis Cooperative Principles (1973), National Cooperative Policy Resolution (1977), Committee on Cooperative Law for Democratisation and Professionalisation of Management in Cooperatives (1987) and Chaudhary Brahm Prakash Committee (1990) has provided further fillip to this sector.

Planning Commission appointed Chaudhary Brahm Prakash Committee for examining the various aspects of cooperative laws. This committee recommended a Model Cooperative Act in the year 1991. Thrust of this law was to facilitate building upon integrated cooperative structure, making the federal organisations responsive towards their members, minimisation of

Government control and interference. Since then efforts have been made to modify various State Cooperative Laws in tune with the recommendation of the said Committee.

Historically, all government during long term planning has emphasised importance of cooperatives as discussed hereinafter, and has accordingly framed policy to boost cooperative movement. British Colonial Office while circulating a Model Cooperative Societies Ordinance in 1946, advised that, 'there is one direction of development, which must clearly be kept in view, if the cooperative movement is to become and remain vigorous. This direction is the increase in the real independence of the societies. The aim must be to increase the sense of self-reliance and independence.' Thus, it would appear that, despite limited success and meager coverage of cooperatives, the Registrars recognized the imperatives of developing independent and self-reliant cooperatives. A former Registrar of Cooperative Societies, Punjab, India, in fact quotes an observer as stating, 'The establishment of a strong cooperative department is by far the greatest service that a government of an underdeveloped country can give to cooperative development.'

India's First Five Year Plan (1952-57) stated, 'In a regime of planned development, Cooperation is an instrument, which, while retaining some of the advantages of decentralization and local initiative, will yet serve willingly and readily the overall purposes and objectives of the Plan. The cooperative form of organization can no longer be treated as a species only within the private sector. It is an indispensable instrument of planned economic action in a democracy.'

The Second Five-Year Plan (1956-1961), emphasized "building up a cooperative sector as part of a scheme of planned development" as being one of the central aims of National Policy. It aimed at enabling cooperatives to increasingly become the principal basis for organization of economic activity. The Plan drew up programmes of cooperative development based on the recommendations of the All India Rural Credit Survey Committee (AIRCS). It was envisaged that every family in a village should be a member of at least one cooperative society. Linking of credit and non-credit societies to provide better services to the farmers was also targeted. State partnership with cooperative institutions at various levels, the essential basis of which was to be assistance and not interference or control, was recommended and for facilitating State partnership in cooperatives, the Plan also recommended the establishment of a National Agricultural Credit Long-term Operations Fund. The National Cooperative Development Fund

was also established by the Central Government, during this period, to enable states to borrow for the purpose of subscribing share capital of non credit cooperative institutions in the country.

The Third Five Year Plan (1961-1969) stressed that “Cooperation should become, progressively, the principal basis of organization in branches of economic life, notably agriculture, minor irrigation, small industries and processing, marketing, distribution, rural electrification, housing and construction and provision of essential amenities for local communities and even the medium and large industries.”

The Fourth Five Year Plan (1969-1974) gave high priority to the re-organization of cooperatives to make cooperative short-term and medium-term structure viable. It also made necessary provisions to provide cooperatives with management subsidy and share capital contribution, as well as for the rehabilitation of Central Cooperative Banks. It also emphasized the need to orient policies in favour of small cultivators.

The Fifth Five Year Plan (1974-1979) took note of the high level of over-dues. In its recommended strategy for cooperative development, the correction of regional imbalances and reorienting the cooperatives towards the under-privileged was to receive special attention. Based on the recommendations of an Expert Group appointed by the Planning Commission in 1972, structural reform of the cooperative set-up was envisaged. The Plan recommended the formulation of Farmers’ Services Cooperative Societies as had been envisaged by the National Commission on Agriculture and stressed the need for professional management of cooperatives.

The Sixth Five Year Plan (1979-1985) also emphasized the importance of cooperative efforts being more systematically directed towards ameliorating the economic conditions of the rural poor. The Plan recommended steps for re-organizing Primary Agricultural Credit Societies into strong and viable multi-purpose units. It also suggested strengthening the linkages between consumer and marketing cooperatives. Consolidation of the role of Cooperative Federal Organizations, strengthening development of dairy, fishery and minor irrigation cooperatives, manpower development in small and medium cooperatives were some of the planned programmes. With the objective of introducing a comprehensive central legislation to facilitate the organization and functioning of genuine multi-state societies and to bring uniformity in their

administration and management, the MSCS Act of 1984 was enacted. The earlier Multi-Unit Cooperative Societies Act of 1942 was repealed.

The Seventh Five Year Plan (1985-1990) pointed out that while there had been all round progress in credit, poor recovery of loans and high level of over-dues were matters of concern. The Plan recommended amongst others development of Primary Agricultural Credit Societies as multiple viable units; realignment of policies and procedures to expand flow of credit and ensure inputs and services particularly to weaker sections; special programmes for the North Eastern Region; strengthening of consumer cooperative movement in urban as well as rural areas and promoting professional management.

The Eighth Five Year Plan (1992-1997) laid emphasis on building up the cooperative movement as a self-managed, self-regulated and self-reliant institutional set-up, by giving it more autonomy and democratizing the movement. It also spoke of enhancing the capability of cooperatives for improving economic activity and creating employment opportunities for small farmers, labourers, artisans, scheduled castes, scheduled tribes and women and emphasized development and training of cooperative functionaries in professional management. The Multi-State Cooperative Societies (MSCS) Act, enacted in 1984, was modified in 2002, in keeping with the spirit of the Model Cooperatives Act. Unlike the State Laws, which remained as a parallel legislation to co-exist with the earlier laws, the MSCS Act, 2002 replaced the earlier Act of 1984.

In 2002, the Government of India enunciated a National Cooperative Policy. The objective of the Policy is to facilitate an all round development of cooperatives in the country. The policy promises to provide cooperatives with the necessary support, encouragement and assistance, to ensure their functioning as autonomous, self-reliant and democratically managed institutions, accountable to their members, and making a significant contribution to the national economy.

### **The Companies Amendment Act, 2002**

A Committee under the chairmanship of Dr.Y.K.Alagh recommended the amendment of the Companies Act, 1956. On the basis of the recommendations of the Committee, the Producer Companies Bill was introduced in the Parliament and became law on 6th February, 2003 as Part IXA - Producer Companies in the Companies Act, 1956. The committee was asked (a) to frame a



legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies and (b) to ensure that the proposed legislation accommodated the unique elements of cooperative business with a regulatory framework similar to that of companies.

