

**Report of the
High Powered Committee
on
Cooperatives**

May 2009



**Ministry of Agriculture
Government of India**

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PREFACE

The year 2004 was the centennial year of the Indian cooperative movement. The World Order, in which cooperatives along with other business organizations are required to function, has indeed changed since the first cooperative law in India was enacted in 1904. New paradigms and changing contours and structures of the business landscape have their own inexorable logic leading to the recommendation of the Conference of State Cooperative Ministers in December, 2004 that a High Powered Committee be constituted by the Government of India for preparing a road map for cooperatives over the coming years. The Committee, duly constituted in 2005 has since been engaged in this task.

The task has been daunting, given the vast network of cooperatives in the country and that cooperatives functioning in different sectors face diverse problems. The situation is further complicated by the fact that Cooperatives is a State subject under the Constitution of India and State cooperative laws and their implementation have vastly differed. Changes in political authority at State level have over the years at different times resulted in wholesale supercession of cooperative institutions in many States vitiating their continued functioning as democratically elected cooperative institutions. The Committee has chosen to look at the common face of cooperatives as an institutional form and focused on delving into the multitudinous components of what ails cooperatives in this regard.

In its search, the Committee has drawn upon the recorded wisdom of previous Committees through available literature & documents, looked at success stories, and held consultations with those who have an interface with the sector in any manner. This, it has done through the written word seeking views from various segments of intelligentsia, cooperators, cooperative institutions at all levels, national and State government officials and civil society organizations, *via* a questionnaire as well as through a series of meetings. Needless to say, its own deliberations have been many and deep.

The Committee concluded that cooperatives have not been given due importance, despite the emphasis laid by the Planning Commission and Prime Minister Jawahar Lal Nehru on developing cooperatives as a third important sector of the economy.

The Committee's Report has been guided by its vision of Cooperative Identity, true to itself as a voluntary, autonomous and democratic entity of its members and in keeping with what is the common international acceptance. While there are many problems and challenges, which the cooperatives face and these have been looked at in detail to the extent possible, the root causes appear to converge upon the common problem of governance, which in turn is to a major extent determined by the laws that govern cooperatives.

The Committee is convinced of the need for uniformity in cooperative legislation that would respect the autonomous and democratic nature of cooperatives. It also feels that there is a need

for a higher Authority to ensure that State Cooperative Societies Acts follow the Model Cooperative Act and that any transgression in this regard is judiciable. Its conviction that cooperative autonomy can only be ensured through appropriate amendments to the Indian Constitution, which have been detailed in the Report, and which would in turn ensure that State Cooperative Legislation is brought into conformity with the provisions of the Constitution, has led to a very major recommendation of this Report.

Since legal enablement is an important factor that would lead to good governance, the Committee has also suggested to the extent possible, appropriate amendments in the Multi-State Cooperative Societies Act, State Cooperative Societies Acts and the by-laws of cooperatives in respect of its other Recommendations.

In the ultimate analysis, it cannot be ignored that while the cooperative route is a dignified way of growth for all it is particularly so for the marginalized segments of the country, offering the small man as it does the chance to enter a 'world of bigness'. Cooperatives have proved their strength in the past. The Committee submits its Report with much hope for a strong and healthy growth of cooperatives in the country in the future.

(Shivajirao G. Patil)
Chairman

ACKNOWLEDGEMENTS

Over the last three years, the Committee has had the pleasure of interacting with many individuals and institutions, cooperators, cooperative institutions, academicians, government officials, civil society organizations and members of cooperatives. The Committee would like to thank them all for their contributions in different ways, which has helped in writing of the Report.

The Members of the Committee would also like to thank all those who responded in writing to the questionnaire that was circulated to various cooperative institutions and cooperators, both at the national and State level, government departments and individuals.

The Committee is grateful to the Group of dedicated cooperative thinkers who assembled at Mumbai, Bhopal and Pune on the Committee's invitation and gave their valuable time and inputs which have shaped many of the Committee's recommendations.

The Committee would specially like to thank Dr. R.C. Dwivedi who was co-opted as a Special Invitee on the Committee. His long experience of the cooperative sector and the problems and challenges faced by the sector has been useful for the Committee's recommendations.

The Committee would like to particularly acknowledge the intellectual inputs provided by Bhagwati Prasad, Chief Executive, NCUI, Vinay Kumar, Managing Director, National Federation of Cooperative Sugar Factories, D. Krishna, Chief Executive Officer, National Federation of Urban Cooperative Banks & Credit Societies, S.D.Indoria, Chief Director (Cooperation), Department of Agriculture & Cooperation, Anita Manchanda, Executive Director, National Cooperative Union of India, D.P. Neb, Senior Consultant, National Cooperative Union of India, Yashwantha Dongre, Professor PG Centre, Hassan (Karnataka), L.K.Vaswani, Director KSRM, Bhubaneswar, S.L. Kumbhare, General Manager, NABARD and B. Jayaraman, General Manager, NABARD.

Mention deserves to be made of the painstaking work and enthusiasm of Shashi Chhabra, Private Secretary, who has cheerfully and meticulously provided various secretarial inputs including typing the volumes of material and administrative back-up to the work of the Committee.

The Committee would also like to thank all the staff of NCUI who provided support at different levels, in particular K.R.Kutty, Ved Prakash and Rakesh.

The Committee acknowledges with thanks the institutional support provided at all stages of the Committee's work by the National Cooperative Development Corporation and the National Cooperative Union of India. NABARD, VAMNICOM and the Secretariat, Raj Bhawan, Bhopal provided able assistance for various meetings and consultations held in their premises.

Finally, on behalf of the members of the Committee, I wish to also place on record a special recognition of the professional expertise and intellectual contribution of Veena Nabar, Chief Coordinator, High Powered Committee on Cooperatives, who has indeed worked as the *de-facto* Member Secretary of this Committee. Her minute attention to detail and dedication despite all odds has helped to take the work to its conclusion.

(Shivajirao G. Patil)
Chairman

Executive Summary

Two centuries ago when the Cooperative movement emerged, markets were dominant and unmindful of the well being of consumers. The Rochdale Pioneers demonstrated the cooperative ability not only to help survival of the people but also of indirectly forcing the market to behave. Today, although our knowledge, technology, global governance systems, availability of alternatives and a globalized production system are very different, the basic issues remain the same - markets that serve only sectarian interest, large masses remaining impoverished, capital gaining advantage over labour and a State which, seems to be increasingly supportive of a free market. In the Indian context, it is pertinent to mention that a large segment of the population (65%) continues to depend on agriculture and agriculture related sectors of the economy. As such cooperatives are today all the more relevant in the current contexts.

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.

The preoccupation of the government with the cooperative sector and its potential for bringing about development, right up to the nineties, resulted in an increase in the number of cooperatives and their contribution, making the Indian cooperative movement one of the largest movements of its kind in the world. Though we can claim to have the World's largest and most diverse cooperative movement, barring some exceptions our cooperatives in general are fraught with a number of problems and challenges. Apart from certain inherent weaknesses, they are constrained by the overwhelming role of the government as well as prescriptive and restrictive legislation and have been unable to retain an autonomous and democratic character.

Some of the problems and challenges that cooperatives face today are:

- | Inability to ensure active membership, speedy exit of non-user members, lack of member communication and awareness building measures
- | Serious inadequacies in governance including that related to Boards' roles and responsibilities
- | A general lack of recognition of cooperatives as economic institutions both amongst the policy makers and public at large
- | Inability to attract and retain competent professionals
- | Lack of efforts for capital formation particularly that concerning enhancing member equity and thus member stake
- | Lack of cost competitiveness arising out of issues such as overstaffing, a general top-down approach in forming cooperatives including the tiered structures
- | Politicization and excessive role of the government chiefly arising out of the loop holes and restrictive provisions in the Cooperative Acts

In addition to the above, there is also a serious problem of a large number of cooperatives that are sick/non viable. As regards the problems specific to the credit cooperatives, the same have been dealt with in detail in the Vaidyanathan Committee Report.

Summary Recommendations

The Committee has envisioned cooperatives as primarily, autonomous, economic institutions of user members. It sees them as self-reliant and self-sustaining institutions functioning in a free, fair and transparent manner in keeping with the principles and values of the cooperative movement. Summary Recommendations of the Committee are given below:

1 Considering the importance of a progressive and enabling legislation, which provides a level playing field for cooperatives with other corporate entities, the law enacted in each State should be amended to truly reflect the letter and spirit of the Model Cooperatives Act proposed by the Choudhary Brahm Perakash Committee Report. Even in States where a Parallel law has been enacted, considering its poor utility and problems faced, a single enabling law be enacted, which is member centric and based on cooperative principles, replacing the existing State Acts.

The laws enacted with the Model Cooperatives Act as the basis should also consider the following:

1 With a view to enhance member participation in cooperatives and enable them to do away with non-user members the Acts must provide for a definition of 'active member', right to vote and contest only to active members and an enabling provision for speedy exit of non-user members

1 In order to improve the effectiveness of Boards particularly their trusteeship role and fiduciary responsibilities, ensure accountability and professionalization of the organization, the laws should provide for clearly defined roles and responsibilities of the cooperative's board vis-a-vis that of paid executives/managers and a fair, but enforceable provision for fiduciary responsibility as provided in the Companies Act.

1 With a view to build in professionalism, the Acts should provide for cooption of experts/subject matter specialists, mandate that any person elected as a Director on the Board should undergo a set of prescribed training programmes within six months of being elected

1 Considering the need to remove all such loopholes in the law, which have contributed to the politicization of cooperatives, it is necessary that the laws also provide for rotational retirement of Board members and restriction on contribution to political and religious organizations.*

1 Keeping in view the need to enable cooperatives, which have already received equity contribution from the government, the laws should also provide for repatriation of government equity and where cooperatives are unable to return the government equity, they may enter into an MoU with the cooperative agreeing to such conditions that the government may stipulate.

* Dr.Amrita Patel has suggested inclusion of restriction on MLAs/MPs to be office bearers

In order to enhance competitiveness, the laws should enable cooperatives to decide their Organizational structure and staffing including recruitment policies, service conditions and remuneration, undertake measures such as formation of joint ventures, partnerships, subsidiaries and strategic alliances with cooperatives and other corporate and operate without any imposed area restrictions and have flexibility in business decisions, mobilizing funds and allocation of surplus.

State Governments should put in place a policy framework for facilitating the functioning of cooperatives with free and fair means, in no less equal terms with any other organization engaged in economic activities.

States should refrain from deputing officers to occupy key positions in cooperatives except on an explicit request from a cooperative and ensure that the officers if deputed to hold key positions are given a minimum tenure of three years.

The utility of various tiers of the cooperative structure be examined in each case and actions be taken for de-layering wherever the structures are not found to be cost effective.

Cooperatives should undertake member awareness and education programmes on a continuing basis in order to sensitize members regarding their rights, responsibilities/obligations in respect of the organization to which they belong and make special efforts to facilitate women and youth participation in cooperatives.

A scheme of Central Government and State Government budgetary provision for soft loans to farmers for share capital participation should be considered seriously.

Retained earnings in cooperatives are the most important form of collective capital. However if a substantial portion of retained earnings is taken away in the form of income tax, the rate of accretion to the reserves becomes that much slower affecting the health of the cooperative and its growth. Full income tax exemption is therefore recommended for all cooperative societies. This will be a major incentive for the cooperatives to strengthen their capital base.

The share of Cooperative Banks in rural credit has been steadily declining and is around 18%. Cooperative Banks presently depend for their activities on their own funds which are very limited and refinance from NABARD. Since adequate refinance through NABARD cannot be relied upon and many of the Cooperative Banks are weak and unable to raise funds from the market, there is a strong need for an alternative organizational set up to mobilize funds and to bridge the systematic gap in the cooperative credit and banking structure.

Cooperatives in various countries have adopted different strategies to augment their equity. The system of tapping share capital from non-members through different classes of shares or special purpose vehicles is also found. Depending upon the business of the cooperative, financial instruments need to be developed for raising capital.

Amendment to the Constitution

The Committee endorses the view that only through certain amendments in the Constitution it will be possible to ensure that the State cooperative laws provide for enabling the autonomous functioning of the cooperatives. The Committee reviewed the Constitution Amendment Bill (106th Amendment Bill 2006) and recommends that some more changes as given below be effected in order to be responsive to the needs of the cooperatives.

1. Apprehending that introducing new Part IX B after Part IX A of the Constitution as the Bill proposes, along with Panchayati Raj Institutions (PRI) and Municipalities, would imply that cooperatives are a part of governance, the insertion of this part may be considered at any other appropriate place in the Constitution to ensure that this construal is dispelled.
2. Insertion of “the word “cooperative societies” after the word “associations” in sub-clause (c) of clause (1) of Article 19 and a definition of cooperatives {new sub-clause (h)} “to form and run Cooperatives based on principles of voluntary, democratic member control, member economic participation and autonomous functioning.”

3. **243. ZJ. Number and term of members of Board of Directors and its office bearers**
(Following additions are recommended under this Head)

Only elected members of the Board of Directors shall be eligible to vote in election and to be elected as Chairman or Vice Chairman or President or Vice President of the Board.

Candidates who have lost in elections to the Board shall not be co-opted on the Board either on casual vacancy or otherwise.

4. **243. ZK. Election of members of Board**

The Bill recommends that functions relating to, and the conduct of all elections to the cooperative societies, shall vest in the General Body of a cooperative society. As it may not be possible to hold meetings of General Body frequently, the Committee recommends that these functions shall vest in the Board of a cooperative society.

5. **243.ZL. Supersession of Board of Directors**

The Bill provides that no Board of a cooperative society shall be superseded, where there is no Government shareholding of loan or financial assistance or any guarantee by the Government.

Since this would imply that the Boards of cooperatives even where there is a minor government shareholding of financial assistance or any guarantee by the government can be superseded, the Committee has suggested that no supercession of the Board of Directors should be allowed in any case where government share holding is less than 51%.

Amendment to the Multi-State Cooperative Societies Act, 2002

The Committee took note of the fact that while the MSCS Act, 2002 has been in operation for the last six years there is a need to make the Act more comprehensive to mitigate practical problems being faced by the Multi-State Cooperative Societies due to certain provisions of the Act. Some important recommendations of the Committee are:

1. The internationally accepted definition of Cooperative Society reflecting its voluntary, autonomous and democratic nature may be introduced in the Act.
2. To ensure that the cooperatives are user owned and user controlled, a concept of “active member” may be introduced in the Act and accordingly, a definition of active member be included. The Act should provide that only active members shall have the right to vote/contest elections.
3. A fair, but enforceable provision for fiduciary responsibility as provided in the Companies Act should be introduced. It should be mandatory for the directors on cooperative boards also to disclose certain information in order to avoid conflict of interests. A provision be also made for cooption of experts on the Board.
4. Provisions may be introduced putting restriction on contribution to political and religious organizations.*
5. Provisions for raising of capital through issue of non voting shares and IPO may be included
6. Deletion of Rule making powers.

* Dr.Amrita Patel has suggested the retention of a clause at this juncture restricting Ministers/MLAs/MPs to be office bearers, which was dropped by the Committee.

1

Introduction

1. In 2004, the Cooperative Movement of India completed a hundred years of its existence. Over the years, it has several achievements to its credit in almost all sectors of the economy. However, the problems and challenges resulting from years of control by Government, growing out of initial support and partnership by the state as well as arising out of the economic realities thrown up by the opening up of the economy and consequential impacts of globalization in the economy, have been many.

2. The Conference of State Cooperative Ministers held on 7th December, 2004 at New Delhi, resolved that the Government of India may constitute a High Powered Committee to review the achievements of cooperative movement during the last one hundred years and to prepare a road map recommending steps to be taken to address challenges being faced by the movement in the changing socio-economic environment. Accordingly, a High Powered Committee on Cooperatives (HPC) was constituted by the Government of India, Ministry of Agriculture vide Resolution No. L-11012/4/2004-L&M dated 10th May, 2005 (**Annexure-1(a)**).

