

## Research Paper

## Challenges of Indian Cooperative Sector in the era of Globalisation: An Overview

**Dr. Narayan Chopra**

Sr. Astd. Prof., Civilian Gazetted Officer, Gp 'A',  
Deptt. of Geography, National Defence Academy,  
Khadakwasla, Pune - 411 023.

### ABSTRACT

*It is now increasingly recognized that the co-operative system in India has the capacity and potentiality to neutralize the adverse effects emerging from the process of globalization. The paper examines the causes of slow progress and highlights the emerging role and challenges of the cooperative sector. In comparison to the step-motherly treatment of the past, cooperatives are now considered an important plank of development. The cooperatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation wherein both the state and the private sector have failed. Whilst the present study focuses on several pitfalls and shortcomings, it also suggests strategies which can promote the concept of cooperation among the masses. The present study attempts to bring to light the problems & prospects of cooperative sector in India under free market economy.*

### INTRODUCTION

Co-operation is a world-wide movement. It was introduced in India in the early years of this century in the wake of famines, which had resulted in economic hardship and an alarming increase in the indebtedness of the farmers to the moneylenders. Co-operative credit on easy terms appeared to be the best means of getting the farmers out of the vicious circle of indebtedness and poverty. The idea was to free the farmers from the necessity of having to borrow money on usurious rates of interest from Sahukars or village moneylenders.

The Co-operative Societies Act, which was passed in 1904 envisaged the formation of village credit societies. In 1912, the Act was amended to enable formation of other types of societies for activities relating to sale, purchase, production, housing etc. This Act also provided for the creation of federations of primary societies and for supervision, audit, mutual control and overall development of the co-operative movement.

In 1919, the subject of co-operation was transferred to the provinces and most of the provinces enacted their own laws to regulate the working of co-operative societies. To give a stimulus to the co-operative movement, the Government of India set up an Agricultural Credit Department in the Reserve Bank of India with a view to providing financial assistance and credit to the co-operatives.

Co-operation was introduced in India mainly as a defensive organization for dealing with problems of rural indebtedness. With the acceptance and implementation of a planned economic development wedded to the ideas of socialism and democracy, co-operation became a dynamic economic instrument for achieving the social objectives of the National plan. Cooperation in a vast country like India is of great significance because :

- ✦ It is an organization for the poor, illiterate and unskilled people
- ✦ It is an institution of mutual help and sharing
- ✦ It softens the class conflicts and reduces the social cleavages
- ✦ It reduces the bureaucratic evils and follies of political factions
- ✦ It overcomes the constraints of agricultural development
- ✦ It creates conducive environment for small and cottage industries

### GLOBALIZATION

The term globalization is often associated with international business. It is a process of development of the world into a single integrated economic unit. In India, globalization refers to the opening of the gates of the economy for mutual global co-operation by way of reducing control and bureaucratic delays and steering the economy towards better market orientation.

Globalisation started from the 19th century and the period between 1870 to 1913 has been considered as first phase and the period from middle of 20th century is viewed as the second phase. The World Human Development Report, 1999 states that the most significant feature of the current phase is market economic policies spreading around the world with greater privatization and liberalization than in earlier decades.

Background It is a well-known fact that the year 1991 marked the beginning of a new era in economic policy of our country. To encourage privatization, policy changes such as deregulation of state enterprise, reduction in tariff barriers, creation of appropriate climate to promote private investment in infrastructure, manufacturing etc. provided for new

Please cite this Article as : Dr. Narayan Chopra ,Challenges of Indian Cooperative Sector in the era of Globalisation:  
An Overview : Golden Research Thoughts (Jan ; 2012)

direction and affected almost all the sectors of the economy, including co-operative sector. But the reform measures under the new economic policy, mainly concentrated only in removing the fetters on private enterprises and in stimulating higher economic growth by promoting industrial sector. The rural and agricultural sector remained somewhat neglected and also the effect of economic reforms on the economic fortunes of the common people was overlooked. Throughout the reform decade i.e., from 1991 to 2000, the role and relevance of the cooperative sector remained on the background, in spite of its predominant position in various fields of our national economy.