The new type is termed as 'Producer Company', to indicate that only certain categories of persons can participate in the ownership of such companies. The members have necessarily to be 'primary producers,' that is, persons engaged in an activity connected with, or related to, primary produce. Primary produce is the produce of farmers arising from agriculture including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products: produce of persons engaged in handloom, handicraft and other cottage industries: by - products of such products; and products arising out of ancillary industries.

Any ten or more individuals, each of them being a producer, that is, any person engaged in any activity connected with primary produce, any two or more producer institutions, that is, producer companies or any other institution having only producers or producer companies as its members or a combination of ten or more individuals and producer institutions, can get a producer company incorporated under the Act. Members will initially receive only such value for the produce or products pooled and supplied as the directors may determine. The withheld amount may be disbursed later either in cash or in kind or by allotment of equity shares.

Members will be eligible to receive bonus shares. An interesting provision is for the distribution of patronage bonus (akin to dividend) after the annual accounts are approved. Patronage bonus means payment out of surplus income to members in proportion to their respective patronage (not shareholding). Patronage, in turn, is defined as the use of services offered by producer companies to their members by participation in their business activities.

Based on the cooperative principles of mutual assistance, the Act provides an alternative to the institutional form in light of economic reforms brought in 1991 that is presently available to cooperative enterprises. It is providing an institutional form for the displaced. Globalization would also result in restructuring leading to displacements occurring due to exit policies, labour

re-engineering, closure of less competitive units, adoption of new technologies and consequent down sizing, mergers, acquisitions etc. including displacement from the agricultural sector.

Cooperative may act as constructive competitor. Cartels or predetermined market sharing by private enterprises can jeopardize free and fair trade. Cooperatives could provide the role of the constructive competitor

Cooperatives may safeguard the interest of Agriculture and Rural areas. Agriculture will continue to be important in terms of percentage share of dependent population. The logic of agriculture would be applicable to almost the entire rural population.

Though, the first steps in this direction were initiated by the government, the concept received excellent response from rural India and within a few years a number of cooperative societies were in existence in large parts of the country.

### **Evolution of Cooperative Policy**

India opted for a democratic form of government and socialistic pattern of society and centrally planned model of economic development, cooperatives have come to be seen and treated as no more than instruments of state planning. Government planners target their numbers, determine the scale of their business and decide their place and linkages with other state-created/supported agencies and institutions in the economy. On its part, the government provides financial assistance, discriminatory protection and stable operating environments through a web-like system of licenses and regulations. The number of cooperatives has indeed increased, so has their sweep and coverage; but these cooperatives, in reality, are no more than mere appendages of the vast state administrative apparatus.

As the times changed and so are the roles and places of institutions. India embarked on reforms in 1991, unfolded environment so as to see social and economic development processes are expected to be guided by market forces, and the state role greatly reduced and restricted in relation to business enterprises. Cooperatives, in order to survive in these new environments, have been given autonomy and freedom of action. At the fall of 2000 the Government of India constituted a Ministerial Group to finalise the draft of Cooperative Policy. According to that, the Group finalised and existing constraints pertaining to legislative and policy aspects, resource

crunch, infrastructural deficiencies, institutional inadequacies, lack of member awareness and non participation, erosion of democratic management, too much of bureaucratic and government control and politicisation.

The ultimate objective of the National Policy is to provide support for promotion and development of cooperatives as autonomous, independent and democratic organizations so that they can play their due role in the socio-economic development of the country. The Policy further aims at reduction of regional imbalances and strengthening of cooperative education, training and human resource development for professionalization of cooperative management. It recognizes the distinct identity of cooperatives and seeks to support their values and principles by catalysing States to provide them an appropriate administrative and legislative environment.

### **National Cooperative Policy**

The National Cooperative Policy 2002 has recognized the ideology of cooperatives which is based on the principles of self-help, self-responsibility, democracy, equality and solidarity in addition to emphasizing the inculcation of cooperative values such as honesty, openness, social responsibility and concern for one another by all connected with cooperatives.

The objective of National Cooperative Policy is to (i) to facilitate all round development of the cooperatives in the country, (b) provide necessary support, encouragement and assistance, so as to ensure cooperatives function as autonomous, self-reliant and democratically managed institutions accountable to their members and (c) enable cooperatives to make a significant contribution to the national economy, particularly in areas which require people's participation and community efforts.

Cooperatives to remain as the preferred instrument of execution of the public policy especially in the rural area, and government recognizes the need to provide preferential treatment to cooperatives engaged in sectors such as credit , labour, consumer, services, development of women and downtrodden people. The role of government was restricted to only the important essential functions such as: (a) conduct of timely election, (b) audit and (c) to protect and safeguard the interest of members and stake holders in cooperatives and not to interfere in the management of cooperatives.

The policy, *inter-alia*, aims to “extend support for improving financial viability and resource mobilization by harnessing local savings and adequate refinance facility, and to the possible extent providing a policy frame work to ensure that there is no discrimination against the cooperatives in the matter relating to resource mobilization to attain financial viability”.

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### **Current Scenario**

As per provision of Constitutional Law of India, the cooperation is a state subject. Moreover, the structure of cooperative movement in India is federal i.e. Primaries at the grass root level which are federated to district level federations and further federated to state level. These societies look forward for guidance to upward direction and for line of control to downward. Besides, there exist 21 National level sectoral federations, which take care for the development of their respective sector. Looking to the vast size and multi dimensional approach of the movement, it is expected to develop inter-related and inter sectoral problems. And as to ascertain in advance as well as find out the exact cause/reasons, such problems require to be studied timely for providing amicable solutions in the interest of their segments as well as for the healthy development of the movement.

Presently, Laws regulating Cooperative Societies in India are:

- i) State Cooperative Societies Acts of individual states

- ii) Multi-State Cooperative Societies Act, 2002 for the multi-state Cooperative societies with Area of operation in more than one State. A multi-state Cooperative Society means a society registered or deemed to be registered under the Multi-State Cooperative Societies Act, 2002 and includes a national Cooperative society or a Federal Cooperative.

In addition to this few States have enacted parallel progressive cooperative laws, and multi-State cooperatives are regulated by The Central Cooperative Law, namely Multi State Cooperative Societies Act 1984. There are currently about 27 cooperative laws that are in force in different states and union territories.

Cooperative Societies Act is a Central Act. However, 'Cooperative Societies' is a State Subject (Entry 32 of List II of Seventh Schedule to Constitution, i.e. State List). Though the Act is still in force, it has been specifically repealed in almost all the States and those States have their own Cooperative Societies Act. Thus, practically, the Central Act is mainly of academic interest. As per preamble to the Act, the Act is to facilitate formation of cooperative societies for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means.