3. The original composition of the Committee was as follows:

1.	Shri Shivajirao G. Patil	Chairman
2.	Dr. S.S.Sisodia, President, NCUI, New Delhi	Member*
3.	Shri H.K.Patil, Chairman, NAF CUB, New Delhi	Member
4.	Dr. Amrita Patel, Chairman NDDDB, Gujarat	Member
5.	Dr. Y.S.P. Thorat, MD, NABARD, Mumbai	Member
6.	Shri Satish Chander, Joint Secy.(Coop.), DOAC, New Delhi (Succeeded by Shri R.K. Tiwari, J.S.)	Member Secretary

*Until March, 2007. Shri G.H. Amin, President, NCUI has been member since.

4. Terms of Reference

The Terms of Reference of the Committee are as follows:

- (i) To review the achievements of the cooperatives during the last one hundred years.
- (ii) To identify the challenges being faced by the cooperative sector and to suggest measures to address them to enable the movement to keep pace with the changing socio-economic environment.
- (iii) To suggest an appropriate policy and legislative framework and changes required

in the cooperative legislation in the country with a view to ensure the democratic, autonomous and professional functioning of cooperatives and amendments to the Multi-State Cooperative Societies Act, 2002.

- (iv) Any other incidental or consequential issue as deemed necessary by the Committee for its consideration.

5.1 The Committee in its first meeting resolved to invite Dr. R.C. Dwivedi, OSD to H.E. Shri Balram Jakhar, Governor of Madhya Pradesh, Bhopal as a Special Invitee on the Committee.

5.2 Smt. Veena Nabar, Chief Director (Retd.), NCDC was appointed as Chief Coordinator, Government of India High Powered Committee on Cooperatives.

5.3 The Committee has been assisted in its deliberations by a Core Group constituted by the Ministry of Agriculture vide Order No.L-110114/2004-L&M dated 14th September, 2005 comprising Shri Bhagwati Prasad, Chief Executive, NCUI, Shri Vinay Kumar, Managing Director, National Federation of Cooperative Sugar Factories, Shri D. Krishna, Chief Executive Officer, National Federation of Urban Coop. Banks & Credit Societies, Shri S.D. Indoria, Chief Director (Coopn.), DOAC and Smt. Veena Nabar, Chief Coordinator, HPC.

6. Since the constitution of the Committee, Shri H.K. Patil ceased to be Chairman, NAFCUB, New Delhi and Shri Y.S.P. Thorat took over as Chairman, NABARD. However, Shri Patil and Shri Thorat continued to be members of the Committee. After the sad and untimely demise of Dr. S.S. Sisodia in March 2007, the Committee co-opted Shri G.H. Amin, President, NCUI on the Committee. This was officially confirmed by Government Notification No.L-11011/4/2004-L&M dated 20th June, 2007 (**Annexure-1(b)**). Shri Thorat superannuated on November 30, 2008 and Shri Satish Chander on April 30, 2008. Shri H.K. Patil again took over as Chairman, NAFCUB in January 2009. In view of their long association with the Committee, they however continued to be involved in the deliberations of the Committee for finalizing its Report.

7. Work done by the Committee

7.1 The HPC and the Core Group each held twenty and twenty four meetings respectively. The dates and venues of meetings are given in **Annexure-2**.

7.2 *Collection and Compilation of Main Recommendations of Various Committees and Commissions on Cooperation Set Up Since 1904* - In its first meeting, the HPC took note of the fact that a large number of Committees and Commissions appointed by the Government from time to time ever since the inception of the cooperative movement in the country, had considered and made recommendations on various issues and facets of the cooperative movement. It was agreed that the major recommendations of various Committees should be compiled and analyzed. The compilation of the recommendations of major Committees has been presented in **Annexure-3**.

7.3 *Collection and Compilation of Sector wise Achievements of Cooperatives* - Starting with credit cooperatives, the cooperative movement has expanded in a gargantuan manner to include cooperatives in all major sectors of the economy. The sector wise achievements of cooperatives have been compiled and presented in **Annexure-4**.

7.4 *Collection and Compilation of State Reports on the Status and Growth of Cooperatives with*

Special Reference to Growth of Leadership - Cooperation is a state subject under the Constitution of India and state wise variations have been known to exist in terms of policies and practices, impacting upon the growth of cooperatives. The Committee took note of differential trends in the growth of cooperatives in different States, focusing on leadership as a vital factor in cooperative growth and the same have informed its recommendations.

7.5 *Compilation of Research Findings on Various Aspects of the Terms of Reference of the Committee* - The Committee compiled and took note of the findings of various research papers and articles on cooperatives during its deliberations and the same have informed its Recommendations.

7.6 *Finalization of a Questionnaire to seek the Views of State Government and its Functionaries, Cooperators, Academicians and Cooperative Institutions (Annexure-5)*.

7.7 *Compilation and Analysis of the Responses Received to the Questionnaire* - Although around 1000 questionnaires were addressed to all concerned, only 250 replies were received. The replies were analyzed, tabulated and considered by the Committee during its deliberations.

7.8 *Zonal Consultation in Mumbai* - A Zonal Consultation was held with senior cooperative leaders from Goa, Gujarat, Karnataka and Maharashtra in the NABARD office, Mumbai on 14th September, 2006.

7.9 *Zonal Consultation in Bhopal* - A Zonal Consultation was held with senior cooperators from Madhya Pradesh and Chhattisgarh in Raj Bhawan, Bhopal on 14th December, 2006. The Committee also met with the Governor of Madhya Pradesh, His Excellency, Shri Balram Jakhar who had a long stint as Union Minister for Agriculture & Cooperation and has considerable experience in the field of cooperation.

7.10 On the request of the Cooperative Development Foundation (CDF), a reputed civil society organisation working for the cooperative cause, the Committee gave them an opportunity to make a presentation on the Constitutional Amendment Bill. Accordingly, Shri L.C.Jain and CDF members made a presentation to the Committee on 27th November, 2006.

7.11 The Committee deliberated upon and finalized its recommendations for amendment of the Constitution to ensure autonomous, free and democratic functioning of cooperatives.

7.12 It also deliberated upon and finalized various suggestions to further amend the Multi-State Cooperative Societies Act, 2002.

7.13 The Committee commissioned Prof. Yashwantha Dongre, PG Centre, Hassan (Karnataka) to submit a paper on Vision for Cooperatives for consideration of the Committee. Accordingly, the vision paper prepared by Prof. Dongre was presented by him to the Core Group and then placed before the Committee members.

7.14 The Committee also requested Prof. L.K.Vaswani, Director KSRM, Bhubaneswar to submit inputs in respect of Problems and Challenges Affecting the Cooperative Sector. A brief presentation on the subject was made by Prof. Vaswani to the Core Group and his paper was placed before the Committee members.

7.15 Keeping in view that the Standing Committee of Parliament was looking into the Constitutional Amendment Bill, the Committee presented an Interim Report to the Hon'ble Union Minister for Agriculture on 7th June, 2007 on the following:

- (i) Recommendations on proposed amendments to the Constitution
- (ii) Recommendations on further amendments to the Multi-State Cooperative Societies Act 2002

7.16 The Committee requested to appear before the Parliamentary Standing Committee on Agriculture looking into the 106th Constitution Amendment Bill introduced in the Lok Sabha to give evidence and did so on 15th June, 2007.

7.17 The Core Group of the HPC held consultations with senior cooperators and academicians in the VAMNICOM, Pune to discuss the recommendations proposed to overcome the challenges and problems of the cooperative sector and set forth the Vision for cooperatives of the future.

7.18 Based on a number of deliberations and the above mentioned consultations and inputs received, the Report of the Committee is presented for consideration of the Government of India.

2

The Cooperative Movement in India - A Brief History

1. Preamble

1.1 The history of cooperatives in India is more than a hundred years old. The canvas of events is far too vast to give it the space it deserves in a Report of this nature. The following is only a brief attempt to recapture the major events that led to the cooperatives as we see them today.

2. Background

2.1 Even before formal cooperative structures came into being through the passing of a law, 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 foodgrains 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 Travancore, "Bhishies" in Kolhapur etc. were to be found. 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 "Lanas" 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.

2.2 The agricultural conditions and absence of institutional arrangements to provide finance to agriculturists during the latter part of the nineteenth century led to mounting distress and discontent. The Famine Commission of 1880 and 20 years later, the Famine Commission 1901 both highlighted the deep indebtedness of the Indian farmer, resulting in many cases in his land passing into the possession of the money lending classes. The Deccan Riots and the prevailing environment of discontent resulted in the government taking various initiatives but the legislative measures did not substantially improve the situation.

2.3 The proposal for agricultural banks was first mooted in 1858 and again in 1881 by Mr. William Wedderburn the District Judge of Ahmednagar, in consultation with Justice M.G. Ranade, but was not accepted. In March 1892, Mr. Frederick Nicholson was placed by the Governor of Madras Presidency (for enquiring into the possibility) of introducing in this Presidency, a system of agricultural or other land banks and submitted his report in two volumes in 1895 and 1897.

2.4 In 1901 the Famine Commission recommended the establishment of Rural Agricultural Banks through the establishment of Mutual Credit Associations, and such steps as were taken

by the Government of North Western provinces and Oudh. The underlying idea of a number of persons combining together was the voluntary creation of a new and valuable security. A strong association competent to offer guarantees and advantages of lending to groups instead of individuals were major advantages. The Commission also suggested the principles underlying Agricultural Banks.

3. Cooperative Credit Societies Act, 1904 - The First Incorporation

3.1 Taking cognizance of these developments and to provide a legal basis for cooperative societies, the Edward Law Committee with Mr. Nicholson as one of the members was appointed by the Government 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 3 lakhs. The first few cooperative societies registered in India under the 1904 Act in the first 5-6 years are as follows: Rajahauli Village Bank, Jorhat, Jorhat Cooperative Town Bank and Charigaon Village Bank, Jorhat, Assam (1904), Tirur Primary Agricultural Cooperative Bank Ltd., Tamil Nadu (1904), Agriculture Service Cooperative Society Ltd., Devgaon, Piparia, MP (1905), Bains Cooperative Thrift & Credit Society Ltd., Punjab (1905), Bilipada Service Cooperative Society Ltd., Orissa (1905), Government of India, Sectt. Cooperative Thrift & Credit Society (1905), Kanginhal Vyvasaya Seva Sahakari Bank Ltd., Karnataka (1905), Kasabe Tadvale Cooperative Multi-Purpose Society, Maharashtra (1905), Premier Urban Credit Society of Calcutta, West Bengal (1905), Chittoor Cooperative Town Bank, Andhra Pradesh (1907), Rohika Union of Cooperative Credit Societies Ltd., Bihar (1909). Under this Act, several non credit initiatives also came up such as the Triplicane society in Madras which ran a consumer store, weaver credit cooperatives in Dharwar and Hubli, which gave credit in the form of yarn etc. However, these were registered as Urban Credit Societies.

3.2 The 1904 Act provided for constitution of societies, eligibility for membership, registration, liabilities on members, disposal of profits, shares and interests of members, privileges of societies, claims against members, audit, inspection and enquiry, dissolution, exemption from taxation and rule making power. All other operational and managerial issues were left to the local governments namely to formulate suitable rules and model bye-laws of the cooperative societies. The institution of the Registrar, visualized as a special official mechanism to be manned by officers with special training and appropriate attitudinal traits to prompt and catalyze cooperative development was the result of the Cooperative Societies Act of 1904.

4. Cooperative Societies Act, 1912

4.1 With the developments in terms of growth in the number of cooperatives, far exceeding anticipation, the Cooperative Societies Act of 1912 became a necessity and cooperatives could be organized under this Act for providing non-credit services to their members. The Act also provided for Federations of cooperatives.

4.2 With this enactment, in the credit sector, urban cooperative banks converted themselves into Central Cooperative Banks with primary cooperatives and individuals as their members. Similarly, non-credit activities were also cooperatively organized such as purchase and sales unions, marketing societies, and in the non agricultural sector, cooperatives of handloom weavers and other artisans.

5. Maclagen Committee on Cooperation (1914)

5.1 The Banking Crisis and the First World War both affected the growth of cooperatives. Although member deposits in cooperatives increased sharply, the war affected the export and prices of cash crops adversely, resulting in increased over-dues of loans of primary agricultural societies. To take stock of the situation, in October, 1914 a Committee on Cooperation under Sir Edward Maclagen was appointed by the Government, in October 1914, to study the state of, and make recommendations for the future, of cooperatives. The Committee's recommendations, which are detailed in Annexure-3, are basically related to credit cooperatives. It recommended building up a strong three-tier structure in every province with primaries at the base, the Central Cooperative Banks at the middle tier and the Provincial Cooperative Bank at the apex, basically to provide short-term and medium-term finance. Considerable emphasis was laid on ensuring the cooperative character of these institutions and training and member education, including training of the Registrar and his staff.

6. After the 1912 Act, the first Cooperative Housing Society, the Madras Cooperative Union in 1914, the Bombay Central Cooperative Institute in 1918 and similar institutions in Bengal, Bihar, Orissa, Punjab etc. came up. Other than consumer cooperatives and weavers cooperatives, other non-agricultural credit cooperatives generally performed well and grew in strength and operations during this period.

7. Government of India Act, 1919

In 1919, with the passing of the Reforms Act, Cooperation as a subject was transferred to the provinces. The Bombay Cooperative Societies Act of 1925, the first provincial Act to be passed, among others, introduced the principle of one-man one-vote.

8. The agricultural credit scenario was a matter of concern and various committees looked into the problems of cooperative banks in various provinces. The Royal Commission on Agriculture in 1928 also reviewed the cooperative sector and among others recommended the setting up of land mortgage banks.

9. In both agricultural and non agricultural non-credit sectors, societies were organized, but most faced difficulties in operation as a result of opposition by private marketing agencies and also the inexperience of their office bearers. This focused attention on strengthening of cooperative institutes and unions for education and training. A prominent development of this time was the setting up of the All India Association of Cooperative Institutes in 1929.

10. The setting up of the Reserve Bank of India (RBI) in 1934 was a major development in the thrust for agricultural credit. The Reserve Bank of India Act, 1934 itself required the RBI to set up an Agricultural Credit Department. As cooperatives were to be channels for rural development, with the establishment of popularly elected governments in 1935, programmes were drawn up in which rural indebtedness received priority. The Mehta Committee appointed in 1937 specifically recommended reorganization of Cooperative Credit Societies as multi-purpose cooperatives.

11. The Second World War boosted the prices of agricultural commodities leading to increased returns to farmers and consequently reduction in over-dues to the cooperatives. To counter shortages of essential commodities for domestic consumption as well as raw materials, the Government resorted to procurement of commodities from producers and rationing, for which it decided to utilize the cooperatives. This provided a momentum to the growth of multi-purpose cooperatives.

12. The period between 1939-1945 provided a further stimulus to the growth of the Urban Cooperative Credit structure. Many societies had started banking functions and had grown in size and operations over a period of time, with substantial diversification of activities.

13. Multi-Unit Cooperative Societies Act, 1942

With the emergence of cooperatives having a membership from more than one state such as the Central Government sponsored salary earners credit societies, a need was felt for an enabling cooperative law for such multi-unit or multi-state cooperatives. Accordingly, the *Multi-Unit Cooperative Societies Act* was passed in 1942, which delegated the power of the Central Registrar of Cooperatives to the State Registrars for all practical purposes.

14. In 1944, the Gadgil Committee recommended compulsory adjustment of debts and setting up of Agricultural Credit Corporations, wherever cooperative agencies were not strong enough.

15. Cooperative Planning Committee (1945)

The Cooperative Planning Committee under the chairmanship of Shri R.G. Saraiya was set up in 1945. The Committee found cooperative societies to be the most suitable medium for democratization of economic planning and examined each area of economic development.