There are at present 5.04 lakh cooperative societies of different type with a membership of 22 crores, covering 100 percent villages and 67 percent rural households. The transition from controlled economy to open competitive economy in the name of globalization or liberalization has thrown a whole lot of challenges to the cooperative sector. It was believed that cooperatives would not be able to survive in the face of stiff competition posed by private sector. In contrast, there were still few, who regarded cooperation as a dynamic enterprise, which had been able to survive for around 150 years.

A study of functioning of cooperative societies in various segments has shown that there are some strong and viable cooperatives, viz.,

- a) Agricultural Credit - The cooperative credit system of India has the largest network in the world and cooperatives have advanced more credit in the Indian agricultural sector than commercial banks;
- b) Agricultural marketing - marketing societies help the farmer to get remunerative prices and co-operative processing units help in value additions to the raw products etc. In addition, co-operative societies are helping in building up of storage godowns including cold storages, rural roads and in providing facilities like irrigation, electricity, transport and health;
- c) Fertilizer distribution : In fertiliser production and distribution the Indian Farmers Fertiliser Cooperative (IFFCO) commands over 35 percent of the market.
- d) Sugar Industries: In the production of sugar the cooperative share of the market is over 58 percent
- e) Agro-processing: In the marketing and distribution of cotton they have a share of around 60 percent. Cooperatives process, market and distribute 50 percent of edible oils. The cooperative sector accounts for 55 percent of the looms in the hand-weaving sector.
- f) Dairy: Dairy cooperatives operating under the leadership of the National Dairy Development Board and through 15 state cooperative milk marketing federations has now become the largest producer of milk in the world.

Various development activities in agriculture, small industry marketing and processing, distribution and supplies are now carried on through co-operatives. But at the same time one must realize the fact that the co-operative structure, as it emerged, has shown the following weaknesses.

#### **WEAKNESSES:**

Despite rapid growth the overall progress of cooperative movement during 100 years of its existence is not very impressive. It is therefore necessary to know the causes of poor performance of the movement and on that basis take such steps as would promote a faster growth of cooperative movement in India.

#### **A. GOVERNMENT INTERFERENCE:**

The cooperative movement in India was initiated in 1904 under the auspices of British government. Right from the beginning the govt has adopted an attitude of patronizing the movement. Cooperative institutions were treated as if these were part and parcel of the administrative set up of the government. The govt interference thus became an essential element in the working of these institutions. As a result people's enthusiasm for the movement did not grow. The movement's independence and self-reliance existed only on paper and files. After attainment of independence in particular after beginning of the planning, some healthy changes in the attitude of the govt did take place. It was not given proper importance that it deserves in any plan. But even the cooperative movement has not become full-fledged people movement. Even today quite often cooperative societies are imposed upon the people. This does bring about an increase in the membership of the societies. But the spirit of cooperation cannot flower fully in these circumstances. Neither its growth took place according to any plan nor did it become a people's movement. It just grew very slowly and that too haphazardly. It was a state driven institution.

#### **B. MISMANAGEMENT AND MANIPULATION :**

The essence of the cooperative movement is that it gives the farmers the status of shareholders and assures them agricultural, educational and medical facilities. Under the Maharashtra State Cooperatives Act, a minimum of 11 farmers is required to form a cooperative. Today the shareholder membership averages between 15,000 and 25,000 farmers. The relationship between the shareholder farmer and the cooperative is simple - the farmer is committed to contributing a certain amount of cane per season and the mill is bound to take this cane. The strength of the movement was the involvement of the farmers who were shareholders in the sugar mill regardless of the size of their holdings. Over the years, this truly democratic idea got corrupted and farmers with larger holdings grew more powerful. In practice, this altered the power structure of the cooperatives. In the elections to the governing bodies of the sugar factories, money became such a powerful tool that the top posts of chairman and vice-chairman usually went to the richest farmers even though the majority of members were farmers with small- or medium-sized holdings.