The Statement of Objects and reasons states as follows – (a) Cooperative Society can be established for purpose of credit, production or distribution. (b) Agricultural credit societies must be with unlimited liability. (c) Unlimited society is not best form of cooperation for agricultural commodities. However, the provision is continued as in several provinces (now States) such societies do exist and are working. It is not intended to give them undue encouragement, but to legalise their existence. (d) Unlimited society can distribute profits with permission of State Government.

### **Who can form a Cooperative Society?**

A society can be formed with at least 10 members of age above 18 years. If object of society is creation of funds to be lent to its members, all the members must be residing in same town, village or group of villages or all members should be of same tribe, class, caste or occupation, unless Registrar otherwise directs. The provision of minimum 10 members or residing in same town/village etc. is not applicable if a registered society is member of another society. If the operation of the proposed society is only one State, then the Cooperative Society is to be registered under that State's Cooperative Act. If the society intends to operate in more than one

State, the Cooperative Society is required to be registered under Multi State Cooperative Act, Central Government Act. The procedure to register a cooperative society is easy and literally costless.

### **Advantages of cooperatives**

The cooperative legislation and other legislation have been enacted to promote and support cooperatives and its members. The legal framework has been advantageous, directly & indirectly for the cooperative societies' activities, economic benefits to the cooperative & members of the cooperative and brings social justice to the members of cooperatives. Industrial policy till 1991, protected cooperatives by offering them the list of items only reserved for cooperatives. Following advantages are worth noting:

1. Cooperatives promote equality, the Cooperative Act provide equal voting irrespective of disproportionate share held by members. However, a member can not hold the share more than the prescribed limits.
2. No discrimination based on caste, creed, religion, income, age, sex etc. A person competent to contract can become member irrespective of any caste or creed.
3. Protect individual members from exploitations. Credit cooperatives were born out of prevention of exploitation of poor farmers from money lenders.
4. Shares or interest of cooperative is not liable to court attachment. Subject to the provisions of the Act, the share or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a Court
5. Both Central and State governments provide all kinds of help to the cooperative societies. Such help may be provided in the form of capital contribution, loans at low rates of interest, exemption in tax, subsidies in repayment of loans, etc. There are several schemes framed to help cooperatives, while cooperatives are used as vehicle to implement government schemes.
6. Relief in the income tax payable in respect of the profits of the cooperative society, or of the dividends or other payments received by the members of the society on account of profits

7. Relief in the payment of stamp duty or such fees under any law for the time being in force, instruments executed by or on behalf of a registered cooperative society or by an officer or member and relating to the business of such cooperative society
8. Restrictions on loan and borrowing protect cooperatives from unnecessary exposure of bankruptcy; a cooperative society can not lend money beyond certain limit to a single member. Society is prohibited to lend money to a person who is not member of the cooperative society; however The Registrar can permit society to lend a non-member.
9. As per provision of the Cooperative Society Act, no part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members, unless at least one- fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made among the members to such extent and under such conditions as may be prescribed by the rules or by- laws
10. Formation of a cooperative society is very easy compared to a joint stock company. Any ten or more adults can voluntarily form an association and get it registered with the Registrar of Cooperative Societies.
11. Through cooperatives the members or consumers control their own supplies and thus, middlemen's profit is eliminated.
12. A cooperative society has a fairly stable life and it continues to exist for a long period of time. Its existence is not affected by the death, insolvency, lunacy or resignation of any of its members. Cooperative society is juristic person and have life separate than its members.
13. Cooperatives have political and religious neutrality. The Rochdale Society added this principle in response to the experience of some politically motivated cooperatives which were frequently boycotted by consumer groups protesting their controversial stances.
14. Cooperative enterprises are promoting education. As per provision of Cooperative Law, the Registrar may allow cooperatives to set aside monies for education, cooperatives are promoting education.
15. Cooperatives, as economic enterprises and as self-help organizations, play a meaningful role in uplifting the socio-economic conditions of their members and their local communities. With their concern for their members and communities, they represent a

model of economic enterprise that places high regard for democratic and human values and respect for the environment.



## **B] The humanization of our world**

### **How cooperatives help the human being?**

Cooperatives, as economic and self-help organizations, play a meaningful role in uplifting the socio-economic conditions of their members, local communities and the society at large. Over the years, cooperative enterprises have successfully operated locally owned people-centred businesses while also serving as catalysts for social organization and cohesion. With their concern for their members and communities, cooperatives represent a model of economic enterprise that places high regard for democratic and human values and respect for the environment. Business transactions by cooperative societies are not only for profit, surplus distribution but for mutual help and to improve quality of Life.

The Government of India (Union & States) contributed significantly by providing legal framework to cooperatives with necessary safeguards & privileges to the cooperatives leading to cooperative development, a holistic approach of development. Cooperative development was balancing economic well being with that of social welfare. Cooperative legislations were substantially designed to have fine tuning with “principles of cooperation” and a natural instinct of the human being.

Right to form a cooperative society is a Fundamental Right by insertion of words 'cooperative societies' in proposed sub clause (c) of clause (1) of Article 19. However it is argued that, the freedom of association itself is implied Fundamental Right to form cooperative. The constitutional amendments will ensure accountability of management of cooperatives and provide for deterrence for violation of the provisions of the law. Indian Constitution laid down certain guidelines in the Constitution to be followed by the governments while administering the state. These guidelines are contained in Section IV of the Constitution and are known as the Directive Principles of State Policy. The directive principles constitute a restatement of the ideals mentioned in the Preamble. They are guidelines or instructions to the government to be kept in mind while formulating various policies. Various provisions including Article 39 of the Indian Constitution directs government to frame policies that encourage cooperatives.

The cooperative enterprise also presents an important model as many of the world's poorest and disadvantaged face social exclusion, lack of access to opportunities and growing economic

inequality. As the world today faces unstable financial systems, increased insecurity of food supply, growing inequality worldwide, rapid climate change and increased environmental degradation, it is increasingly compelling to consider the model of economic enterprise that cooperatives offer. Cooperative values and principles are essentially in alignment of humanization process. The cooperative sector presents itself as an important element which is contributing to the realization of the Millennium Development Goals (MDGs) set for India. MDGs are accepted universal humanization tools. Activities of cooperatives and humanization are interwoven. Cooperative enterprises achieve elements as narrated hereafter to argue that the cooperatives acts as an instrument of humanization because of enabling provisions of cooperative & other legislation and conducive policy. Humanization can be enhanced by:

- i. **Empathy** to identify with each others' feelings, experiences and attitudes
- ii. **Dialogue** among various stake holders, it can help deepen the level of understanding
- iii. **Commonalities** of interests can bring about recognizing the common humanity
- iv. **Trust** building and constructive resolution
- v. **Cooperating** each other by complimenting and supporting mutually

### **Cooperatives and Human Values**

Cooperatives believe in the primacy of the individual that each individual has inborn human values and a right to personal dignity in life. Three main elements interwoven between cooperatives & humanization are:

**Equality:** The belief that all human beings are important because they are human beings; they may not be equal in ability, intelligence or circumstance, but all humans should have equal access to resources and equal opportunity to control the forces that shape their lives.