16. Pre-Independence Development

16.1 In 1946, inspired by Sardar Vallabh Bhai Patel and led by Shri Morarji Desai and Shri Tribhuvan Das Patel, the milk producers of Khera District of Gujarat went on a fifteen day strike. Their refusal to supply milk forced the Bombay Government to withdraw its order granting monopoly procurement rights to Polson, a private dairy. History was made when two Primary Village Milk Producer Societies were registered in October 1946. Soon after on 14th December 1946, the Khera District Cooperative Milk Producers Milk Union known as Amul was registered.

16.2 The Registrars' Conference in 1947 recommended that the Provincial Cooperative Banks be re-organized to give greater assistance to primary societies through Central Banks. For the first time an effective linking of credit with marketing, and providing assistance by way of liberal loans and subsidies for establishment of a large number of godowns and processing plants was considered.

16.3 It would be appropriate to mention here some developments in Bombay vis-à-vis cooperatives, which had an impact on the cooperative sector. Shri Vaikunth Bhai Mehta took over as Minister, In-charge of Cooperation in the Bombay Government after which the cooperative movement in the province received a boost. A Committee on Cooperative Education and Training under the chairmanship of Sir Janardan Madan, made recommendations for cooperative education programmes and the setting up of an Education Fund. The Agricultural Credit Organization Committee, with Sir Manilal Nanavati as Chairman recommended State assistance in agricultural finance and conversion of all credit cooperatives into multi-purpose cooperatives. It also recommended a three-tier cooperative credit banking system, and various subsidies etc.

17. Developments in the Post-Independence Era

17.1 After India attained Independence in 1947, cooperative development received a boost, with cooperatives being given a vital role in the various plans formulated by the Planning Commission.

17.2 *The First Five Year Plan (1951-56)*, outlined in detail the vision of the cooperative movement in India and the rationale for emphasizing cooperatives and panchayats as preferred organizations for economic and political development. The Plan emphasized the adoption of the cooperative method of organization to cover all aspects of community development. It provided for setting up of urban cooperative banks, industrial cooperatives of workers, consumer cooperatives, housing cooperatives, diffusion of knowledge through cooperative training and education and recommended that every government department follow the policy of building up cooperatives.

17.3 All India Rural Credit Survey Committee (1951)

17.3.1 A major watershed initiative at this time was the appointment by Government of the Gorwala Committee, popularly known as the All India Rural Credit Survey

Committee. The Committee was appointed in 1951 and submitted its report in 1954. It observed that large parts of the country were not covered by cooperatives and in such areas where it had been covered, a large segment of the agricultural population remained outside its membership. Even where membership did exist, the bulk of the credit requirement (75.2%) was met from other sources. The Committee recommended introducing an integrated system of rural credit, partnership of the government in the share capital of the cooperatives and also appointment of government nominees on their boards, thus participating in their management. The Committee emphasized the importance of training. The creation of the State Bank of India was also a major recommendation. Detailed recommendations of the Committee have been presented in Annexure-3.

17.3.2 The Government and the elected representatives accepted the basic approach and the major recommendations of the Gorwala Committee. The Union Government acquired a major interest in the Imperial Bank which was converted into the State Bank of India. A National Cooperative Development and Warehousing Board was set up. *The Reserve Bank of India Act* was amended to enable it to play an active role in building up of cooperative credit institutions.

17.4 The All India Cooperative Congress, held at Patna in 1956, accepted the principle of state participation and government representation on the Board of Directors of cooperatives. It resolved that the number of such nominees should not exceed one-third of the total number of Directors or three, whichever is less and applicable even to cooperatives having government share capital in excess of 50% of total share capital. This recommendation was accepted by the Central Government.

17.5 In 1953, the Government of India and the Reserve Bank jointly constituted a Central Committee for Cooperative Training to establish necessary training facilities for cooperative personnel. The All India Cooperative Union and the State Cooperative Unions were entrusted with training of members and office bearers of cooperative organizations.

17.6 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.

17.7 The Industrial Policy Resolution of 1956 emphasized the need for State assistance to enterprises, organized on a cooperative basis for industrial and agricultural purposes, and “to build up a large and growing cooperative sector”.

17.8 The Committee on Cooperative Law under the chairmanship of Shri S.T.Raja in 1956 recommended a Model Bill for consideration of State Governments. Another important development, at this time, which affected the cooperative sector, was the National Development Council Resolution (1958). The Resolution on Cooperative Policy stressed that cooperatives should be organized on the basis of the village community as the primary unit and that there should be close coordination between the village cooperative and the Panchayat. The Resolution also recommended that the restrictive features of existing cooperative legislation should be removed. Many State Governments amended their Acts, as a result of the recommendations of the Model Bill

17.9 Cooperative marketing and processing of agricultural produce formed an important part of the Integrated Scheme of Cooperative Development in the Second Plan. About 1900 primary marketing societies were set up and State Marketing Federations were established in all the States, as well as the National Cooperative Marketing Federation at the Centre. Marketing cooperatives along with the agricultural cooperatives played a major role in promoting the Green Revolution by providing credit and inputs to farmers as well as processing their increased outputs.

17.10 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. Even the medium and large industries and in transport an increasing range of activities can be undertaken on cooperative lines”.

17.11 From the mid-sixties onwards agro processing cooperatives, particularly in the sugar and spinning sector grew in number and contribution, driven primarily by the government’s policy of encouraging large scale industries in the cooperative sector and term loan assistance from financial institutions.

17.12 With the setting up of NDDB to replicate the Anand pattern of cooperatives in milk, the Indian dairy cooperative movement received a spurt. Later on NDDB also ventured into the field of edible oils.

17.13 After the Indo-China war in 1962, both the Consumer Cooperative Structure and the Public Distribution System (PDS) was strengthened. The government as a matter of policy decided to give preference to consumer or other cooperatives in the allotment of fair price shops and certain States allotted new fair price shops only to cooperatives.

17.14 With the growth of public deposits in Urban Cooperative Credit Societies, it was felt necessary to insure these under the Deposit Insurance Scheme of Reserve Bank of India. Selective

provisions of the RBI Act 1934 and later Banking Regulation Act 1949 were made applicable to Cooperative Banks w.e.f. March 1, 1966 to regulate their banking business and facilitate insurance coverage of deposits. Thus, they became an integral part of the banking system of the country.

18. Some National Institutions which came into existence in the 1960s

18.1 The *Agricultural Refinance Corporation* was set up in 1962 by the Government of India to provide long-term loans to cooperatives, through Central Land Mortgage Banks.

18.2 In 1963, the *National Cooperative Development Corporation (NCDC)* was established as a statutory corporation *by an Act of Parliament*. The establishment of the NCDC gave a great boost to the growth of cooperative marketing and processing societies.

18.3 While on a visit to Anand in October 1964, impressed by the socio-economic transformation brought about by milk cooperatives, Shri Lal Bahadur Shastri, the then Prime Minister of India, spoke of the desirability of setting up a national level organization, the *National Dairy Development Board (NDDB)*, to replicate the Anand pattern of cooperatives in milk throughout the country.

18.4 Several other significant organizational developments also took place during this period such as the setting up of various National Cooperative Federations and re-organization of the *National Cooperative Union of India (NCUI)*. In 1967, the *Vaikunth Mehta National Institute of Cooperative Management* was set up in Pune. Growth of consumer cooperatives was also an important development of this period. Simultaneously, the growth of Land Development Banks also accelerated and rural electric cooperatives and programmes for dairy, poultry, fishery and labour cooperatives were set up.

19. 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.

20. The Mirdha Committee in 1965 laid down standards to determine the genuineness of cooperative societies and suggest measures to weed out non genuine societies; to review the existing cooperative laws and practices to eliminate vested interest. The recommendations of the Committee resulted in amendments in the cooperative legislation in most states, which destroyed the autonomous and democratic character of cooperatives.

21. 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.

22. 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.

23. NABARD Act, 1981

The National Bank for Agriculture and Rural Development (NABARD) Act was passed in 1981 and NABARD was set up to provide re-finance support to Cooperative Banks and to supplement the resources of Commercial Banks and Regional Rural Banks to enhance credit flow to the agriculture and rural sector.

24. Multi-State Cooperative Societies Act, 1984

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.

25. 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 overdues 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.

26. With increasing demand from proponents of an autonomous cooperative movement and reforms in the Cooperative laws, the Government constituted a Committee on Cooperative Law for Democratization and Professionalization of Management in Cooperatives in 1985, headed by Shri K.N.Ardhanareeswaran. The Committee recommended the deletion of those legal provisions in State Cooperative Acts, which militate against the democratic character and autonomy of cooperatives, and also recommended incorporation of several provisions which could activate democratic processes for infusing professional management into cooperatives.

27. Similarly, in 1989 the Agricultural Credit Review Committee under the chairmanship of Prof. A.M. Khusro examined the problems of agricultural and rural credit and recommended a major systemic improvement. The Committee recommended that the Eighth Plan should become the plan for revival of weak agricultural credit societies.

28. Model Cooperatives Act, 1990

In 1990, an Expert Committee, under the chairmanship of Choudhary Brahm Perkash, was appointed by the Planning Commission to make a rapid review of the broad status of the cooperative movement, suggest future directions and finalize a Model Cooperatives Act. The Committee submitted its report in 1991. Since cooperation is a State subject and each State has its own cooperative legislation covering cooperatives whose membership is confined to the State, the report of the Committee, along with a draft Model Cooperative Law, was circulated to all State Governments for their consideration and adoption at State level.

29. The opening up of the economy in 1990, and the liberalized economic policies followed by the government since then, led to increasing pressures for various governments, state and central, to bring about changes that would provide cooperatives a level playing field to compete with the private sector. 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.

30. Parallel Cooperative Legislation

From the *Ninth Plan (1997-2002)* onwards, there has been no specific mention about cooperatives as a part of the Plan. Since Cooperation is a State subject and recognizing the difficulties in having the existing State Cooperative Acts amended on the lines of the Model Cooperatives Act, a section of cooperators and civil society initiated action to put in place Parallel Cooperative Legislation for self-reliant cooperatives. Self-reliant cooperatives are generally defined as those which have not received any assistance from the Government in the form of equity contribution, loans and guarantees. These Acts are largely based on the recommendations of the Choudhary Brahm Perkash Committee. Nine States namely AP (1995), MP (1999), Bihar (1996), J&K (1999), Orissa (2001), Karnataka (1997), Jharkhand (1996), Chhattisgarh (1999) and Uttaranchal (2003), have so far enacted Parallel Cooperative Acts which are enabling and ensure autonomous and democratic functioning of cooperatives.

31. Multi-State Cooperative Societies Act, 2002

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.

32. National Cooperative Policy (2002)

32.1 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.

32.2 Based on the recommendations made at a Conference of State Ministers for Cooperation, the Government of India in 2002 constituted a Ministerial Task Force to formulate a plan of action for implementation of National Cooperative Policy. The Task Force suggested that a single law instead of parallel laws should be introduced in the States. It also recommended, among others, that in order to depoliticize cooperatives, Members of Parliament or Members of Legislative Assemblies should not be allowed to hold office of any cooperative society.

33. 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*. Based on the cooperative principles of mutual assistance, it provides an alternative to the institutional form that is presently available to cooperative enterprises.

34. NCDC Amendment Act, 2002

Recognizing the need to improve its scope of lending and to bring about changes in its funding, the NCDC Act was amended in 2002, which has enabled it to cover notified services, livestock and industrial activities and more importantly to directly fund cooperatives against suitable security.

35. Task Force on Revival of Cooperative Credit Institutions

To nurse the rural cooperative credit system back to health, to ensure that the rural credit doubled over three years and that the coverage of small and marginal farmers by institutional lending

was expanded substantially, the Government of India in August 2004 set up a Task Force to suggest an action plan for reviving rural cooperative credit institutions and legal measures necessary for facilitating this process. The Task Force, chaired by Prof. A. Vaidyanathan, recommended that any financial restructuring which did not address the root causes of the weaknesses of the system would not result in its sustained revival and would require legal measures. The recommendations of the Task Force in accordance with its Terms of Reference are basically confined to revival of credit cooperatives for which it suggests a financial package. The Vaidyanathan Committee has also suggested a model cooperative law that can be enacted by the State Governments. Recommendations of the Task Force are being currently implemented. The Vaidyanathan Committee has also given its report on the long-term cooperative credit structure.

36. Cooperative Movement at a Glance

Cooperatives, in all spheres, today cover approximately 99% of Indian villages and 71% of total rural households in the country. Their contribution to the national economy may be seen from the following table:

Cooperative share in the economy				
	Percentage			
Agricultural Credit Disbursed	18*			
Fertilizer Distributed	36*			
Production of Fertilizer	25*			
Sugar Produced	50**			
Spindleage	10#			
Milk Procurement to total Production	8\$			
Yarn Production	22#			
Handlooms	54#			
Wheat Procurement	3	3		#
Fishermen Cooperatives	21#			
Storage Facilities (Village Level PACS)	64#			

Source:

3

Envisioning Cooperatives

Two centuries ago when the Cooperative movement emerged, markets were dominant and unmindful of the well being of consumers. The Rochdale Pioneers demonstrated the cooperatives' ability not only to help survival of the people but also of indirectly forcing the market to behave. Today, with the States exuding confidence in the market mechanism we seem to have moved a full circle. Although our knowledge, technology, global governance systems, availability of alternatives and a globalized production system are very different, the basic issues remain the same - markets that serve only sectarian interest, large masses remaining impoverished, capital gaining advantage over labour and a State which seems to be increasingly supportive of a free market. In the Indian context, it is pertinent to mention that a large segment of the population (65%) continues to depend on agriculture and agriculture-related sectors of the economy. As such cooperatives are today all the more relevant in the current contexts. However, we need to build clarity in terms of objectives of the cooperative movement.

1. The Concept

1.1 The Committee's vision of cooperatives is one of primarily, autonomous, economic institutions of user members united voluntarily to meet their common economic, social, cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The Committee sees them as self-reliant and self-sustaining institutions functioning in a free, fair and transparent way in keeping with the principles and values of the cooperative movement. Member centrality and member development would be key drivers and professionalism, quality and integrity the hallmarks. To arrest the practice of concentration of power in a few hands to the detriment of the larger member community, education for awareness building would be an integral part of a cooperative.

1.2 Cooperatives in India being a State subject have been and continue to be variously governed through multiple individual State Acts. The Acts endow governments with draconian powers, which have in many cases militated against the very concept of a cooperative. En masse supersession of elected boards of cooperative and appointment of special officers for long periods without election as has happened in the States of Tamil Nadu, Andhra Pradesh and Madhya Pradesh are examples of the interference of state governments in cooperative functioning. The Committee has kept the vision outlined above in mind while making its recommendations. The Report emphasizes legal enablement as a major requirement for cooperatives to perform and hence a large part of the report has been engaged with this aspect.

2. The Context

2.1 The global economy, and in particular the Indian economy, is passing through transformation. The positive dimension of globalization includes liberal economic policies, reduction of state intervention, and easy access to monetary capital and consequently new opportunities for economic

participation. This is already evidenced in India in the form of increased economic growth and State withdrawal from many economic and social domains. On the other hand, there is apparently a misplaced perception developing in India that cooperatives may not be able to deliver in the context of the globalized market conditions and the changes that are taking place as a result.

2.2 Under the circumstances, there is a need for resurgence of cooperatives as important players. Cooperatives have a tremendous opportunity precisely because they have a special identity, because they have both social and economic objectives, because they are values and community based, because they are people oriented and because of their network of linkages through the cooperative movement. "In terms of the decent work paradigm ... cooperatives could lead the way by demonstrating what we really mean by freedom, equity, security and human dignity. ... Thus cooperatives by being true to their basic principles provide locally-based answers to globalization".¹ Therefore, contrary to the belief that globalization impedes the growth of cooperatives, cooperatives are the vital agencies to face the challenges posed by globalization.