#### **C. LACK OF AWARENESS:**

People are not well informed about the objectives of the movement, the contributions it can make in rebuilding the society and the rules and regulations of cooperative institutions. Unfortunately, no special efforts have been made in this direction. People look upon these institutions as means for obtaining facilities and concessions from the govt. So long as people expect to get something from the govt, they see to it that societies somehow continue to function. Lack of education, dirty politics of the village, caste ridden elections to the offices of cooperative societies, bureaucratic attitudes of the govt

Please cite this Article as : Dr. Narayan Chopra ,Challenges of Indian Cooperative Sector in the era of Globalisation: An Overview : Golden Research Thoughts (Jan ; 2012)

officers at the lower rank are some of the hurdles in spreading the correct information about the cooperative movement and in educating the people about its true character and vital role in the society.

#### **D. RESTRICTED COVERAGE:**

The cooperative movement has also suffered on account of two important limitations on its working. One is that the size of these societies has been very small. Most of these societies are confined to a few members and their operations extended to only one or two villages. As a result their resources remain limited, which makes it impossible for them to expand their means and extend their area of operations. Two, the most of the societies have been single purpose societies. For this reason these societies are unable to take a total view of the persons seeking help, nor can they analyze and solve problems from different angles. The help these societies render thus can not be adequate. By assessing the persons and the problems only from one angle, these societies neither help properly the person nor make an optimal use of their resources. Under these circumstances it has not been possible for these societies to make much progress.

#### **E. FUNCTIONAL WEAKNESS:**

The cooperative movement has suffered from inadequacy of trained personnel right from its inception. Lack of trained personnel has been caused by two major factors. In the first place, there has been a lack of institutions for this purpose of training personnel. Secondly because of its unsatisfactory working of cooperative institutions, efficient personnel did not feel attracted or motivated towards them. The functioning of the cooperative societies, too, suffer from several weaknesses. Some of these are, taking no care of the need of credit seekers or their repaying capacity at the time of granting loans, making no adequate provision for the return of loans, unsatisfactory keeping of accounts, factional politics in its management, lack of coordination among various divisions of the cooperative structure, too much dependence on outside sources of finance, lack of adequate auditing. Such weaknesses have prevented them from progressing on healthy lines.

Thus there are several pitfalls. Poor infrastructure, lack of quality management, overdependence on government, dormant membership, non-conduct of elections, lack of strong human resources policy, neglect of professionalism, etc. are the limiting factors. Indian cooperatives are also unable to evolve strong communication and public relations strategies which can promote the concept of cooperation among the masses.

#### **NEW CHALLENGES**

1. A borderless system of economic activity is coming into being. Big multinational companies will take full advantage of the borderless world, without hindrance of national boundaries to undertake large-scale economic activities, which will dominate the world market. Such a new economic scenario, presented a threat to cooperative movement's ability to survive.
2. Since the government now has withdrawn support, due to changed economic priorities, many cooperatives encounter difficulties in generating their own resources and have to completely reorganize themselves to survive and succeed in a competitive environment, without depending on any state support.
3. At present, there are about 207 national and 8 international organizations, which are the backbone of ICA and there are about 754 million individuals spread over 90 countries of Asia, Africa, Europe and America, who are members of ICA. With such a huge and diversified structure around the world, one cannot question the ability of the cooperatives to survive and succeed, but what needs to be deliberated upon is, the new direction towards which cooperative movement should move with firm determination.
4. Internal and structural weaknesses of cooperative institutions, combined with lack of proper policy support have neutralized their positive impact and resulted partly in the mismanagement, inefficiency and corruption in the financing of cooperatives. This has necessitated the need for a clear – cut policy on co-operatives, to enable sustained development and growth of healthy and self-reliant cooperatives.

Keeping in view the challenges ahead, cooperatives have to reorient their strategies, in the changed economic environment of our economy. Some of the strategies to reorient and renew their development thrust in the new environment are:

#### **SUGGESTIONS & RECOMMENDATIONS**

To face the challenges in a liberalized economy, the cooperatives have to reorient their structural functioning and management. It may include:

- i. Enhancing the competitive strength in cooperatives by their merger and division, wherever necessary.
- ii. Non-viable societies that do not have scope for revival should be liquidated.
- iii. Ensure active participation of members in their day-today business and de-listing or removing the inefficient or inactive members from membership.
- iv. Federal organizations of cooperatives must give sufficient financial and other support to their constituent societies.