**Equity:** Humans believe in the principles of fairness and justice; they respect and trust one another in the hopes that a sense of community will emerge.

**Mutual Self-Help:** People can be the masters of their own destinies by working together rather than against their fellow man. When people have concern and compassion for others, human values rise above material values. Cooperatives strongly emphasize the importance of the moral values of honesty, openness, social responsibility and caring for others.

A cooperative is made up of people who are united with the purpose of mutual self-help and are organized for other economic and social objectives with the intent to be based on equality and equity. They must provide the people with necessary goods and services or make joint use of their available resources to increase their income. The Cooperative law in India has kept these three elements in the centre of working of any cooperative society. The Act ensures that no section of society gains at the expense of the human rights and common decency of others. Society is best served when the fruits of its economic, social and cultural accomplishments are widely distributed. They believe that the democratic system requires widespread participation in all important economic, political and cultural processes. Control of these processes is the privilege and responsibility of all people as a whole and not that of a select part of the population. Keeping this in mind, the Registrar of Cooperative Societies acts as guardian of members of the society and each member can participate in governance of a society.

The concepts of loyalty and commitment are key values in a cooperative context. They are *sine qua non* for the success and adaptation of cooperative enterprises. These two values not only refer to the consistent patronage of cooperatives, but also to participation in decision making, to invest in the cooperative and to contribute to the firms' development. Members' commitment and loyalty are necessary for the adaptation of the cooperative to an ever-changing economic and institutional environment. Member loyalty and commitment are often expressed as "social capital". The social capital that a cooperative creates within the organization has been claimed to be the most valuable asset of the cooperative (Nilsson, Svendsen et al). Related to loyalty but not identical are member solidarity and member involvement, also watchwords in a cooperative context. Governing Board and various Committees are elected on basis of fair election under the patronage of Registrar of Cooperative Societies.

Cooperatives recognize the following as fundamental rights of the individual enshrined in Constitutional Law namely Article 14, 19 & 21:

- i. **The right to life**, liberty and the pursuit of personal development, well-being and happiness
- ii. **The right to employment** opportunity and security of livelihood sufficient for each to live in dignity and decency
- iii. **The right to sufficient income** in retirement to ensure a life of dignity

- iv. **The right to equal access** to public places, activities and assembly
- v. **The right to be recognized** and treated as an individual and not as an instrument of production

**Cooperative Principles:** The cooperatives are evolved around human needs. The cooperatives have sustained test of time. Following cooperative principles are considered to be backbone of life of a cooperative society. Indian cooperative legislation and policies are framed on the basis of internationally accepted cooperative principles and the provisions of the Act are interwoven to respect those principles.

**Voluntary Membership:** Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination. As per provision of the Act, person should apply for membership of society voluntarily and cooperative society is free to admit or refuse the proposal of any person who apply for membership. A person can apply for withdraw his membership. Voluntary Association recognize one's right to freedom. Cooperative society can terminate membership. Both parties have freedom to decide association with each other and disassociate at any point of time.

**Open Membership:** Membership in a cooperative society is 'open', means there is no artificial restriction or any discrimination on the basis of caste, creed, religion, social, political, economical etc. to all who need the service of a cooperative. A cooperative is set up to satisfy common need of members, and these needs are generally felt by them. The openness is not absolute and hence all who need service of a Cooperative is bound to admit, if there is a reason which is unavoidable. It is open only for those who can make use of services and without much disturbing the other members and the society itself. Open membership emphasize on duty of the member to be tolerant and be helpful to other members.

**Member Economic Participation:** Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following

purposes: developing their cooperatives, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

**Autonomy and Independence:** Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy. As per cooperatives law, cooperative society is autonomous institutions run by its members or elected representatives of the members. All major decisions are to be approved and taken by the members' body. To avoid the elite capture of the cooperatives, legal framework in India still provides lot of controlling powers to the government, in fact in the interest of illiterate weak members and to prevent exploitation by politicians. With changing economic scenario and increasing awareness among the members have, led to the demand of making cooperatives more autonomous. Recently introduced constitutional amendment asks for greater autonomy to cooperatives. From the very beginning the objective of the government to create cooperative as an independent movement, when the societies were not expected to be under control by Government, but wholly managed by the people themselves. Cooperative policy is framed to keep balance between autonomy & independence on one hand but not at the cost of exploitation of weak members by politicians.

**Democratic Member Control:** Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote), and cooperatives at other levels are also organised in a democratic manner. Ownership and control by members, who usually have one vote per person, is a key aspect of cooperatives. Cooperatives differ from other forms of enterprise in that their owners invest in order to create a business that will benefit them through their patronage, not from appreciation in the value of, or return on, their equity. A cooperative is not a typical investor-owned corporation. Although cooperatives are private sector corporations, they differ from typical investor-owned corporations by being user-owned, user-centred and user-controlled. Owner value arises from patronage, not appreciation of equity.

Cooperative law do not permit public trade of cooperative stocks. The stock of a cooperative can only be transferred to another member with permission of the cooperative's general meeting. In an investor-owned corporation, shareholders own the corporation. The corporation's purpose is to earn financial returns for shareholders and shareholder control is proportionate to equity holdings. Investor-owned corporations return revenues to investors proportionate to their "investment" or ownership share and typically raise money through capital markets. In the case of a cooperative, the user-owned principle signifies that the users finance the cooperative to benefit through their patronage. User-controlled means that boards are elected by the members, usually on the basis of one person, one vote, linking membership and management. Registrar of Cooperative Society acts as election officer to ensure fair and timely elections.

**Profit vs. Patronage:**

User-centred means members profit from the cooperative, as surpluses are returned to members as patronage refunds based on the proportion of business each member conducts with the cooperative. A society can not distribute dividend unless certain part is transferred to reserve and the dividend declared can not be more than 15%. User-ownership reflects the fundamental identity between owner and user, a key element in sustaining loyalty to the cooperative. Trust, the bedrock of cooperation is built and strengthened when the business is owned by those who use its services, is governed by elected leaders who are users, is locally-owned and controlled and whose customers democratically elect their policy body. Any surplus revenues (profits) earned by the cooperative are reinvested in the business and/or returned to members based on how much business they conducted with the cooperative society that year. Many cooperatives are obligated to return a portion of their "surplus revenues" to members each year.