2.3 From the Eighth Plan onwards, cooperatives have found no mention in the Five Year Plans drawn up by the Planning Commission. It is important that due recognition is given to cooperatives as a third sector of the economy and its development, particularly in terms of its marginalized and weaker segments. Inclusion of a separate chapter on cooperatives as an important component of the plan documents would help build clarity and a vision for cooperative development.

3. Envisaged Cooperative Role

3.1 Cooperatives in India have mostly played the role of an agent of the government. Cooperatives are seen to be the institutions that carry the State programmes to people, and in turn get State support. However, the very policies that have made the conventional role of cooperatives redundant have also created new space for cooperatives to function. With the Constitution Amendment likely to be passed soon and the State Government bringing about required reforms in the Cooperative Acts, there would be ample scope for cooperatives to emerge as independent and self-reliant institutions for self-help and collective good. The new role of cooperatives emerges from this background.

1 **Occupying new Spaces :** Globalization and liberalization of economic policies creates new spaces in two forms. First, the governments start withdrawing from different domains hitherto solely or generally occupied by them creating vacant spaces, be it in manufacturing or service sector. Secondly, additional opportunities are continuously being created in newer areas, under the new economic environment. Many of these domains are not regarded as being commercially attractive. However, they are very important for people and communities and there is definitely a demand for these services. As such, the challenge would be to make them commercially viable and profitable. Traditional areas of social sector such

¹ Mark Levin, "The Role of Cooperatives in Providing Local Answers to Globalization", Key note Speech to 10th National Cooperative Congress, San Jose, Costa Rica, 29th March, 2001

² Local transportation both bus services and taxi services are under worker cooperatives domain in many parts of India and they have proved a success. There is a need to expand these bases.

³ Water supply and water resource management is a sensitive area where privatization seem to be on the anvil. But the cooperative model has proved a great success in this area. Examples from Brazil (. "Going the cooperative way", The Courier, February 2001), Bangladesh (Alternatives to Privatization: The Power of Participation...) and Bolivia ("Public Sector Alternatives To Water Supply And Sewerage Privatisation: Case Studies", PSIRU, August 1999) all prove this point.

as Education, Health, Transportation², Water supply³, Forest Management, Electricity⁴ are some of the areas where “cooperative solutions could be superior to either public or private approaches to utility management”.⁵ In fact privatization efforts in India are already on in this area. Cooperatives have been working in all these areas and have the potential to prove their strength and hence they could be effective alternatives to privatization. Further cooperatives could play a major role in newer areas such as precision farming, sun farming, water harvesting, micro finance. Other potential areas are information technology, communications, tourism and hospitality etc., the demand for which is ever growing and which could provide alternative means of livelihood for cooperative members. Outsourcing of services would also be the practice as firms grow in size and specialization. Such outsourcing would expectedly lead to savings in transaction costs. Entering such services through the cooperative route could prove an attractive alternative employment generating avenue.

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. As pointed out earlier, displaced specialists could form cooperatives for providing essential specialized services, which institutions would be increasingly outsourcing. The 2001 Census has clearly shown a sharp reduction in the population dependent on agriculture and that landless labourers have increased in number. The alarming rate of unemployment among youth continues. Collective endeavours through cooperatives of such marginalized sections of the people can work, as many services would still be required by existing concerns which may not wish to have such service providers on their pay roll.

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. This could be either through a stand-alone cooperative or by entering strategic partnership with the private sector in the form of cooperative - private sector collaborations etc. Cooperatives by their very presence would help to maintain the balance in terms of price and quality. For this reason cooperatives need to enter all those areas where full domination by the private corporate might eventually spell bad news to the consumers.

Safeguarding the interest of Agriculture and Rural areas : Agriculture will continue to be very important in terms of percentage share of dependent population. The logic of agriculture would be applicable to almost the entire rural population. Self-help initiatives by farmers in the area of cultivation, marketing, accessing agricultural inputs, finding jobs for the land-less labourers, displaced rural artisans etc., would continue to be a major role for the cooperative sector. None else is equipped to handle this.

Facilitating the Millennium Development Goals (MDGs) : The Government of India has its commitment to the UN system, of achieving the MDGs within a specified time frame. In many of the specified areas, the country is clearly lagging behind. Rural health and in particular maternal health and combating contagious diseases (medical cooperatives), Gender

⁴ The Electricity Distribution Cooperative.... In Gadag District of Karnataka is a standing Example.

⁵ Bolivia Water Management: A Tale of Three Cities”, *Precis*, Number 222, Spring 2002 - World Bank Operations Evaluation Department.

equity (women cooperatives), and Poverty reduction (agricultural and tribal cooperatives) are some of the crucial areas under MDG, where the cooperative sector can play the lead role.

Preserving the cultural and ethical values of the country : Cooperatives are the best channels to keep the spirit of collectivism and democracy afloat. The presence of a large network of social organizations, like cooperatives, would aid in the generation and utilization of social capital and 'greater the social capital greater would be the possibility of development'.⁶ Therefore, cooperatives have a futuristic role of fostering collectivism and preserving the social capital base of the country.

3.2 It is thus clear that cooperatives have a significant role to play in the future setting of our economy. In fact they have a more important role to play in the future compared to their agency role of the past. It is only the presence of a strong and wide network of cooperatives that can make the process of globalization less painful and global integration smooth. It is the cooperatives again who are equipped to work as pressure groups to voice peoples' views in the market.

⁶ Robert Putnam et.al, 1993, " Making Democracy Work: Civic Traditions in Modern Italy", Princeton Univ. Press

4

Problems and Challenges Faced By the Cooperative Sector

1. As is seen from the previous chapter, 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.

2. Though we can claim to have the World's largest and most diverse cooperative movement, barring some exceptions our cooperatives in general are fraught with a number of problems and challenges. Apart from certain inherent weaknesses, they are constrained by the overwhelming role of the government as well as prescriptive and restrictive legislation and have been unable to retain an autonomous and democratic character.

3. The problems and challenges that cooperatives face today are numerous. These encompass the functional aspects of cooperatives namely Membership, Governance and Operations which could be considered as *internal* to the organization. These problems are further compounded by two important external factors - namely politicization of cooperatives and the control/ interference by governments. These are discussed below in detail.

4. Membership

4.1 Theoretically and conceptually, a cooperative comes into being as a result of a common need of members. The need could either be for a service, which serves as an input into his activity or to service his output. The member owns the cooperative conjointly with other members and is expected to act with due diligence to fulfill his membership duties and responsibilities. If cooperatives are to succeed, it is important that members are well informed of not only their rights but also obligations and the need to participate actively in the affairs of the cooperative.

4.2 Ensuring 'Active' member participation and enabling speedy exit of non-user members has remained a daunting task for cooperatives. Unfortunately, over the years, we have come to a state where a large number of cooperatives are either unable to cope with the needs of members or the members have in general become passive and apathetic and do not use the services offered. Quite a number of cooperatives have also become irrelevant to their members' needs. Poor member participation has also been due to lack of effort to enhance member equity in cooperatives and near absence of member communication and awareness building efforts.

4.3 This situation has been further aggravated due to the lack of provision in Indian cooperative law to ensure that members are users and for removal of inactive members expeditiously and on a regular basis. The Cooperative Acts allow a person who is not doing business with cooperative to continue being enrolled as a member and eligible to participate in meetings, exercise voting rights and to elect/be elected on the Board. Consequently, it is found that in several cooperatives non-users apart from continuing as members, participate in elections and even get elected to hold positions on the Board of Directors/Chairman.

4.4 Cooperative Acts in general stipulate removal of membership only by the General Body through a special resolution. Calling a General Body meeting and expelling members is a long drawn process and coupled with this due to political compulsions the problem of removing a large percentage of inactive members has not been addressed with the required seriousness.

5. Governance

In an organizational context, governance refers to the institutional framework that defines the structure and linkages, behavior, interaction, rules of conduct, conflict resolution, incentives and disincentives for behavior. In cooperatives, governance issues are primarily focused on the structure of the Board and its relationship with members, managers and the State. Sadly, the most important function of governance, which is that of aligning the tasks in tune with the basic objective with which a cooperative is organized, has received very little attention.

6. Lack of Recognition of Cooperatives as Economic Institutions

6.1 A fundamental issue having substantial bearing on the governance of cooperative institutions is the lack of recognition of cooperatives as economic institutions meant to serve the needs of its members. The general perception has been that cooperatives are instruments of government meant for public good and therefore need to be supported by the government.

6.2 The ICA Cooperative Identity Statement defines cooperatives as “autonomous associations of persons united voluntarily to meet their common economic, social, cultural needs and aspirations through a jointly owned and democratically-controlled enterprise”. Cooperatives must therefore be seen as autonomous, economic institutions of user members engaged in production, distribution or other services. They have to be competitive to survive as viable entities, without which they cannot serve their members.

6.3 The general lack of a well defined and explicitly stated official and legal recognition of cooperatives in most cooperative laws is, and without doubt, the root cause of many of the problems that afflict the sector. Further, both members of cooperatives and the public at large do not consider cooperatives as economic institutions at par with other business organizations in view of the predominant role being played by the government through exercise of vast powers that the law provides.

7. Design Issues

7.1 The ‘design’ of a cooperative is an important factor in determining the manner in which

it is governed, its success and viability. While designing a cooperative enterprise, one needs to consider factors such as local socio-political conditions, local economy, leadership, structure, by-laws, norms and rules, critical linkages with federal and other organizations, macro policies etc.

7.2 Most Cooperatives in the country have come into being through a Top-Down approach or based on a Blue Print model and are a result of target based programmes/actions taken by the higher tier organizations and State departments. Besides, there are numerous instances of suppression of local initiatives and ignoring the perceived needs of the members while structuring the cooperatives. Higher tier cooperatives in most cases have hardly retained any cooperative character and operate like Parastatals and frequently with little or no member involvement.

7.3 Lack of initial knowledge about the multi-faceted choices in designing/re-designing cooperatives seriously affects governance, inhibits growth and can result in wrong choices. This is particularly so where there is no clear focal and dynamic leadership.

8. Board and Management Interface and Accountability

8.1 Cooperatives have a two-tier management structure of the Board and its executives, all in the ultimate analysis responsible to the General Body. The effectiveness of a cooperative depends in large part on the quality of partnership between its Board and Chief Executive. The Board should concern itself with long-term or strategic planning; organizational (as opposed to operational) policies; representation and relationships with members, government, other business and the public at large; resource mobilization; monitoring of the organization's performance; and the selection, supervision/direction of the Chief Executive. The Chief Executive must be responsible for achievement of plan objectives; the efficient, economical and effective use of resources; recommending possible business strategies to its Board; recruitment, supervision and evaluation of employees; coordination of departments and groups; etc.

8.2 In general, cooperative Boards suffer from lack of long-term perspective, market and business orientation, understanding of the cooperative way of business and how it differs from other enterprises, awareness about the environment (e.g. globalization) and using the knowledge for furthering member interest. In addition, they are also not able to cope with the changing needs of members and be responsive to member needs.

8.3 Ensuring accountability at all levels necessitates vesting the required authority (delegation) and clearly defined roles and responsibilities. Unfortunately, in a large number of cooperatives, Board and executive functions are not clearly demarcated, often leading to identity conflicts. Boards are generally found to be assuming operational responsibilities and disinclined to delegate powers and responsibilities to Managers. Striking a balance between Board and Executive functions is a crucial element which determines the success of a cooperative enterprise. The law too does not clearly define the roles, responsibilities and accountability at different levels.

9. Operations

9.1 Professionalization and Accountability

9.1.1 In a business environment the importance of professionally trained and qualified

manpower cannot be overemphasized. However, this is one of the weakest areas of cooperatives where the practice of posting government officials in managerial positions in cooperatives for brief tenures has been growing. Many States have common cadre of employees who are deputed to the cooperatives. Most often, these officials have no understanding of the business, either by training or practice and they are deputed for too short a tenure to acquire adequate understanding. There are also numerous instances where the officers posted by the government to hold key positions such as Chief Executive are changed too frequently resulting in a lack of accountability and thus affecting the business of the cooperatives. The laws also do not provide the required autonomy to cooperatives in matters related to staff strength, remuneration payable, service conditions etc.

9.1.2 Cooperatives are also unable to attract and retain competent professionals (particularly in areas such as marketing and finance) since apart from their lack of financial ability to pay market based compensation they are also unable to provide a stimulating and conducive work culture and environment including freedom for operations with the required delegation of authority. The need for change and adoption of sound HR policies assumes great importance, particularly with a rapidly growing private sector.

9.2 **Capital**

9.2.1 Lack of capital, both equity and debt, are key constraints to the development and growth of cooperatives. In the case of value-added businesses the problem is further compounded due to their high capital requirements. The need for equity in all forms of organization arises out of the requirement of containing the financial risk of debt within reasonable limits. Equity also ensures member stake and interest in the cooperative. It is the sharing of risk in their venture, through substantial financial stake, that is likely to enhance member interest and participation as well as control in the affairs of cooperatives. In the absence of member funding, the stake of members in the success of the business of their cooperatives is not high, which makes cooperatives vulnerable to poor governance and mismanagement.

9.2.2 Most cooperatives suffer from lack of member capital and consequently low leverage in raising debt required for the growth of the business. In fledgling cooperatives, the problem is particularly acute since they have no reserves to fall back on and nor do the members, most of whom are marginal and small operators, have the wherewithal to contribute substantially to initial capital. Low levels of equity imply a higher debt equity ratio with the accompanying hazards of actual cash flows being possibly inadequate to service the debt.

9.2.3 Unallocated reserves/retained earnings are the highest quality funds available to functioning cooperatives. However, to avoid payment of income tax, cooperatives most often follow the practice of paying price differentials to members for their supply, which has severely undermined capital formation in cooperatives. Further, cooperatives are generally constrained to minimize retained earnings, as the cooperative Act and Rules virtually treat retained earnings as out of the purview of members' funds.

9.2.4 While corporate entities can raise equity as well as borrow from the market by placing appropriate instruments, cooperatives do not have access to capital markets. Any effort

to broaden the equity base through introduction of instruments other than the shares to be subscribed only by members opens up the debate about the ownership, voting rights, cooperative principles etc.

9.2.5 In the globalized economic order, cooperatives as economic entities cannot remain isolated. In order to be competitive they have necessarily to grow and for that, augmentation of capital at the required pace is also necessary, as capital adequacy is one of the important parameters to judge the strength of an economic business entity.

9.2.6 The concept of share holding in cooperatives suffers in competitive attractiveness when compared to shares in corporate entities.

- | The principle of one person - one vote precludes any advantage to holders of a larger number of shares in the affairs of a cooperative.
- | The principle of limited return on capital results in denying cooperatives access to capital,
- | The value of a share to a member has no correlation with the performance of the cooperative, as he gets back only the face value of his share.
- | Shares of cooperatives have no liquidity as there is no trading platform for transfer of shares.

As seen above, cooperatives are finding it increasingly difficult to augment their capital to the required levels through the existing available avenues, i.e. seeking more share contribution from their members and retained earnings.

9.2.7 A problem affecting the capital of a cooperative is one relating to recoveries of debt. The high level of under recoveries of Primary Credit Societies has not only adversely affected their own growth, but also the financial results of higher tier financial cooperatives. The problems of non-credit cooperatives are not materially different. A large number of non-credit cooperatives are also either defunct or sick, the major reasons being similar to those of credit cooperatives.

9.2.8 There has been extensive debate on whether government should participate in the share capital of cooperatives. Government financial support is often justified on grounds that cooperatives cannot raise capital from capital markets and a majority of the members are unable to contribute share capital in the quantity required to run the cooperatives efficiently. However, equity contribution from government has invariably impacted on the autonomy of cooperatives and is a matter which does not merit compromise

9.3 ***Linkages and Competitiveness***

9.3.1 Though a tiered structure in cooperatives is intended to bring about effective linkages, both forward and backward and maximize benefits to the primary membership, this has not often been achieved. Since cooperatives at each level are distinctive legal entities, myopic assertions of freedom have prevented greater integration leading to high transaction costs. We also find that more and more cooperatives at primary as well as

higher levels are transacting business with non-members; higher tier cooperatives are frequently competing in business with their constituent members and networking amongst cooperatives a rare feature to be seen. Lack of or ineffective linkages have been adversely impacting the business performance of the cooperatives and their competitiveness.