With the growing diversification and size of operations in cooperatives, there is a need for constituting two separate boards namely, policy-board, consisting of elected representatives of the members and executive-board, consisting of senior executives headed by the chief executive, with clear demarcation of areas of their powers and functions. In other words, besides elected cooperators, there should be a provision to co-opt outside experts in areas, requiring high degree of specialization or technical and managerial expertise.

Large-scale enterprises in the cooperative sector may require huge funds. To mobilize more funds, cooperatives may enter capital market and mobilize funds by means of deposits, debentures etc. At the same time, cooperatives must evolve deposit-insurance scheme, to instill confidence among the depositors, both in urban and rural areas. Effective deposit mobilization will help them to build their own lendable resources, for profitable and diversified lending. They have to adopt efficiency parameters, in terms of cost-effectiveness and a reasonable return on investment, if they have to survive in the

Please cite this Article as : Dr. Narayan Chopra ,Challenges of Indian Cooperative Sector in the era of Globalisation: An Overview : Golden Research Thoughts (Jan ; 2012)

competitive atmosphere.

· According to some experts, there are a number of agricultural commodities like rice, sugar, fruits, vegetables; spices etc. that have strong competitive advantage in export markets. This has positive implications for agricultural cooperatives. Moreover, some cooperative thinkers interpreted that the historical attributes of cooperatives namely, countervailing power, access to capital on favourable terms, scale-economies and income improvement, provide them with necessary strength, to overcome the challenges of a competitive market.

· Intensified enrolment drives to cover maximum number of small and middle sized agrarian producers, processors etc., intensified linkages with NGOs or Self-help Groups or panchayats and intensified efforts on the part of the government of India and promotional bodies like NCDC to attract funds and other forms of assistance from international agencies like world bank, Asian development bank, EEC, FAO, ILO, etc. for specific development projects in the cooperative sector, will go a long way in strengthening cooperatives, in order to complete in the new economic environment.

· For the development of rural sector, which is still very largely in the Informal spheres, the parameters of the new system do not apply. In such cases, we should indentify:

- i. The areas where the cooperatives cannot penetrate or cover,
  - ii. The areas where the cooperative sector has a comparative advantage, and
  - iii. The areas where cooperatives can build up strategic alliance with private sector, public sector and International agencies.
- Such an understanding will greatly help in the vertical and horizontal integration of support services for agro-industrial production processes.

· For building up professionalism in the management of the cooperative enterprises, it is necessary on the one hand to upgrade the quality of the staff with latest developments and on the other hand, develop proper and cordial relationship between the managers and members of board of directors. Proper and continuous training must be provided to both cooperative leaders and professional executives.

· It is only now that cooperatives have an opportunity to thrive for years, despite their relevance restricted by a hostile legal and policy environment, fell far short of their promise. The extensive powers conferred on the registrar of cooperative societies, are a drag on the efficiency of the cooperative system. The dawn of the new era began in 1995, when Andhra Pradesh legislature passed the AP mutually aided cooperative societies Act, 1995. By the end of 1999, three more states viz., Bihar, Jammu and Kashmir and Madhya Pradesh have enacted similar parallel acts for self-reliant cooperatives. Maharashtra, Tamil Nadu, Orissa, Punjab and Himachal Pradesh are considering similar laws. Recently, Karnataka state legislature has passed & implemented Souharda cooperative society Act since 2000. It is this, changing environment that provides the opportunity for genuine cooperatives, to arise and compete. Parallel-laws for self-reliant cooperatives; provide a legal environment that allows cooperatives to function as autonomous, democratic, member-sensitive, member-controlled, self-reliant enterprises.

#### CONCLUSION

In a developing country like India with huge deficits in terms of quality and quantity, the State has to shoulder the primary responsibility of providing cooperative credit. Considering the low living standards of common man, incomplete and imperfect markets, and other socio political considerations it is the primary duty of the government to ensure that its citizens have easy access to cooperative credit.

The current status of cooperatives reflects both a threat and an opportunity. It is a threat, because cooperatives have failed, to a large extent, in delivering efficient goods and services unlike the private sector and an opportunity, because the new economic scenario will offer enough opportunities, which could be effectively utilized by the cooperatives to prove their case of continuation.