**Education, Training, and Information:** Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. Cooperatives can expend money for the purpose, deductible as expense under the tax law. A cooperative has to transfer specified amount of profit to education fund before distribution of dividend amongst the members.

**Cooperation among Cooperatives:** Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and

international structures. A cooperative under Indian law can become member of another cooperative. Credit cooperative, marketing & processing cooperatives have two or three tier structure to promote cooperation among cooperatives. Notable among these are AMUL, IFFCO and State Cooperative Banks as giant and successful cooperatives because of cooperation among cooperatives.

**Concern for Community:** Cooperatives work for the sustainable development of their communities through policies approved by their members. Cooperatives can expend money for the purpose, deductible as expense under the tax law. As cooperatives are economic associations of low income people, cooperatives provide the opportunity for poor people to raise their incomes. As a cascading effect, cooperatives contribute directly and indirectly to meeting several of the other Millennium Development Goal (MDGs), such as primary education for children, gender equality and reducing child mortality.

### **Prevention of Exploitation**

The cooperative enterprise presents an important model as many of the worlds poorest and disadvantaged face social exclusion, lack of access to opportunities and growing economic inequality. As the uneven effects of globalisation have led to a rise in the unregulated informal economy, workers in the informal sector have formed shared service cooperatives and associations to assist in their self-employment. In rural areas, savings and credit cooperatives provide access to banking services which are lacking in many communities. Credit cooperatives also play an important role in the formation of small and micro businesses. They can affect the kind of financial 'deepening' that the World Bank envisages, as they consistently reach the poor in a sustainable way.

Over the years, cooperative institutions have played a large role in providing institutional credit to the agricultural and rural sectors across India. Cooperatives support efforts at the grass root level to mobilize resources with the aim of achieving better working results and improvements for it members. The advantage of functioning under a cooperative is that it is neither a public nor a profit seeking organization. Its principal objective is to eliminate economic exploitation as it is

controlled by members only. The Cooperative Movement was introduced in India by the Government as the only method by which the farmers could overcome their burden of debt and keep them away from the clutches of the money-lenders. The Cooperative Credit Societies Act, was passed and rural credit societies were formed these societies were started with the object of providing cheap credit to the agriculturists in order to free them from the clutches of the rapacious money-lenders. The agricultural primary credit society is the foundation-stone on which the whole cooperative structure is built.

Cooperative Society provides its members control over all the operations of the organization as it promotes a high degree of participatory involvement, making cooperatives more responsive to market & member requirements. They also generate a sense of responsibility amongst members towards the maintenance of the organization; promotes cost efficiency & keeps overheads to a minimum. A cooperative is a small community by itself and hence can undertake several social activities such as organizing special programmes, arranging health services, improving the ecology of its area, etc. Even loans can be arranged by the cooperatives for their members, for which the members have a collective responsibility for its repayment.

### **Mutual Assistance**

Cooperatives work on basic concept of 'mutual assistance' and 'one man one vote'. The bye-laws of multi-state cooperative society should provide for cooperative principles, as given in First Schedule to the Cooperative Societies Act. There are more than 158,000 retail credit outlets in the cooperative and banking sectors. The purpose of enactment of the AP Cooperative Societies Act (APMACS Act) 1995 was to promote institutions which are based on cooperative principles, are self-reliant, accountable and are formed for the fulfilment of the perceived needs of ordinary people. This was in contrast to the AP Cooperative Societies Act, 1964 which encourages the promotion of largely government controlled and dependent cooperative institutions. Mutually-aided cooperative societies can provide insurance coverage to their clients by having a master policy covering all their clients, the member of cooperative society.

### **Limited Interest on capital**

The share capital shall only receive interest if any by whatever name it is called including dividend is limited and within limits prescribed by law. Thus voting power and distribution of



trade surplus is limited. This recognizes one's right to the fruits of his labour and other sacrifices one has made for the society. It also denies to capital anything other than the fair wage. Cooperative law restricts the amount of dividend or return to the shareholders by whatever name it is called including interest on capital.

### **Equitable division of surplus**

The voting power or trading surplus is not only limited but is literally equal. Trading surplus or profit belongs to the members and distributed in such manner as would avoid one members gaining at expense of others. A shareholder can have maximum share as prescribed by law and are subject to limits in terms of total share (Which can never exceed one fifth) and amount. However, the voting power is not linked with the share capital held by a member, but counted on heads. Undistributed profit is transferred to reserve and surplus in appropriate heads as in accordance with Indian accounting system. This ensures that one does not exploit other's right over surplus on the basis of irrelevant criterions for distribution of profit. The provision of the Act is based on saying "I shall have my hands in no man's pocket and no man shall have his hand in mine". The spirit of cooperative society is thus to encourage and ensure mutual help rather than limited economic gain of few.

### **Women Participation**

The Women's Dairy Cooperative Leadership Program worked with Milk Cooperatives from 1999 to 2002. An extensive analysis of its impacts in 50 villages indicated that the cooperative training improved the capacities of rural women in income generation and in promoting savings and credit. In addition to economic development impacts, participation in the cooperative led to better health, hygiene, functional literacy and legal rights. The program significantly increased the involvement of women in dairy cooperative management. Women's participation rates more than doubled on management committees of targeted cooperatives compared to no increases in other cooperatives. In Maharashtra's Kolhapur District, rather than face the hurdles of social engineering, the dairy cooperative union promoted multiple cooperatives in villages where there were significant caste or religious differences. The approach was based on the belief that, as social differences were subsumed by economic interests; the cooperatives would merge to achieve greater returns to their members.

Another phenomenon has been the gradual shift in participation in dairy cooperatives in India. As the higher castes which once dominated dairy cooperatives “graduated” to other endeavours, financed by their dairy earnings, the cooperatives increasingly recruited members from deeper social strata in village society. Today lower castes, tribal and former untouchables have entered dairying in large numbers, replacing the higher castes that have moved into industry and trade.

### **Empowering Women through Cooperative Dairy**

Cooperatives have empowered women through its economic activities. Generally politically & socially sidelined women are factually full time engaged in farm & dairy activities. Dairy cooperatives have provided fillip to the women their deserving share. Following story tell the truth.

#### **Case I Making a success of the self-help concept\***

`Swakrushi,' the logo of the Mulkanoor women's cooperative dairy speaks for itself, suggesting that people can make self-help work, provided they are dedicated, determined and united. The Mulkanoor cooperative movement in the upland and drought-prone Bheemadevarapalli mandal started in the early 1990s, before the concept of women self-help groups (SHGs) was popularized. Earlier, the women's thrift cooperatives and associations used to rotate their savings by investing in agriculture. Once the drought hit the region since 1997, the women's investments did not generate income, incurring losses.