9.3.2 In the current liberalized and globalised economic environment, cooperatives need a level playing field in order to cope with the emerging competition, sustain growth and meet member needs and services effectively. Unfortunately, constrained by restrictive laws, cooperatives lack functional autonomy including the required freedom in matters such as, area of operation, appointment of staff, deciding on remuneration payable, pricing, mobilization of funds, investment of funds and flexibility in business operations.

10. Accessibility to Finance/Credit Services by Members

10.1 Lack of credit facilities to a large segment of rural population, particularly the poor and marginalized, is a concern that needs to be addressed. The formal banking system in the country services 25.9% of total rural households while 14% farmer households depend on money lenders for their credit needs. Further, 51.4% of the total farmer households do not have any access to credit facilities.⁷

10.2 Cooperative credit presently accounts for a mere 18% of total agricultural credit. Having declined to this level from 56% in 1985-86, this is indicative of the shrinkage of credit provided to agricultural households by the cooperative sector. Nearly 70 - 80% of the members of cooperatives as also borrowing members are constituted of small and marginal members. Although there is no hindrance in cooperative law for share croppers/tenant farmers/agricultural labourers to be members of cooperatives, they are unable to avail loans in the absence of clear ownership title to land/collateral, and hence remain for all practical purposes outside the cooperative credit system. This marginalized segment does not have access to the commercial banking system for the same reasons.

10.3 The weaknesses of the credit cooperative structure has been discussed in detail in the Vaidyanathan Committee Report. A number of District Cooperative Banks are unable to provide refinance to their member Primary Agricultural Cooperative Societies (PACS) and consequently, even credit worthy members of PACs are unable to access credit to meet their needs.

10.4 The weather cycle and the crop cycle do not always match and hence particularly in drought prone areas, farming is, and is likely to be, at best, a marginally viable if not non-viable proposition. From time to time, governments have been resorting to one-time debt settlements and / or re-scheduling of overdue loans, but these are not permanent solutions to the basic problem of a perpetual cycle of indebtedness, which needs to be addressed.

11. Sickness in the Cooperative Sector

11.1 Of over 5 lakh cooperatives in the country at different levels, a large number today are not

⁷ NSS 59th Round, Report No. 498, Situation Assessment Survey of Farmers : Indebtedness of Farmer Households (January-December 2003) p. 10 & 21.

viable, while many are practically dormant. A large number of the non-viable cooperatives are, in fact, on the verge of sickness or incipient sickness. The sickness is particularly visible in the processing sector, of which sugar, textiles and vegetable oil account for a sizeable portion.

11.2 Though the government has been providing financial assistance for rehabilitation of sick cooperatives into a healthy enterprise, it has not always met with encouraging results. It must be recognized that most cooperatives function in the agricultural sector where the risk element is relatively high and the returns on investment low and they, therefore, start off with an initial disadvantage. It is also important for us to appreciate that the cooperative form of enterprise may not be the most suitable for all sectors and commodities. While there should no doubt be a clear voluntary exit policy for cooperatives which are not amenable to revival, sick cooperatives with the potential for improvement need to be supported through appropriate agencies and funding possibilities.

12. Politicization of Cooperatives and Control/Interference by Government

12.1 Although cooperative democracy is based on common economic interest and as such is entirely different from political democracy, over time cooperatives have been increasingly politicized. Cooperative institutions in the country with their vast outreach have become powerful instruments of political mobilization. Instances of a political party in power assuming control over large sized cooperatives through methods such as appointing an active member of the party to the position of Chairman, nominating persons of its choice on the Board, issuing directions to them and the Official nominees to vote for a particular candidate as Chairman have become common. Further, when elections are held, they are fought on party lines with panels of political parties keenly contesting to gain control of the organization. This has led to factions in the board, conflicts in governance and management and lack of consensus in decision making. Also, factors such as personal/political interests of board members and use of the cooperative for political patronage have weakened the cooperative sector and affected their ability to function as competitive and professionally managed business entities.

12.2 Mass enrolment of members of cooperatives is also resorted to, prior to elections. Changes in law to suit political ends are also to be found when there is a change of government. In many instances, politicians who are chairmen of cooperative Boards refuse to call for elections, continuing to be entrenched in positions of authority.

12.3 Audit of cooperatives is conducted by the Registrar and in several states it is not found to be timely as well as satisfying the current days' requirement/standards and challenges.

12.4 This state of affairs is largely on account of the enormous powers that the government and Registrar are vested with by the Act. Apart from paving the way for politicization, with the laws governing cooperatives becoming progressively more restrictive, the functional autonomy and democratic character of the cooperatives have been seriously compromised. Some of the restrictive provisions and powers of the government/Registrar which are contained in the State Cooperative Societies Acts and which often lead to perpetuation of politicization and government interference in cooperatives are:

- | Refusal to register cooperatives on various grounds;
- | Compulsorily amend by-laws, divide, merge, amalgamate co-operatives;
- | Give directions to a co-operative or co-operatives "in public interest";

- | Appoint supervisory staff and set up common cadres, approve wages and staff service conditions;
- | Nominate persons on the management committee/Board;
- | Conduct/postpone elections;
- | Classify co-operatives and deal with them en masse for the purposes of amalgamation, common cadres, service conditions, business, etc.;
- | Supersede committees/boards, disqualify members and committee members, compel admission of members, and reinstatement of expelled members; direct a committee to suspend an employee etc;
- | Rescind resolutions of the committee/board
- | Grant exemption to a cooperative or a class of cooperatives from any of the provisions of the Act
- | Prescribe Rules to be followed
- | Restriction on simultaneously holding office in a number of cooperatives
- | Restriction on the terms of office bearers of the cooperative

All these powers militate against the voluntary and autonomous nature of cooperatives. There are numerous instances of misuse of powers such as supercession of boards, postponement of elections, granting exemptions and issuance of directives to meet political ends etc.

12.5 Parallel laws have been enacted in nine States, but except to some extent in the State of Andhra Pradesh, they do not appear to have made much impact. Most cooperatives continue to operate under the existing restrictive cooperative Acts. Absence of enabling provisions in the existing Acts allowing existing cooperatives to be registered under the new law, non availability of refinance to such cooperatives, lack of will by the board and management of existing cooperatives to function as autonomous enterprises, inability to repatriate government equity/government finances and guarantee and political compulsions of the leadership are some examples to name a few.

5

Suggestions with regard to Amendment to the Constitution and Multi-State Cooperative Societies Act, 2002

As per its Terms of Reference No. (iii), the Committee deliberated and finalized its views with regard to the Constitution Amendment Bill and the changes required in Multi-State Cooperative Societies Act, 2002. The Committee submitted an Interim Report on both these issues to the Government for consideration and appropriate action on an urgent basis and for reference to the Standing Committee of Parliament, which was looking into the Constitution Amendment Bill.

The Interim Report covered the following issues:-

- (i) Recommendations on proposed amendments to the Constitution.
- (ii) Recommendations on further amendments to the MSCS Act, 2002.

The Committee's recommendations in this regard are set forth in the following sections. Additional recommendations arising out of the Committee's deliberations subsequent to the submission of the Interim Report on June 7, 2007 are indicated in the relevant sections.

I. Amendment to the Constitution

The Committee took note of the situation prevailing in the administration and governance of cooperative societies in the country. It was felt that though "Cooperative Societies" is a State subject and the respective states have enacted their own Cooperative Societies Acts, there is need for uniformity in cooperative legislation, particularly in respect of aspects crucial for autonomous and democratic functioning of cooperatives. There is also a need to insulate these institutions from excessive bureaucratic control and interference. Although several States have gone in for parallel legislation on the lines of the Model Cooperatives Act to cover cooperatives which do not have Government equity, even such Acts have been changed from time to time to suit political ends. The Committee, therefore, supports the view that cooperative autonomy can be ensured only when certain amendments are introduced in the Constitution so that state cooperative legislation would be brought in conformity with the provisions of the Constitution.

The Committee submitted its Interim Report containing recommendations on the Constitution Amendment Bill and Amendments to the Multi State Cooperative Societies Act, 2002 to the Government on 7th June, 2007.

After further deliberations the Committee has also decided on certain additional recommendations to the Constitution Amendment Bill, which have been indicated in the Report.

The Committee appreciates the initiatives taken by the Central Government in introducing the Constitution Amendment Bill (106th Amendment Bill 2006) in the Lok Sabha as it is responsive to the needs of the cooperatives and aspirations of the cooperative movement.

The HPC analyzed the situation with regard to the cooperatives prevailing in the States as well as in the Centre and also perused the Constitution Amendment Bill incorporating Part IX (B) to the Constitution, which is to follow after the provisions for Panchayati Raj and Nagarpalikas. The Committee is of the view that the analogy applied to Panchayati Raj and Nagarpalika may not hold good for cooperatives as Panchayati Raj Institutions and Municipalities are meant for governance of the people whereas the spirit of cooperative is self-governance.

Article 19(1) (c), read with Article 19(4), guarantees the right of the citizens “to form associations or unions”, but does not explicitly include the right to form cooperatives. Cooperative societies fall in Schedule VII list II Entry 32 which is the State list and are excluded from Entry 43 of List 1 viz. the Central list. As far as trade unions are concerned, they find place in the Concurrent List, under Entry 22 of List III of Schedule VII of the Constitution. It is important, therefore, to make explicit what is already implicit in Article 19(1) (c) - that cooperatives are associations and any restrictions on them have to be within the framework of Article 19(4).

The Committee felt that the 1985 Judgement of Justice J.Chinnappa Reddy in the case of *Daman Singh and others Vs. State of Punjab* and others reinforces the need for the suggestion to include cooperatives in Article 19(1)(c) of the Constitution.

Further, legislative provisions, executive orders and court rulings give the impression that cooperatives are creatures, not of their user-members, but of the Government. Hence, it is necessary to have a definition of cooperatives in the Constitution that will clearly indicate that they are, in fact, promoted, owned, controlled and managed only by their user-members.

The Committee has an apprehension that introducing Part IX B after part IX A of the Constitution along with Panchayati Raj Institutions (PRI) and Municipalities would imply that cooperatives are a part of governance. Since PRI and Municipalities are governance institutions, the introduction of a part on Cooperative Societies after the Article dealing with them may be construed as implying that cooperatives are also governance institutions. The Standing Committee of Parliament may also be requested to look into this aspect and consider the need for insertion of this part at an appropriate place in the Constitution to ensure that this construal is dispelled.

The viewpoints of the Committee on the various provisions of the Constitution Amendment Bill No.106 of 2006 are enclosed for consideration of the Government of India.

A. Recommendations for insertion of Cooperative Societies in Fundamental Rights under Article 19 (1) (c)

The Committee recommends the introduction of the following clauses under Article 19 (1) (c) of the Constitution:

- (i) The word “cooperative societies” shall be inserted after the word “associations” in sub-clause (c) of clause (1) of Article 19.

- (ii) A new sub-clause (h) shall be added after sub-clause (g) of clause (1) of Article 19.
“(h) To form and run Cooperatives based on principles of voluntary, democratic member control, member economic participation and autonomous functioning.”
- (iii) The words “and (h)” shall be inserted after the words “sub-clause (g)” in clause (6) of Article 19.

B. Recommendations on proposed insertion of Cooperative Societies in part IX B

1. The following part on the Cooperative Societies shall be inserted at an appropriate place which would distance it from the governance institutions.

Clause-wise suggestions of the HPC are given below:

2. The Cooperative Societies

243. ZH Definitions - In this part, unless the context otherwise requires -

- a) “Active Member” is one who participates in the affairs of the cooperative, using its services as prescribed in the bye-laws of the cooperative.
- b) “Authorized person” means a person authorized under Article 243 ZQ.
- c) “Board” means the governing body of a cooperative society, by whatever name called, to which the direction and control of the management of the affairs of a society is entrusted.
- d) “A Cooperative Society is an autonomous association of persons united voluntarily to meet their common needs and aspirations through a jointly-owned and democratically-controlled enterprise and adhering to the cooperative principles and values, registered or deemed to be registered under any law relating to cooperative societies for the time being in force in any State or the Centre”.
- e) “Government” means Central or State Government.
- f) “Multi-State Cooperative society” means a society with area of operation in more than one State and registered or deemed to be registered under any law in force relating to such cooperatives.
- g) “Office bearer” means a President, Vice-President, Chairperson, Vice-Chairperson, Secretary, Treasurer and includes any other person to be elected by the Board of Directors.
- h) “State level cooperative society” means a cooperative society having its area of operation extending to the whole of a State and defined as such in any law made by the State Legislature.
- i) “Year” means the year ending on 31st day of March.

243. ZI. Incorporation of cooperative societies

Subject to the provisions of this Part, the Legislature of a State shall, by law, make provisions with respect to the incorporation, regulation and winding up of cooperative societies based on the principles of voluntary, democratic member control, member economic participation and autonomous functioning.

243. ZJ. Number and term of members of Board of Directors and its office bearers

- (1) The Board shall consist of such number of directors as may be provided by a State Legislature.

Provided that the maximum number of directors shall not exceed twenty-one.

- (2) Only active members would be eligible to vote in the affairs of the society and stand for election to its Board of Directors.

Provided that no Ministers* would be eligible to be elected as Chairman or Vice-Chairman or President or Vice-President of the Cooperative Society.

Provided further that no member who has interest in any business of the kind carried on by the society of which he is a member would be eligible to stand for election to its Board of Directors.

- (3) The term of office of elected members of the Board of Directors and its office bearers shall be five years from the date of election. (added subsequent to submission of the Interim Report). The term of office bearers shall be co-terminus with the term of board of directors. Only elected members of the board of directors shall be eligible to vote in election and to be elected as chairman or vice chairman or president or vice president of the Board.

Provided that the casual vacancy created by some untoward incident or by resignation of any director may be filled by co-option by the Board out of the same class of members in respect of which the casual vacancy has arisen for the unexpired term of the Board if the term of office of the Board is less than half of its original term.

- (4) The Legislature of a State shall provide for co-option of members, by the Board, on board of such a cooperative society having experience in the field of banking, management, finance or specialization in any field relating to the objects and activities undertaken by such a cooperative.

Provided that number of such co-opted members shall not exceed two in addition to number of directors specified in first proviso to clause (1) of this Article.

Provided further that the candidates who have lost in elections to the Board shall not be co-opted on the Board either on casual vacancy or otherwise.

243. ZK. Election of members of Board

* Dr.Amrita Patel has recommended extension to cover MPs/MLAs

- (1) Notwithstanding anything contained in any law made by a State Legislature, the election of a cooperative society shall be conducted before the expiry of the term of the Board of such a society so as to ensure that the newly elected board assumes office on expiry of the term of the outgoing board.
- (2) The superintendence, direction and control of the preparation of the electoral rolls for, and the conduct of all elections to the cooperative societies shall vest in the Board of a cooperative society. However, a State Legislature shall provide for the procedure and guidelines for conduct of elections.

243.ZL. Supersession of Board of Directors

Notwithstanding anything contained in any law for the time being in force, no board of a cooperative society shall be superseded or kept under suspension for a period exceeding six months. However, in case of a cooperative society, other than a multi-state cooperative society, doing the banking business, the provisions of this clause shall have the effect as if for the words “six months”, the words “one year” had been substituted.

Provided that Board of a cooperative society may be superseded in cases of persistent default, negligence in the performance of duties or the Board has committed any act prejudicial to the interests of society or its members or there is a stalemate in Constitution or functions of the Board or the Board has failed to conduct the elections as per Article 243 ZK.