The need of the hour for the cooperative sector in the era of liberalized environment is to seize every opportunity available to it. Thus, the future vision of cooperative movement will have to be based on efficiency parameters relating to promotion of excellence, improvement of operational efficiency and strengthening of financial resource base.

#### REFERENCES

- Alderman, Harold (1987)**, Cooperative Dairy Development in Karnataka, India, International Food Policy Research Institute, Washington.
- Annual Credit Plans – Lead bank office, Anantapur, Reports (2002-2005)
- Daya, R. (1999)**, Internationalization and Cooperatives in the Next Millennium, The Cooperator, Vol. 37, No.6
- Das, Kumar (1993)** Rural Development Through Decentralization, Discovery Pub. House, Delhi. 180p
- Deb, Alok Kumar (2006)**, World Cooperative Movement, WWW. Cooperative Movement India. com
- Dubashi, P.R. (2002)**, Cooperatives in the Next Millennium, The Cooperator, Vol. XXXVII, No. 9
- Dubashi, P. R. (1999)**, Cooperation and Second Generation of Economic Reforms, The Cooperator, Vol. XXXVII, No. 5
- Eleanor, Margaret Hough, K. Madhava Das (1967)**, Cooperative Movement in India (Ed): Oxford University Press, 506p
- Government of India- Reports of the Ministry of Finance, New Delhi, (1993-1998)
- Gupta, S P (2006)** Globalisation, Economic Reforms and Employment Strategy in India, 276 P
- Hanumantha, Rao C H, B B Bhattacharya, N S Siddharthan (2005)**, Indian Economy and Society in the Era of Globalisation and Liberalisation, Academic Foundation, Delhi 439p
- Hanumantha, Rao C H (2005)**, Agricultural Growth, Farm Size And Rural Poverty Alleviation In India, 398p
- Krishnaswamy, O. R. and Kulandaiswamy, V. (2000)**, Cooperation: Concept and Theory, Arudra Academy Coimbatore, Tamil Nadu.
- Mishra, R. V. (1999)**, Cooperative Sector: Problems and Prospects, The Cooperator, Vol. 37, No.6
- NABARD, (2000)** Statistical Statements Relating to Co-operative Movement in India– 1997-98 - Part I and Part, Delhi.
- Parthasarathy, G. (2003)** Economic Reforms and Rural Development in India, Academic Foundation, Delhi
- Radhakrishna, R. S.K. Rao, S. Mahendra Dev and K.Subbarao (2006)**, India in a Globalising World :Some Aspects of Macro

Please cite this Article as : **Dr. Narayan Chopra, Challenges of Indian Cooperative Sector in the era of Globalisation: An Overview : Golden Research Thoughts (Jan ; 2012)**

Economy, Agriculture And Poverty, 528p, Academic Foundation, Delhi .

**Ramesh, R. S. (2000)**, Challenges Before Cooperatives under Liberalized Economic Regime, The Cooperator, Vol. XXXVII, No. 10. Rudder Datt & KPM Sundharam, 'Indian Economy', S. Chand & Company Ltd., Ram Nagar, new Delhi – 110 055.

**Samantaray, P.C.(2004)**, Hundred Years of Co-operative Movement : Emerging Issues and Challenges, Orissa Review.

**Sami Uddin and Mahfoozur Rahman, (2001)** Cooperative Sector in India, S. Chand & Company Ltd, Ram Nagar, New Delhi- 110 055.

**Singh Gurusharan K( 1998)**, India's Rural Cooperatives/edited, Vedam Books, Delhi, 456 p.

**Singh Ram Binod (2006)** .Gandhian Approach to Development Planning/. New Delhi, Concept, 278 p.

**Subramanyam, B. (1998)**, Cooperative Credit Structure: A Perspective for 2000 A.D., Cooperative Perspective, pp. 6-14, July-Sept, 1998.

Please cite this Article as : Dr. Narayan Chopra ,Challenges of Indian Cooperative Sector in the era of Globalisation:  
An Overview : Golden Research Thoughts (Jan ; 2012)