The women began exploring other ways of investing. After a brainstorming session, members realised that many women had milch cattle and were already selling milk. This emerged an idea of starting a dairy unit on a cooperative basis. Sahavikasa (Cooperative development federation) agreed to support them in the venture in financial, promotional and training aspects. Approached by Sahavikasa, the National Dairy Development Board also agreed to extend technical support. The Mulkanoor cooperative rural bank, a local primary agricultural cooperative society (PACS), helped them by undertaking the responsibility of supervising the construction of the building and installation of the dairy unit's machinery.

The Mulkanoor Women's Cooperative Dairy thus became a reality. Spread over eight acres of land on the outskirts of Mulkanoor village in Bheemadevarapalli mandal, the dairy started

functioning from August 17, 2002. On the first day, they procured 2,002 litres of milk in the morning and 1400 liters milk in the evening. Currently, the dairy procures about 18,500 litres of milk from various societies. Each member had contributed a capital share of Rs. 100 per litre of milk supplied. The dairy has about 5,019 members spread over 68 villages in Bheemadavarapalli and the surrounding mandals of Elkathurthy, Huzurabad, Husnabad, Saidapur, and Dharmasagar mandal of Warangal district. Out of 32 employees, 22 are women. Interestingly, the women move in vehicles as route officers even during early hours. The dairy's milk is being sold in small villages & towns. Besides, 32 outlets have been opened in Warangal and Karimnagar districts to exclusively sell the dairy's milk. The union supplies cattle feed and medical assistance through veterinary assistants.

Talking to The Hindu, the chairperson of the Mulkanoor women's cooperative dairy, A. Ratnamala, said they had not invested in advertisements for the promotion of sales. "Our women members visited each and every village in a radius of 25 kilometers and promoted the use of the dairy's milk. We had distributed our milk free of cost for three days to the consumers and asked them to check the quality and continue if they desired so. The concept clicked and we never looked back," she said. She said that they were planning to increase milk procurement and sales and cover a total of 100 villages. They were also planning to produce butter, cheese, ghee and buttermilk soon. She said that they had cleared about Rs 10 million loan and the remaining Rs 2.6 crore loan would be cleared soon.

\*Adopted from 'The Hindu' of September 24, 2004

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### **Case 2 Socio-Economic Development Through Inclusion: Lessons from Gambhira Cooperative Farming Society**

The essence of inclusive growth of economy is to ensure that a range of appropriate opportunities are available to every individual and enabling them to understand and become part of economic growth. Directive Principle under Indian constitution provides 'The State should work to prevent concentration of wealth and means of production in a few hands, and try to ensure that ownership and control of the material resources is distributed to best serve the common good' [Article 39 (b)]. Gambhira Cooperative Farming Society worked on this basic

theme and in exemplary manner. The case study brings socio-economic development through inclusion based as on one of the cooperative principle 'open membership', pluralism through institutionalization, benefits through economies of scale, equity through labour & distribution of surplus on basis of wages to farmers.

Due to heavy & frequent floods agriculture lands were badly destroyed in few villages of Borsad Taluka in India. The small farmers who were dependant on this land for their livelihood were rapidly impoverished and most of them became landless labourers. In 1951, with a view to help the distressed cultivators, at the request of a dedicated social worker the Government granted 246 acres of land to 176 cultivators from four villages near Gambhira, The grantees cultivated the land individually in small fields but yield was very low as the lands were saline and farmers had nothing to invest in reclamation, and had to take water for their crops from the owners of water pumping plants in return for half the produce.

The government gave 161 acres of land for cooperative farming to 176 families. 28 groups were made for each plot made up of 8-16 members; each group is allotted plots of land in proportion to its size. The society supplies seeds, manure, fertilizer, pesticides, irrigation facilities to all groups; the members of the group in turn provide labour, bullock power and services of their implements. The marketing of all produces is undertaken by the society through an open auction process, the society claims 40 percent towards the cost of inputs and the group retains 60 percent. This 60 percent share is distributed to all members equally, but with adjustments made for labour and bullock power supplied by different members. Out of the 40 percent share the society pays land rent, cost of inputs and other administrative costs. After meeting all these costs the cooperative is left with substantial surpluses of which 70 percent is distributed equally among members as bonus. Over a period of time, the members of the society and surrounding community benefited due to inclusiveness work culture of the society.

The cooperative, which is more than six decades old, has boosted income for 291 member farmers and improved their socioeconomic condition. Sales of crops rose from INR 90,660 in 1953-54 to INR 32 Million (USD 650000) in 2010-11, states a working paper by NT Sudarshan Naidu. The paper states that the income obtained by each member whose labour contribution

amounted to only 150-180 days per year was significantly higher than cultivating individually. It states, on an average, each member received about INR 90,000 (including bonus) in 2009-10.

Income generated from the society has helped the members in multiple ways. They have constructed houses, upgraded their previous ones, and some members have brought land outside the society. Their children receive an education, occasionally with the society's assistance, and at least one member of each family is employed with a government or private enterprise, states the paper. In the housing sector, as government-owned housing has increasingly privatized over the past decade, cooperatives have proven to be a sustainable way for residents to own and maintain their own homes. 92,000 Housing Cooperative Society's membership exceeds 6.6 million. On an average, if a family consists of six members, housing cooperatives provide dwelling and shelter to 3% of Indian population.

Cooperatives in India have had a chequered history. During the first few decades after Independence, this sector played a pivotal role in the economy by making significant contribution to our primary sector production. It had an important role in bringing food sufficiency through the green revolution, in building up a network for distribution of new varieties of seeds, fertilizers and cash credit and in creating an environment of participation and hope among the people. Beginning with Amul in Gujarat, it took extraordinary strides in the dairy sector too. Currently, 170 District Cooperative Milk Producer Unions and 22 State Dairy Federations deserve credit for (a) turning India into the largest milk producing nation of the world, and (b) bringing substantial raise in the family income of millions of milk producers across the country. But, even this sector has now begun showing some signs of fatigue. In many areas, production has reached a plateau and the rate of capital formation is inadequate.

India's Dairy Cooperatives and the National Dairy Development Board offer an example of the potential scale of the impact of cooperatives in bringing grassroots farmers out of poverty and connecting them with markets. The National Dairy Development Board (NDDB) was established in 1965 to help grassroots Indian milk producers reach markets and obtain inputs and services. Its creation was rooted in India's recognition that its progress lies largely in the development of rural India. "Operation Flood," a program extending over 26 years, was funded by World Bank loans and made dairying a vehicle to a better future for millions of grassroots milk producers.