Provided further that the Board of Directors of such cooperative society shall not be superseded where government share holding is less than 51%.

- (1) In case of supersession of Board of a cooperative society, the administrator appointed to manage the affairs of such a society shall arrange for elections within the period specified in Para 1 and hand over the management to the elected board.
- (2) The Legislature of a State may, by law, make provisions for conditions of service of the administrator.

243. ZM. Audit of accounts of cooperative societies

- (1) The Legislature of a State shall, by law, make provisions with respect to the maintenance of accounts by the cooperative societies and the auditing of such accounts at least once in each year.
- (2) The State Legislature shall lay down the minimum qualifications and experience of auditors and auditing firms that shall be eligible for auditing cooperative societies.
- (3) Every cooperative society shall cause to be audited by an auditor referred to in clause (2) appointed by the general body of a cooperative society.
- (4) The accounts of every cooperative society shall be audited within a period of six months of the close of the financial year as defined in law made by the Legislature of a State.

243. ZN. Convening of the General Body meetings

The Legislature of a State shall, by law, make provisions that the annual general body meeting of every cooperative society shall be convened within a period of six months from close of the financial year to transact the business as shall be provided in the law.

243. ZO. Right of a member to get information

- (1) The Legislature of a State shall, by law, provide for access to every member of a cooperative society to the books, information, accounts of such a society kept in regular transaction of its business with such member.
- (2) The Legislature of a State shall, by law, ensure the participation of the members in the management of said society through provisions laying down minimum number of meetings to be attended by the members and utilizing the minimum level of services as may be provided in such law.
- (3) The Legislature of a State shall, by law, provide for mandatory cooperative education and training for its members.

243. ZP. Returns

Every cooperative society shall file returns, within six months of the close of every year, to the authority designated by the State Government amongst others, including the following:

- a) annual report of its activities;
- b) its audited statement of accounts;
- c) plan for surplus disposal as approved by the general body;
- d) list of amendments to the by-laws of the cooperative society; if any;
- e) declaration regarding date of holding of its general body meeting and conduct of elections when due; and
- f) any other information required by the designated authority in pursuance of any of the provisions of the State Act.

243. ZQ. Offences and penalties

The legislature of a State may, by law, make provisions for offences and penalties. Amongst others, as may be provided by a State Legislature, the following shall constitute offences:

- a) A cooperative society or an officer or member thereof wilfully making a false return or furnishing false information or wilfully not furnishing any information required from him by a person authorized in this behalf;
- b) Any person wilfully or without any reasonable excuse disobeys any summons, requisition or lawful written order issued under the provisions of the Act;
- c) Any employer who, without sufficient cause, fails to pay to a cooperative society the amount deducted by him from its employee within a period of fourteen days from the date on which such deduction is made;
- d) Any officer or custodian who wilfully fails to hand over custody of books, accounts, docu-

ments, records, cash, security and other property belonging to a cooperative society of which he is an officer or custodian, to an authorized person;

- e) Whosoever, before, during or after the election of members of the Board, or office bearers adopts any corrupt practice;

243. ZR. Application to Multi-State Cooperative Societies

The provisions of this Part shall apply to a multi-state cooperative society also and reference to State and State Legislature would construe as the Union and Parliament respectively.

243. ZS. Application to Union Territories

The provisions of this part shall apply to the Union Territories and shall, in their application to a Union Territory, have effect as if the references to the Governor of a State were references to the Administrator of the Union Territory appointed under Article 239 and references to the Legislature or the Legislative Assembly of a State were references, in relation to a Union Territory having a Legislative Assembly, to that Legislative Assembly:

Provided that the President may, by public notification, direct that the provisions of this Part shall apply to any Union Territory or part thereof as he may specify in the notification.

243. ZT. Continuance of existing laws

Notwithstanding anything contained in this Part, any provision of any law relating to cooperative societies in force in a State immediately before the commencement of the Constitution (Amendment) Act,.....(year), which is inconsistent with the provisions of this Part, shall continue to be in force until amended or repealed by a competent Legislature or other competent authority or until the expiration of one year from such commencement, whichever is less.

II. Amendment to the Multi-State Cooperative Societies Act, 2002

The Committee took note of the fact that the MSCS Act, 2002 has been in operation for the last six years and that several cooperatives have been registered under this Act. There is a need to make the Act more comprehensive to mitigate practical problems being faced by the Multi-State Cooperative Societies due to certain provisions of the Act.

The Committee in its various meetings held detailed discussions on these issues and deemed it appropriate to suggest amendments to the Multi-State Cooperative Societies Act, 2002 clause-wise. During its deliberations subsequent to submission of the Interim Report, the Committee agreed upon the following additional recommendations:**

1. The internationally accepted definition of Cooperative Society reflecting its voluntary, autonomous and democratic nature should be introduced in the Act.

** The need for a clause putting restriction on MLAs/MPs in addition to Ministers to be office bearers of cooperatives was discussed by the Committee in its 19th HPC meeting held on 12.2.2009 . The Committee decided not to recommend any change in the existing clause. However, Dr. Amrita Patel has expressed the following view

Proposed amendment to Section 44 (2)

No member of a board shall be eligible to be elected as the chairperson or president or vice-chairperson or vice-president of a multi-State cooperative society if such member is a Minister in the Central Government or a State Government or a Member of Parliament or a Member of the State Legislative Assembly.

2. A definition of “active member” should be introduced in the Act
3. A fair, but enforceable provision for fiduciary responsibility as provided in the Companies Act should be introduced. It should be mandatory for the directors on cooperative boards also to disclose certain information in order to avoid conflict of interests.
4. A clause should be introduced putting restriction on contribution by cooperative societies to political and religious organizations.

Accordingly, the proposed provisions along with justification for amendments to the Multi-State Cooperative Societies Act, 2002 are placed herewith.

Proposed Amendments in the Multi-State Cooperative Societies Act, 2002

Section	Existing Provision	Proposed Provision	Justification for proposed Amendment
1	2	3	4
Section 3 Definitions	<p>Not provided</p> <p>Original clauses (a) to (w).</p> <p>Section 3(h) “Co-operative society” means a society registered or deemed to be registered under any law relating to cooperative societies for the time being in force in any State</p>	<p>Section 3 (a) “An active member is one who participates in the affairs of the cooperative, using its services as prescribed in the by-laws of the cooperative.”</p> <p>To be renumbered (b) to (x) respectively.</p> <p>Section 3(i) “A Cooperative Society is an autonomous association of persons united voluntarily to meet their common needs and aspirations through a jointly-owned and democratically – controlled enterprise and adhering to the cooperative principles and values, registered or deemed to be registered under any law relating to cooperative societies for the time being in force in any State or the Centre”</p>	<p>To ensure member participation</p> <p>Due to addition of new clause (a)</p> <p>The earlier definition does not provide for adherence to the spirit and principles of cooperatives</p>

<p>Section 3 Definitions (contd.)</p>	<p>Not provided</p>	<p>Section 3 (y) "Relative" shall include father, mother, spouse, sons and unmarried daughters</p> <p>Section 3 (z) "Functional Director" means an officer other than Managing Director of the rank of director or above allowed to be member of the Board of a MSCS as per its by-laws but shall not have voting right in the affairs of the MSCS.</p>	<p>Section 39 (1) (L) provides that the list of employees who are relatives of members of the Board or the Chief Executive may be placed before the AGM of the society. The definition of "relative" has not been provided anywhere in the Act and Rules. It would be appropriate if the definition of "relative" is provided under Section 3 of the Act to avoid ambiguity in interpretation of the provision.</p> <p>The term Functional Director which has been used under Section 41 (3) has not been defined and needs to be defined</p>
<p>Section 22 Conversion of a Cooperative Society into a MSCS</p>	<p>Section 22 (5) (c) The Registrar of Cooperative Societies referred to in clause (b) shall thereupon make an order directing that the society had as from the date of registration by the Central Registrar, ceased to be a society under the law relating to cooperative societies in force in the State.</p>	<p>The society, from the date of registration by the Central Registrar, shall cease to be a society under the law relating to cooperative societies in force in the State.</p>	<p>The amendment is essential to prevent a situation when a cooperative society converted as MSCS may continue to exist for want of an express order by the Registrar cancelling the registration of that society under the State Act. It is therefore, desirable to make a provision that will automatically cancel the registration of the converted society.</p>

<p>Section 25 Persons who may become members</p>	<p>Section 25(4) Every application for admission as a member of a MSCS shall be disposed of by such society within a period of 4 months from the date of receipt of the application and the decision of such society on the application shall be communicated to the applicant within 15 days from the date of such decision.</p> <p>Provided that if the application is not disposed of within the period aforesaid or the decision is not communicated within a period of 15 days of the expiry of the period of 4 months, the MSCS shall be deemed to have made a decision on the date of expiry of such period refusing admission to the applicant.</p>	<p>Every application for admission as a member of a MSCS shall be disposed of by such society within a period of 4 months from the date of receipt of the application and the decision of such society on the application shall be communicated to the applicant within 15 days from the date of such decision.</p> <p>Provided that if the application is not disposed of within the period aforesaid or the decision is not communicated within a period of 15 days of the expiry of the period of 4 months, the MSCS shall be deemed to have made a decision on the date of expiry of such period accepting admission to the applicant.</p>	<p>To prevent inordinate delay in admitting members.</p>
<p>Section 28 Members not to exercise rights till due payment made</p>	<p>Section 28 No member of a MSCS shall exercise the rights of a member, unless he has made the payment to the society in respect of membership or has acquired such interest in the society as may be specified in the by-laws.</p>	<p>No member of a MSCS shall exercise the rights of a member, unless he has made the full payment to the society in respect of all its dues or has acquired such interest in the society as may be specified in the by-laws.</p>	<p>Barring members from exercising their rights as members would discourage members from defaulting in payment of their dues to their cooperative society.</p>

<p>Section 30 Expulsion of Members</p>	<p>Section 30 (1) AMSCS may by resolution passed by a majority of not less than two-thirds of the members present and voting at a general meeting of members held for the purpose, expel a member for acts which are detrimental to the proper working of the society.</p>	<p>The Board of an MSCS may expel a member for his acts which are detrimental to the proper working of the society.</p>	<p>There may be situations when a member found to be involved in acts detrimental to the interest and proper working of the society cannot be expelled from the membership merely because the General Body meeting of the society cannot be convened as it may entail heavy expenditure especially when the last General Body meeting may have been convened very recently. It may, therefore, be expedient to give the power to expel a member to the Board of the MSCS instead of its General Body. Moreover on the basis of natural justice the authority competent to admit members, which is the Board of a society as per section 49(2) (a), should also be the competent authority to expel members.</p> <p>In the interests of natural justice.</p>
<p>Section 30 (2) Readmission of expelled members</p>	<p>Section 30 (2) No member of the MSCS who has been expelled under sub-section (1) shall be eligible for the re-admission as a member of that society, for a period of one year from the date of such expulsion.</p>	<p>No member of the MSCS who has been expelled under sub section (1) shall be eligible for the re-admission as a member of that society for a period of three years from the date of such expulsion.</p>	<p>Provided that the member concerned shall not be expelled unless he has been given a reasonable opportunity of making representation in the matter.</p>

<p>Section 31 Vote of members</p>	<p>Section 31 Every member of a MSCS including a member who is an employee of such society, shall have one vote in the affairs of the society.</p>	<p>Provided that – (a) a member who is an employee of such society shall not be entitled to vote – (i) at the election of a member of the Board of such society; (ii) in any general meeting convened for framing the by-laws of such society or any amendments there-to.</p>	<p>Every member of a MSCS shall have one vote in the affairs of the society. However, a delegate representing more than one member institution shall exercise the number of votes equal to the number of institutions he represents. Only an active member of a MSCS shall vote in the affairs of the society. Provided that - (a) an active member who is an employee of such society shall not be entitled to vote - (i) at the election of a member of the Board of such society; in any general meeting convened for framing the by-laws of such society or any amendments thereto.</p>	<p>In some cases, a single delegate may represent more than one MSCS. It is necessary to clarify that each institution that he represents would exercise its vote through him. This would ensure that the individual interests of the different institutions that a single person represents is taken care of. To ensure participation by members; and that non-active members do not have a say in matters.</p>
<p>Section 35 Redemption of shares</p>	<p>Section 35 (1) Shares held in the multi-state cooperative society by any of the authorities referred to in clauses (c) to (g) of sub-section (1) of section 25 shall be redeemable in accordance with the by-laws of such Multi-State cooperative society and in case where the by-laws do not contain any provision in this regard, in such manner as may be agreed upon between the multi-state cooperative society and such authority</p>	<p>Shares held in the multi-state cooperative society by any of the authorities referred to in clauses (c) to (g) of sub-section (1) of section 25 shall be redeemable. The MSCS shall be free to refund full or part of the share capital subscribed by the government and the government shall accept</p>	<p>Share capital participation by the government is with a view to help the cooperative to raise financial resources for its needs. As an autonomous institution, the cooperative should be permitted to refund the share capital of the government without any conditions whatsoever.</p>	

<p>The administrator of a cooperative society not being an elected member cannot be considered as true representative of the cooperative society. The society must be represented either by a member of the General Body or an elected member of the Board.</p>			
<p>Section 38 (3) Where in any meeting of the General Body or the Board of a multi-state cooperative society, a cooperative society or another multi-state cooperative society is to be represented, such cooperative society shall be represented in such meeting only through the Chairperson or the President or the Chief Executive or a member of the Board of such cooperative society or other cooperative society as the case may be, if such member is so authorized by the board and where there is no Board of such cooperative society, or other MSCS, for whatever reasons through the member of the General Body of such cooperative society or other MSCS to be nominated by the Administrator until next General Body Meeting of such MSCS which may appoint its representative in case the newly elected Board is constituted.</p>	<p>Where in any meeting of the General Body or the Board of a multi-state cooperative society, a cooperative society or another multi-State cooperative society is to be represented, such cooperative society shall be represented in such meeting only through the Chairperson or the President or the Chief Executive or a member of the Board/General Body of such cooperative society or other multi-state cooperative society as the case may be, if such member is so authorized by the board and where there is no Board of such cooperative society, or other MSCS, for whatever reasons through the member of the General Body of such cooperative society or other MSCS to be nominated by the Administrator until next General Body Meeting of such MSCS which may appoint its representative in case the newly elected Board is constituted.</p>	<p>Provided that where the by-laws of a multi-state cooperative society provide for representation of other institutions in any meeting of General Body or the Board of such multi-state cooperative society, such institutions shall be represented through its nominee.</p>	
<p>Section 38 Constitution, Power and Functions of General Body</p>	<p>Section 38 (3) Where in any meeting of the General Body or the Board of a multi-state cooperative society, a cooperative society or another multi-state cooperative society is to be represented, such cooperative society shall be represented in such meeting only through the Chairperson or the President or the Chief Executive or a member of the Board of such cooperative society or other multi-state cooperative society as the case may be, if such member is so authorized by the Board and where there is no board of such cooperative society or other multi state cooperative society, for whatever reasons, through the administrator, by whatever name called, of such cooperative society or other multi-state cooperative society :</p>	<p>Where in any meeting of the General Body or the Board of a multi-state cooperative society, a cooperative society or another multi-State cooperative society is to be represented, such cooperative society shall be represented in such meeting only through the Chairperson or the President or the Chief Executive or a member of the Board/General Body of such cooperative society or other multi-state cooperative society as the case may be, if such member is so authorized by the board and where there is no Board of such cooperative society, or other MSCS, for whatever reasons through the member of the General Body of such cooperative society or other MSCS to be nominated by the Administrator until next General Body Meeting of such MSCS which may appoint its representative in case the newly elected Board is constituted.</p>	<p>Provided that where the by-laws of a multi-state cooperative society provide for representation of other institutions in any meeting of General Body or the Board of such multi-state cooperative society, such institutions shall be represented through its nominee.</p>