The NDDDB helps Indian milk producers reach markets and provides inputs and services, technical expertise and financial assistance. Innovative transport is another achievement of the NDDDB. By using special rail and road tankers, milk can be moved over 2,000 kilometers to reach markets. Since its inception, the NDDDB has catalyzed India's dairy industry by placing dairy development in the hands of milk producers and the professionals they employ to manage their cooperatives. In addition, the board promotes other commodity-based cooperatives, allied industries and veterinary on a nationwide basis. India's 100,000 dairy cooperatives procure an average of 16.5 million liters of milk from 12 million farmer members every day. The milk is processed and marketed by 170 milk producers' cooperative unions. Dairy cooperatives account for the major share of processed liquid milk marketed in the country. In 1968, India's milk production was 21.2 million MT, and the per capita availability of milk was 112 grams per day. As per recent survey, milk production is 88.1 million MT and per capita availability is 231 grams per day, which illustrates the impressive impact of Indian dairy cooperatives, thereby nourishment by cooperative has grown spectacular. The annual payments to producers, who are small & marginal farmers amount to US\$1.6 billion.

### **Poverty Reduction**

Cooperative organization is one of the institutional means which can help reducing poverty of the members of the society. There are numerous ways that this could be done. Cooperatives are instrument that can fulfil this. Cooperatives are like chameleon changes colour as to suit environment. If cooperatives are formed by and for poor, weaker and downtrodden people, it helps them. Cooperatives are not merely economic body but social too. Each member or beneficiary alone may be too weak to do some thing that can create and add value, but his deficiency may be compensated by other and vice versa. Thereby the whole group formed in such a way that each compensates others in their deficient matters. And thus they form a whole single unit that may create and add value to the society. The organization work for society and themselves and share benefits there from. As it is aggregate of all weaker people need someone who can take care of them and thus generally government in some form play role of motivator, motivator and regulator. Every society tries to reduce poverty and prepare programme to succour poor. Any socio economic activity that create and add value to the society, reduce poverty to an extent. If value creation distributed among top in the vessel, it is less reducing poverty and if that

value addition goes to bottom, it reduce poverty to large extent. Thus there are two aspects that become crucial,

1. Socio Economic Activity that create and add value to society
2. Such activity if distribute more toward bottom in imaginary social vessel

It becomes pertinent that such activities must be carried out in such mechanisms that distribute more to poor. The important point is to identify a cluster of people sharing something common and at the same time compensating deficiency of rest. If one can identify that and build strategies to compete in open market, the cooperative can do what a corporate can do and also assisting their members, distributing surplus to members, and also contributing to society. Cooperatives do perfectly the same process. In India, cooperatives like AMUL, NDDDB, IFFCO, WARANA NAGAR have played such a role that inspire others to follow suit in poverty reduction endeavour. After all, it was poor people who originally invented cooperatives as a form of economic association that would help them to climb out of poverty. The history of Indian cooperatives is full of evidence of their ability to increase their members' incomes, decrease the risks they run, and enable them to become full participants in civic society. The principles on which cooperatives are based, and on which they are distinguished from other forms of business organisation, point to a concern with democratic control by the members, the equitable return of economic surpluses, and a desire to share these benefits with other people in similar circumstances. However, their history also provides evidence of the limitations of cooperatives. They have a tendency, once established, to appeal more to people on low to middle incomes than to the very poor. India's dairy cooperatives employ more than 11 million members leading to transformation of dairy economy. Self Help Group (SHG) with the cooperatives engaged in financial intermediary as well as social development for the poor, SHG-Cooperatives models, as this is the most empowering form of microfinance, indeed the only one that gives to women and to poor the leadership and the ownership.

### **Cooperatives as Vehicle of Government Schemes**

The State has used cooperatives to channel its development schemes, particularly subsidy-based programmes for the poor. As these institutions have a wide reach in the rural areas and also deal with finances, the choice was natural. The trend, however, also made cooperatives a conduit for

distributing political patronage. This and the sheer magnitude of resources and benefits channelled through the societies, makes control of decision-making and management attractive to parties in power, for accommodating their members, to influence decisions through directives, and for individual politicians to be on the management boards of the cooperatives.

The main objective of a cooperative is to serve members' needs, and not profit maximization. For example, A housing cooperative is neither a public nor a profit seeking organisation. Its principal objective is to eliminate economic exploitation as it is controlled by members only. The maintenance of the estate is also in the hands of members, which leads to maintenance at lesser expenses and in a better way. Cooperative is more responsive to user's needs than those supplied through any other sub-system. A cooperative is a small community by itself and hence can undertake several social activities such as organising special programmes, arranging health services, improving the ecology of its area, improvement in social behaviour and mental health, etc.

During the struggle for Independence the whole emphasis of the Gandhian movement was on self-help and cooperation. The cooperative movement gained momentum as a part of such self-help ethos embedded in the independence movement. To Gandhiji the swadeshi movement (the encouragement of domestic production and boycott of foreign goods as part of the campaign for independence) was "the greatest constructive and cooperative movement in the country". In propagation of khadi and village industries, he found "the panacea for India's growing pauperism" and "an object lesson in cooperation". Gandhiji looked at cooperation as a moral movement

Democracies inherently encourage such cooperative behaviour. The Indian Constitution too explicitly recognizes "right to freedom of speech and expression and to form associations or unions" as one of the core rights of its citizens under Article 19(1) and hence encourages formation of civil society groups and community organizations.

Cooperatives in India came into being as a result of the Government taking cognizance of the agricultural conditions that prevailed during the latter part of the nineteenth century and the absence of institutional arrangements for finance to agriculturists, which had resulted in mounting distress and discontent. Small, local, locally worked institutions, cooperative in form,



which would satisfy the postulates of proximity, security and facility for providing credit, were seen as the answer to this situation. However, subsequent events during both pre and post Independence period have led to a vast growth of cooperatives covering various sectors of the Indian economy.

### **Distinct Cooperative Values**

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. Cooperatives have three pronged conduit namely; economic, democratic and social. In words of Kofi Annan, former United Nations Secretary-General, “Cooperatives are founded on the principles of private initiative, entrepreneurship and self-employment, underpinned by the values of democracy, equality and solidarity, the cooperative movement can help pave the way to a more just and inclusive economic order.” Cooperative Societies in India has multifaceted colour in its activities and the way it acts. Broadly speaking cooperatives have Economic, Social & Democratic conduit in its objectives and functional behaviour.

**Economic conduit:** Employment generation, alleviating poverty; stimulating economic growth; Uplifting the socio-economic conditions of members; Shares or interest not liable to attachment; Relief in income tax; Relief in stamp duty; Restriction on loan to outsiders; Restriction on borrowing limits; Restriction on dividends; Collective bargain benefiting in procuring prices; Economies of scale; Competitive edge

**Democratic conduit:** Providing a framework for democratic participation; democratic governance, local control, devolution of power to those affected by its influence, women's democratic participation, Equality; Protect from exploitations; Promoting local leaders; Autonomy; Voluntary membership; Equitable division of surplus;

**Social conduit:** Building social capital and trust; bridging social, religious and political divides; providing social services, No discrimination based on ethnic,

caste, creed; Women empowerment; Creating awareness, Open membership; Equal voting power;

As an 'Economic Conduit', the cooperative business model has helped millions of low-income individuals to improve their incomes. Cooperatives are institutions of choice to bring economic opportunity to underserved areas. Remote, rural regions, where most poor people live, tend to be less profitable for other forms of enterprises and unattractive to investors because of scattered and low levels of production, high transaction costs and long distances to market. Cooperatives allow entrepreneurs to overcome many of the market barriers that exist in India. Over time, cooperatives law have helped agricultural cooperatives to lower the costs of farming inputs and improve marketing; credit and saving cooperatives to reach lower-income groups than commercial banks. It is now the time to promote insurance cooperatives to protect assets of low-income people; rural electric, health, telecommunications and housing cooperatives to provide community services to the underserved.

As a 'Democratic Conduit', cooperative members learn firsthand the principles of democratic governance, transparency and member participation. The cooperative society is working on democratic principle. The Cooperative Society Act provides democratic control of the society in following manner:

- i) The supreme authority of a cooperative society is vested in the general meeting subject to the restrictions imposed by the Act itself and other legislations
- ii) The members have equal rights of voting and participation in the decisions of the society
- iii) The management is elected or appointed in a manner prescribed by the Act and rules of the society
- iv) A member can contest and stand in the elections of Director at the Board of society
- v) The affairs of the society are administered in accordance of rules of the society and at will of the members. The will is determined on the basis of normal majority in any decisions, except where higher or special majority is required as per prevailing law.
- vi) The management is accountable to the members

Democratic control recognizes the equality and respect towards the fellow members, accept the common good, respect the majority will and collective wisdom. It also recognizes the self

reliance and independence of the society, that members can run their own affairs without external interventions.

Cooperative Societies are democratic organisations. Their affairs shall be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies shall enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration shall be conducted on a democratic basis in a suitable form.

Cooperative membership gives subsistence producers and other impoverished people a voice and a chance to take charge of their destinies. This experience provides a sense of ownership of the local political process; it sets an example of organizational efficiency, transparency and accountability; and it creates a practical vehicle for conflict management through jointly vested interests.

Skills and analytical abilities that accrue at the level of the local cooperative subsequently spill over to all areas of the body politic, they are applicable at the second tier cooperative level, in the law courts, in national organizations and at the election politics, and,

As a 'Social Conduit', cooperatives increase trust and solidarity, leading to social well being and stability, in some cases in the face of adverse conditions and conflict.

Through development programs, cooperative members learn the relationship between serving their own needs and the viability of organizations. They develop as people by receiving training in leadership, organizational and financial management, member services and advocacy. They develop social capital and trust in their communities and learn how to bring critical social services to their communities such as health care and HIV/AIDS education. AMUL provide health care facilities to cattle of the members, enriched cattle feed and other health services to the family members of their shareholders.

Economically, cooperatives effectively reduce market barriers that would typically impede groups in developing and transformational countries from fully participating in the economic sphere. Cooperative businesses allow entrepreneurs to generate economies of scale that reduce transaction costs and/or increase incomes through volume sales; To increase efficiencies along

the value chain through greater access to information and networks; To improve the quality and value-added of products, by allowing members to learn new skills and leverage technologies among and between themselves; To increase access to capital through joint-pooling of resources into cooperative financial arrangements; and to gain substantial bargaining power through collective action.

“In an increasingly globalized world, cooperative organizations are needed more than ever, as a balance to corporate power and as an anchor to the grassroots level of society. Cooperatives hold the potential of being a driving force in our partner countries in the developing world, provided they can operate in a democratic environment.

As said by Hilde Frafjord Johnson, Minister of International Development, Norway in General Assembly, International Cooperative Alliance held in September 2003, “For the poor around the world, cooperatives can provide a much needed opportunity for self-determination and empowerment.”

India’s First Five Year Plan stated that ‘in a regime of planned development, Cooperation is an instrument, which, while retaining some of the advantages of decentralization and local initiative, will yet serve willingly and readily the overall purposes and objectives of the Plan. The cooperative form of organization can no longer be treated as a species only within the private sector. It is an indispensable instrument of planned economic action in a democracy.’

Democratically, cooperatives are vehicles for broad democratization and empowerment in developing countries. Cooperatives instil basic democratic values and methods; foster self-reliance through collective action; and shape relationships between institutions and civil society that encourage participation and conflict management. The resulting framework is the foundation for a more secure society and for economic growth.

Socially, cooperatives are local institutions rooted in grassroots society which give their members an ownership stake in the economy and connect people with decisions that affect their daily lives. They make an important contribution to building social capital and increasing trust, and also to restoring it when societies have been torn apart by conflict or by ethnic, political or religious divides.

Cooperatives can provide social services to remotely located, low income segments of society that may not be otherwise served, including providing critical health services and educating millions at risk of developing HIV/AIDS.

### **Conclusion:**

Cooperation is human instinct and indispensable from the civilisation. To take cooperation from fellow members is the need of an individual and hence to offer cooperation is quid pro quo, cooperation is recurring cyclical informal practice society is doing since ages. From time to time, Governments in India has provided encouraging policy to promote cooperatives. Indian cooperative history is affluent and interesting economic & social platform for the community to support their basic nature & instinct working through cooperative society. Indian cooperatives are pervasive in all respect, in terms of space; the cooperatives are spread in almost all villages, town and cities. Penetration of cooperative is absolute; one will find a cooperative even in small village. In terms of membership spread, 1 out of 4 citizens is member of at least one cooperative. The activities that cooperatives are undertaking are numerous. These activities are commercial & non-commercial. Business activities are across all economic sectors and smallest cooperative society having some ten members and volume of business of few thousand Rupees to a cooperative society having thousands members and turnover in billion Rupees. Small cooperative in a village may be like a shop, while cooperative like IFFCO & AMUL have big, complex & multi-location plants. Cooperatives may have difference in composition, activities and size, but one thing is common in all cooperatives, "A cooperative society promotes humanization".

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