<p>Section 39 Annual General Meeting of General Body</p>	<p>Section 39(1)(k) Expulsion of members</p>	<p>To be deleted</p>	<p>Power of expulsion has been transferred to the Board under section 30(1)</p>
<p>Section 41 Board of Directors</p>	<p>Section 41 Second Proviso Provided further that the Board may co-opt two directors in addition to 21 directors specified in the first proviso.</p> <p>Not provided</p> <p>Third Proviso Provided also that the functional directors in the national cooperative societies shall also be the members of the Board and such members shall be excluded for the purpose of counting the total number of directors</p>	<p>Provided further that the Board may co-opt two directors having experience in the field of banking, management, finance or specialization in any field relating to the objects and activities undertaken by the MSCS, in addition to 21 directors specified in the first proviso.</p> <p>To be placed as Third Proviso to Section 41 Provided further that the candidates who have lost in elections to the Board shall not be co-opted on the Board either on casual vacancy or otherwise.</p> <p>To be placed as Fourth Proviso to Section 41 Provided also that the functional directors in the national cooperative societies shall be the members of the Board and such members shall be excluded for the purpose of counting the total number of directors specified in the first proviso.</p>	<p>To ensure the presence of experts on the Board.</p> <p>To avoid co-optation of candidates in whom the members do not have confidence.</p> <p>Functional directors, who are on the roll of the cooperative and are co-opted to advise in business related and relevant affairs.</p>

<p>Section 41 Board of Directors (contd.)</p>	<p>Not provided</p>	<p>To be placed as Fifth Proviso of Section 41 Provided further that functional directors will not have voting rights.</p>	<p>Functional directors are present in an advisory capacity.</p>
<p>Section 41 Board of Directors</p>	<p>Not provided</p>	<p>Section 41(4) –new provision The casual vacancy created by some untoward incident or by resignation of any director may be filled by cooption by the Board out of the same class of members in respect of which the casual vacancy has arisen for the unexpired term of the Board, if the term of office of the Board is less than half of its original term.</p>	<p>The provision is necessary for covering any such contingency.</p>

<p>Section 43 Disqualification for being a member of Board</p>	<p>Section 43 (2) A person shall not be eligible to be elected as member of the Board of a multi-state co-operative society for a period of five years if such multi-state co-operative society fails to</p> <ol style="list-style-type: none"> conduct elections of the Board under Section 45; call the Annual General Meeting under Section 39, and to prepare financial statement and present them in the Annual General Meeting <p>Not provided</p>	<p>A member of the Board of a MSCS shall not be eligible to be re-elected as member of the Board of a multi-state co-operative society for a period of five years if such multi-state co-operative society fails to</p> <ol style="list-style-type: none"> conduct elections of the Board under Section 45; call the Annual General Meeting under Section 39, and prepare and present financial statements in the Annual General Meeting <p>43(3) If the Chairman or the Vice-Chairman fails to call a meeting of its Board for the purpose of deciding on election dates, 60 days prior to completion of tenure of the Board, members may write to the Central Registrar requesting him to take action in the matter.</p>	<p>The disqualification is too restrictive a condition for individual members of the Board of a society as the execution of the tasks under (a), (b) and (c) are primarily to be effected by the Chairman and the Managing Director. The proposed clause is to take care of contingency arising due to failure of Chairman to call a Board meeting for fixing election dates.</p>
<p>Section 44 Prohibition to hold office of Chairperson or President or Vice Chairperson or Vice President</p>	<p>New provision</p>	<p>Section 44(1) No member of a Board shall be eligible to be elected as the chairperson or president or vice-chairperson or vice-president of a multi-State cooperative society unless he is an Active Member of such society.</p>	<p>To ensure that decisions taken will be in the interest of the cooperative and its active members.</p>

Original 44(1)	<p>Section 44 (1) No member of a Board shall be eligible to be elected as the chairperson or president or vice-chairperson or vice-president of a multi-State cooperative society if such member is a Minister in the Central Government or a State Government</p>	<p>Section 44 (2) Dr.Amrita Patel has dissented with the Committee and suggested the following clause: No member of a Board shall be eligible to be elected as the chairperson or president or vice-chairperson or vice-president of a multi-State cooperative society if such member is a Minister in the Central Government or a State Government or a Member of Parliament or a Member of the State Legislative Assembly.</p>	To be renumbered.
Original 44 (2)	<p>Section 44 (2) No member of a Board shall be eligible to be elected as Chairperson or President of MSCS, after he has held the office as such during two consecutive terms whether full or part. Provided that a member who has ceased to hold the office of the chairperson or President continuously for one full term shall again be eligible for election to the office as such</p>	<p>To be deleted. Dr.Amrita Patel has dissented in regard to the proposed deletion of this clause.</p>	<p>There should not be any artificial restriction on the number of terms of the Chairman, Vice-Chairman. This has also been recommended by Choudhary Brahm Perkash Committee.</p>
Section 45 Election of members of Board	<p>Section 45(5) The term of office of the elected members of the Board shall be such, not exceeding five years from the date of elections, as may be specified in the by-laws of a multi-State cooperative society.</p>	<p>The term of office of elected members of the Board of Directors and its office bearers shall be five years from the date of election, as may be specified in the by-laws of a multi-State cooperative society. The term of office bearers shall be</p>	

<p>Section 45 Election of mem- bers of Board (contd.)</p>	<p>Section 45 (6) Where the Board fails to conduct election of the members of the Board the Central Registrar can hold the election within a period of 90 days from the date when such election became due.</p>	<p>coterminus with the term of Board of Directors. Only elected members of the Board of Directors shall be eligible to vote in election and to be elected as chairman or vice-chairman or president or vice president of the Board.</p>	<p>As per Section 43 (2) (a) the board members are not eligible for being elected as member of the Board if the board of such society fails to conduct election of the Board under Section 45. The principle of equity demands that nobody is punished without an opportunity to explain. Therefore, the Central Registrar must give such opportunity to the Board which fails to hold elections.</p>	<p>To ensure member participation in the affairs of the society.</p>
<p>Section 45 Election of mem- bers of Board (contd.)</p>	<p>Section 45(7) No person shall be eligible to be elected as a member of the board of a Multi-State cooperative society unless he is a member of the General Body of that society.</p>	<p>Where the Board fails to conduct election of members of the Board the Central Registrar shall after giving the Board an opportunity to explain, hold the election within a period of 90 days from the date when such election fell due.</p>	<p>No person shall be eligible to be elected as a member of the board of a multi-State cooperative society unless he is an 'Active Member' of the General Body of that society.</p>	<p>To rule out the possibility of vested interests in decision making.</p>
<p>Section 46 Holding of office in cooperative so-</p>	<p>Not provided</p>	<p>New provision Section 46 (1) Disclosure of Interests by Director</p>	<p>Every director of a cooperative who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement, or</p>	<p>Every director of a cooperative who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement, or</p>

<p>Section 46 Holding of office in cooperative society (contd.)</p>	<p>Not provided</p>	<p>proposed contract or arrangement, entered into or to be entered into, by or on behalf of the cooperatives, shall disclose the nature of his concern or interest at a meeting of the Board of Directors.</p> <p>New provision Section 46 (2) Interested Director Not to be present in Board's Proceedings</p> <p>No director of a cooperative shall, as a director, be present in the discussion of, or vote on, any contract or arrangement entered into, or to be entered into, by or on behalf of the cooperative, if s/he is in any way, whether directly or indirectly, concerned or interested in the contract or arrangement.</p>	<p>To rule out the possibility of vested interests in decision making.</p>
<p>Section 49 Powers and Func-</p>	<p>49(2)(a) To admit members</p> <p>New provision</p> <p>49(2)(m) – existing sub-clause</p>	<p>To admit and expel members</p> <p>49 (2) (m)</p> <p>To elect President, Vice President(s) from amongst the elected members of the Board as per by-laws of the society</p> <p>To be re-numbered as 49(2)(n)</p>	<p>The authority which admits should also be the authority to expel.</p> <p>To be inserted as (m) in place of existing sub-clause (m) It is an important function of the Board to elect President or Vice President of the society which must be provided under this section.</p> <p>Necessitated by introduction of new sub-clause 49(2)(m)</p>

<p>Section 50 Meeting of Board</p>	<p>Section 50(3) The chairperson, or if for any reason, he is unable to attend a meeting of the Board, any other member of the Board chosen by the members of the Board present from amongst themselves at the meeting, shall preside at the meeting.</p>	<p>The chairperson, or if for any reason, he is unable to attend a meeting of the board, the vice- chairperson/s and in the absence of both, any other member of the Board chosen by the members of board present, from amongst the elected members present at the meeting, shall preside at the meeting.</p>	<p>The by-laws of certain cooperative societies may provide for the election of vice-chairman also. In such a case in the absence of a chairman, the vice chairman, must have a legal right to preside over the meeting. It is only when the chairperson and vice chairman, if any, both are absent, any other director may preside.</p>
<p>Section 52 Powers and Functions of Chief Executive</p>	<p>Section 52 (j) Present the draft annual report and financial statements for the approval of the Board within thirty days of closure of the financial year.</p>	<p>Prepare the draft annual report and financial statements for placing before the Board within 60 days of the closure of the financial year for approval of the Board in its meeting as and when convened.</p>	<p>The duration of 30 days to prepare the annual report and financial statements is too less and needs to be raised to at least 60 days. CE should not be held responsible for placing the annual report and financial statements before the Board as its meeting is to be called by the Board and not by the CE.</p>
<p>Section 53 Committees of Board</p>	<p>Section 53 (1) The Board may, subject to such conditions as may be prescribed, constitute an Executive Committee and other committees or sub-committees as may be considered necessary. Provided that other committees or Sub-committees, other than the Executive Committee shall not exceed three.</p>	<p>The Board may constitute an Executive Committee and other committees or sub committees as may be specified in the by-laws.</p>	<p>There may be instances when more committees/sub committees may be required to achieve the objectives of a MSCS. This should be as incorporated in the by-laws of MSCS.</p>

<p>Section 63 Disposal of Net Profits</p>	<p>Section 63 (1) (b) Credit 1% to Cooperative Education Fund maintained by the National Cooperative Union of India Ltd, New Delhi in the manner as may be prescribed.</p>	<p>Credit 1% to Cooperative Education Fund maintained by the National Cooperative Union of India Ltd, New Delhi, which may be administered by a Committee appointed by Government in consultation with NCU.</p>	<p>Cooperative Education Fund maintained by the NCU is to be utilised for the activities pertaining to cooperative education, training and HRD for cooperatives. It is, therefore, in the fitness of things that the Committee to administer the fund is constituted in consultation with NCU.</p>
<p>Section 65 Restriction on Contribution</p>	<p>Section 65 No MSCS shall make a contribution, either in money or in kind, whether directly or indirectly to an institution which has an object of furtherance of the interest of a political party.</p>	<p>No MSCS shall make a contribution, either in money or in kind, whether directly or indirectly to an institution, which has an object of furtherance of the interest of a political party or religious body.</p>	<p>Cooperative societies are committed to the principles of neutrality towards political and religious activities.</p>
<p>Section 67 Restriction on Borrowing</p>	<p>Section 67 (3) A MSCS may issue non convertible debentures or other instruments subject to the provisions of any law for the time being in force to raise resources for the fulfillment of its objects to the extent of 25% of its paid up share capital.</p>	<p>A MSCS may issue non-convertible debentures, non-voting shares, IPO or other instruments subject to the provisions of any law for the time being in force to raise resources for the fulfillment of its objects to the extent of 49% of its paid up share capital. Cooperative Banking Societies will be governed by directions from RBI in this regard from time to time.</p>	<p>The increase in issue of non-convertible debentures or other instruments will enable the MSCS to have greater access to funds. However, in case of Banking Cooperative Societies, the provision of BR Act will prevail.</p>
<p>Section 70 Appointment and remuneration of auditors</p>	<p>Section 70 (7) (a) The MSCS may fill any casual vacancy in the office of an auditor; but while any such vacancy continues, the remaining auditor or auditors, if any, may act : Provided that where such vacancy</p>	<p>The MSCS may fill any casual vacancy in the office of an auditor; but while any such vacancy continues, the remaining auditor or auditors, if any, may act : Provided that where such vacancy</p>	<p>It may not be feasible to call the General Body meeting of the society for the reason of heavy financial expenditure and inconvenience to the members.</p>

<p>Section 70 Appointment and remuneration of auditors (contd.)</p>	<p>is caused by the resignation of an auditor, the vacancy shall be filled by the Board of MSCS out of the panel of auditors approved by AGM of the society/Central Registrar.</p>	<p>The procedure of settlement of disputes and implementation of awards under the Arbitration & Reconciliation Act is cumbersome, time consuming and expensive.</p>	<p>This is to prevent inordinate de-</p>
<p>Section 84 Reference of disputes</p>	<p>is caused by the resignation of an auditor, the vacancy shall only be filled by the multi-state cooperative society.</p>	<p>It is suggested that as provided in MSCS Act, 1984 all the disputes specified in section 84 (1) of the MSCS Act, 2002 may be decided by the Central Registrar of the Cooperative Societies or any other person authorized by him in this behalf.</p> <p>Similarly, decrees, awards under section 84 may also be included in section 94 pertaining to the execution of decrees, orders and decisions and section 99(1) regarding the decision against which an appeal may be made to the competent authority prescribed under Rule No.31.</p>	<p>Constitution of Cooperative Tribunal of three persons which may include at least one non-official cooperator as its Chairman or member. Time limit of six months may be provided for the disposal of each appeal.</p>
<p>Section 99 Appeals</p>	<p>84 (1) Notwithstanding anything contained in any other law for the time being in force, if any dispute touching the constitution, management or business of a multi-State cooperative society arises — Such dispute shall be referred to arbitration. (4) Where a dispute has been referred to arbitration under sub-section (1), the same shall be settled or decided by the arbitrator to be appointed by the Central Registrar. (5) Save as otherwise provided under this Act, the provisions of the Arbitration and Conciliation Act, 1996 (26 of 1996) shall apply to all arbitration under this Act as if the proceedings for arbitration were referred for settlement or decision under the provisions of the Arbitration and Conciliation Act, 1996.</p>	<p>Section 99(2) An appeal against any decision or order under sub-section (1) shall be made within sixty days from the date of such decision or order to the prescribed appellate authority. (As prescribed in Rule 31).</p>	<p>Section 99(2) An appeal against any decision or order under sub-section (1) shall be made within sixty days from the date of such decision or order to the prescribed appellate authority. (As prescribed in Rule 31).</p>

Section 94 Execution of Decision	Section 94	It may be provided in section 94 that all the decisions/ awards/ decrees under sections 39, 40, 83, 84, 99 or 101, if not carried out, shall be executed by the authority specified in the section.	
Section 124 Power to make Rules	Section 124(1) The Central Government may, by notification, make rules to carry out the provisions of this Act. (2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely: —	Delete	There should be no need to frame rules under the Act. All powers of the State in accordance with the Cooperative Principles should be included in the Act. All matters within the purview of the societies should be included in the by-laws of the society.

6

Recommendations

1. The Committee has envisioned cooperatives of the future as primarily autonomous, economic institutions of user members united voluntarily to meet their common economic, social, cultural needs and aspirations through a jointly owned and democratically controlled enterprise. It sees them as self-reliant and self-sustaining institutions functioning in a free, fair and transparent manner in keeping with the principles and values of cooperatives. Member centrality and member development would be key drivers and professionalism, quality and integrity the hallmarks. To arrest the practice of concentration of power in a few hands to the detriment of the larger member community, education for awareness building would be an integral part of a cooperative.

2. Keeping the above vision in mind, the Committee has analyzed the problems that afflict the cooperatives today and the challenges that they face, particularly in the scenario of ever increasing competition. These have been categorized as those problems which encompass the functional aspects of cooperatives namely Membership, Governance and Operations which could be considered as internal to the organization and problems further compounded by two important external factors - namely politicization of cooperatives and the control/ interference by governments.

3. The recognition that legal enablement, which respects the integral values of cooperatives is a major requirement for cooperatives to perform has informed the Committee's core recommendations and hence a large part of the report has been engaged with this aspect. The Committee has examined the 106th Constitution Amendment Bill and the MSCS Act, 2002 and proposed clause-wise amendments.

4. Based on its analysis detailed in earlier Chapters, the recommendations of the Committee are summarized below. To the extent possible, the Committee has given suggestions regarding appropriate amendment in the Cooperative Acts/By-laws of the cooperative. However, in respect of those cases where further study is required, suggestions have been accordingly made.

5. A Progressive and Enabling Legislation

As discussed earlier, cooperatives are presently required to operate under restrictive laws. We need to recognize that a progressive and enabling legislation which provides a level playing field for cooperatives with other corporate entities would greatly facilitate their ability to compete. It is therefore recommended:

5.1 The Model Cooperatives Act proposed by the Choudhary Brahm Perakash Committee Report and endorsed by all recent Committees including the Task Force on Revival of Rural Credit Cooperative Institutions should be enacted as a single law replacing existing State Acts. The law

enacted in each State should truly reflect the letter and spirit of the Model Cooperatives Act, enabling cooperatives to function as autonomous, democratically governed and professionally managed institutions.

5.2 Even in States where a Parallel law has been enacted, considering its poor utility and problems faced, there can be no viable alternative to a single enabling law which is member centric and based on cooperative principles replacing the existing State Acts.

5.2.1 The Model Cooperatives Act and the recommendations of the Vaidyanathan Committee on the amendments to the Cooperative Societies Acts are comprehensive in nature. However, considering the need for a few more changes and the greater emphasis needed on some issues, even at the cost of repetition, the following may be considered:

5.2.2 There should be no Rule Making power of governments. Powers of the State may be incorporated in the Act itself and all matters within the purview of Cooperative Societies should be included in the Act under the subject matter of By-laws.

5.3 Keeping in view, the need for a clear legal recognition of cooperatives as economic institutions, the definition of cooperative "*Cooperatives are autonomous associations of persons united voluntarily to meet their common needs and aspirations through a jointly owned and democratically-controlled enterprise and adhering to the cooperative principles and values*" should be incorporated in the Constitution of India, MSCS Act, 2002 and in all the State Cooperative Societies Acts.

5.4 With a view to enhance member participation in cooperatives and enable them to do away with non-user members, the MSCS Act and the State Cooperative Societies Acts must provide:

- | a definition of active member that is "*an active member is one who participates in the affairs of the cooperative, using its services as prescribed in the by-laws of the cooperative*".
- | for only active members who have a stake in the business to have the right to vote and contest elections to the Board.
- | an enabling provision for an easy exit to non-user members, by due process to be specified in the by-laws providing for cessation of membership on failure to fulfil the obligations as specified including use of minimum level of services in terms of quantum and period specified and the required participation in meetings.

5.5 In order to improve the effectiveness of Boards particularly their trusteeship role and fiduciary responsibilities, ensure accountability and professionalization of the organization, the law should provide for:

5.5.1 Clearly defined roles and responsibilities of the cooperative's Board vis-a-vis that of paid executives/managers. It should be defined that the Board should ideally confine itself to formulating policies and major business decisions, laying down plans and periodic goals whereas day-to-day decision making, within this framework, should be left to executives.

5.5.2 A fair, but enforceable provision for fiduciary responsibility as provided in the Com-

panies Act. It should be mandatory for the directors on cooperative Boards also to disclose certain information in order to avoid conflict of interests. Suggested provisions:

Disclosure of Interests by Director: (1) Every director of a cooperative who is in any way, whether directly or indirectly, concerned or interested in a contract or arrangement, or proposed contract or arrangement, entered into or to be entered into, by or on behalf of the cooperative, shall disclose the nature of his concern or interest at a meeting of the Board of Directors.

Interested Director Not to be Present in Board's Proceedings: (1) No director of a cooperative shall, as a director, be present in the discussion of, or vote on, any contract or arrangement entered into, or to be entered into, by or on behalf of the cooperative, if s/he is in any way, whether directly or indirectly, concerned or interested in the contract or arrangement.

- 5.5.3 Fit and proper criteria for Board members, keeping in view the cooperative ethos, should be laid down by the cooperative in its by-laws.
- 5.5.4 While experts co-opted on the Board should be subject matter specialists in business related areas of the cooperative, it should be left to the cooperative to decide upon the expertise that would be useful for its operations keeping in view the objective of the cooperative. In business decisions, the co-opted members should be allowed to vote.
- 5.5.5 A provision making it mandatory for any person elected as a director on the Board to undergo a set of prescribed training programmes within six months of being elected, intended for equipping her/him with the requisite skill sets and knowledge to satisfactorily discharge her/his responsibilities. Failure to do so will result in his disqualification as a director.
- 5.5.6 A provision making it mandatory to define the qualifications for the post of Managing Director in cooperatives shall be specified in the by-laws of the cooperative.

5.6 Considering the need to remove all such loopholes in the law which have contributed the politicization of cooperatives, it is necessary that in addition to the recommendations contained in the Model Cooperatives Act, the law should provide for:**

- 5.6.1 Voting rights linked to patronage and restricted to active membership - This would ensure that only active members have a say in electing the management of the society. To the extent that political personalities are themselves active members, they would be entitled to be on the Boards, and have a say in the management, if elected.
- 5.6.2 An appropriate weightage system in the second/higher tier cooperatives to ensure that a larger user of the cooperative be given his due in determining his right to decision making.

** Dr. Amrita Patel suggested a clause putting restriction on Ministers/MLAs/MPs to be office bearers of cooperatives.

For example, the Gujarat Cooperative Milk Marketing Federation (GCMMF) has the following provisions in its by-laws:

By-law no. 15.1- Each member shall have one vote by virtue of its ordinary membership. Besides this, the ordinary member shall have one additional vote for every 5 lakh units transacted through the Federation in the previous financial year.

The voting rights shall be determined along with annual accounts on the above basis and will be effective for the year till next annual general meeting.

Notwithstanding anything mentioned above, a person co-opted by the board as dairy management expert, the Registrar of cooperative societies, the nominee of NDDDB and the Managing Director of the Federation shall each have votes equivalent to the average of institutional members' total votes ignoring fractions.

- 5.6.3 Rotational retirement of Board members - to ensure absence of partisanship and bring fresh thinking on the Board, and at the same time allowing for continuity in management.
- 5.6.4 Restriction on voting right to members for the first twelve months after joining the cooperatives. This provision would guard against mass enrolment in cooperatives with the purpose of participating in elections. This would also be in keeping with the concept of active membership as it would give time for judging a member's loyalty and his being an active member would be proven and
- 5.6.5 Restriction on contribution to political and religious organizations
- 5.7 Keeping in view the need to enable cooperatives, which have already received equity contribution from the government, the law should also provide for repatriation of government equity and in cases where cooperatives are unable to return the government equity, they may enter into an MoU with the cooperative agreeing to such conditions that the government may stipulate.
- 5.8 In order to enhance competitiveness, the law should enable cooperatives to:
 - 5.8.1 Decide their organizational structure and staffing including recruitment policies, service conditions and remuneration, as approved by the Board.
 - 5.8.2 Undertake measures such as formation of joint ventures, partnerships, subsidiaries and strategic alliances with cooperatives and other corporates. These measures are being increasingly adopted in other countries and are operated within the boundary of cooperative principles.
 - 5.8.3 Operate without any imposed area restrictions. Cooperatives are hampered by the fact that often their area of operation and membership tends to be restricted and defined. As a result, they are often unable to achieve economies of scale. Such restrictions are not imposed in the case of private enterprises and must be removed to provide a level playing field, leaving the cooperative free to determine and lay down its own ground rules.

5.8.4 Have flexibility in business decisions, mobilizing funds and allocation of surplus.

6. Constitution Amendment

The Committee feels that there is a need for a higher authority to ensure that State Co-operative Societies Acts follow the Model Cooperatives Act and any transgression is judiciable. Accordingly, it recommends the need for a Constitution Amendment, which has been elaborated upon in the earlier Chapter.

7. The Role of Governments

Apart from enacting a law keeping in view the Model Cooperatives Act and the above recommendations, Governments would need to consider the following with a view to ensure autonomous functioning of the cooperatives and to strengthen them.

7.1 Designing a policy framework for facilitating the functioning of cooperatives with free and fair means, in no less equal terms with any other organization engaged in economic activities. The commitment should extend to ensuring through legislation and executive measures that the open and free market is really open and free of overt and covert monopolies that eliminate competition. This would be a commitment on the part of the Government to permit the entry of cooperatives to any line of economic activity as chosen by the members.

7.2 Conversion of equity held in cooperatives into grant or soft loan.

7.3 Execute an agreement/MoU with cooperatives that have received government equity, loans and guarantees so as to have a mutually acceptable role that the Government will continue to play till such time the equity/loan is not repaid

7.4 Refrain from deputing officers to occupy key positions in cooperatives except on an explicit request from a cooperative.

7.5 Ensure that the officers if deputed to hold key positions are given a minimum tenure of three years.

7.6 Provide a grant support for undertaking member education on a continuing basis, training of managers and board and leadership development based on specific proposals from Apex bodies of cooperatives.

7.7 Government should refrain from setting targets for formation of cooperatives. In some States the government departments themselves are engaged in the task of organizing cooperatives. This is a task which should be left to the Unions and Federations of the cooperatives in the concerned sector and more importantly to the people themselves.

8. Developmental Orientation to Planning for Cooperatives

8.1 It is important that due recognition is given to cooperatives as a third sector of the economy and its development, particularly in terms of its marginalized and weaker segments. Inclusion of a separate chapter on cooperatives as an important component of the plan documents would help

build clarity and a vision for cooperative development.

8.2 It is necessary that the functions of regulation, registration, legal arbitration etc. are distinguished from the developmental role required for planning of cooperatives. An independent body in the form of a permanent Cooperative Commission exclusively devoted to planning and devising policies for the development of cooperatives may be created at the national level as an autonomous body for this purpose.

9. Enhancing Competitiveness

In addition to the suggested changes in the law, to enhance competitiveness and professionalize the management of cooperatives, the Committee recommends:

9.1 An examination of the utility of various tiers of the cooperative structure and the need for de-layering of cooperatives wherever the structures are not found to be cost effective and encourage net-working amongst the cooperatives.

9.2 Consolidation of business through mergers of cooperatives and such other methods that successful corporates use, but ensuring at all times that the interest of members is protected.

9.3 Ensuring cost competitiveness through measures such as adoption of new technologies and management information systems. Federal cooperatives to take responsibilities to support their member organizations in these endeavors, particularly in respect of small cooperatives who are not able to build up their own information system or use IT-based technology, which affects the interface with the outside market.

9.4 Higher tier cooperatives should desist from competing in business with their constituent members. To ensure this, if necessary, a legal provision should be made.

10. Human Resource Development and the Need for Professionalism

Considering the importance of a comprehensive Human Resource Development endeavor in cooperatives, the Committee recommends:

10.1 Cooperatives should undertake member awareness and education programmes on a continuing basis in order to sensitize members regarding their rights, responsibilities/obligations in respect of the organization to which they belong.

10.2 Special efforts shall be made to facilitate women and youth participation in cooperatives. Reorienting the businesses and member activities of the cooperatives shall be one of the strategies to facilitate greater number of women to participate at different levels in the cooperative movement. The concept of 'Family membership' needs to be given serious consideration so as to attract youth.

10.3 It should be made obligatory on the part of cooperative leaders to undergo training on cooperative and business management (as in Malaysia) within six months of their being elected.

Manuals for such training, which should be gender sensitive, should be worked out.

10.4 The Management Committees/Boards of Cooperatives are oriented on business development, methods of enhancing member participation and strategies for maximizing member capital.

10.5 Considering the importance of appointing a competent Chief Executive, appropriate criteria based on the business and size of the cooperative be adopted.

10.6 Cooperatives should avail expert assistance in areas required from time to time, and should be free to engage suitable expertise, on a contractual basis, to meet such requirements at the time and for the period required. To meet specialist/professional needs of small cooperatives which cannot afford to hire such services, the higher tier organizations should provide the help needed.

10.7 Available literature suggests that leadership is not just an inherited trait but is dependent on exposure, education, training and grooming. While in the corporate world, grooming of talented individuals is a common practice it is not so in cooperatives. This needs to be considered as an important responsibility of the Board and senior management.

10.8 Various schemes such as the Training & Personnel Scheme, the Resource Centre Scheme of NCDC should be availed by cooperatives and in addition a Central Government Scheme for setting up such resource centres be considered.

10.9 From a long term perspective of providing trained professionals for cooperative management, setting up of a Cooperative University is a critical need. Steps have been taken by the NCUI in this regard and HRD Ministry and the University Grants Commission are providing necessary support for operationalizing this initiative. Already existing cooperative training facilities such as those of National Centre for Cooperative Training and NCDC at the centre and Regional Institutes of Cooperative Management, Institutes of Cooperative Management, Agriculture Cooperative Staff Training Institutes in the states should be utilized for this purpose.

10.10 Every cooperative should be required to spell out in broad terms its HRD policy in its by-laws. The Policy should cover all stakeholders viz., members, employees, Board of Directors and should specify manpower planning, recruitment procedures, professionalization. An amount of 2% of the annual budget of the society should be reserved for training and member education and skill upgradation at all levels. A mandatory training for board members has been already suggested.

11. Capital Formation and Financial Sustainability

Capital formation and financial sustainability are interrelated and are very vital for the health of cooperatives. Limitation of members to contribute to the capital of the society and absence of other avenues of capital formation are serious issues. The Committee recommends:

11.1 Considering the inability of a large percentage of members to make an upfront share capital contribution, the need for external support cannot be ignored. A scheme of Central Government and State Government budgetary provision for soft loans to farmers for share capital participation should be considered seriously. Such schemes are in force under the aegis of the Reserve Bank

of India, under which soft loans / interest free loans are provided to agricultural produce processing units towards initial share capital contribution.

11.2 Retained earnings in cooperatives are the most important form of collective capital that is in line with the cooperative philosophy. However, if a substantial portion of retained earnings is taken away in the form of income tax, the rate of accretion to the reserves becomes that much slower affecting the health of the cooperative and its growth.

Full income tax exemption is therefore recommended for all cooperative societies. This will be a major incentive for the cooperatives to plough back a substantial portion of their surplus in the form of reserves that would strengthen their capital base.

The recent amendment in the Income Tax Act to withdraw such exemption that was available to cooperative banks in the country is not in keeping with the global trend where nearly 65% of the countries have such an exemption.

11.3 Government participation in share capital of cooperatives, which invariably brings about government control is detrimental to the freedom and autonomy of cooperatives and is, therefore, not recommended. To the extent that cooperatives need help, it could be provided as grants or interest free loans. Interest free loans if provided should be strictly repatriable.

11.4 Even where cooperatives have availed the benefit of initial share capital participation support by government, this must be redeemed at the earliest.

11.5 The majority of cooperatives being localized entities, are best equipped to mobilize capital from their members but this has its own limitations. Some classes of cooperatives like manufacturing/processing/services/banking cooperatives generally have substantial non member clientele. Their requirement to raise share capital is also higher. They have to therefore turn to the financial markets to raise capital as well as debt. In order for the cooperatives to have a successful linkage to the capital markets they need to have

- i) certain minimum requirement of funds, which generally an individual cooperative may not have.
- ii) financially sound parameters with acceptable and transparent accounting and management systems.
- iii) a suitable umbrella organization to function as an aggregator, that is promoted and owned by the cooperatives. This organization will have to be structured as a corporate body and have the financial clout to source funds from the markets for the cooperatives.

Thus, for financially sound cooperatives that are capital intensive, it is recommended that each class of such cooperatives promotes an umbrella organization that can source capital from the market, arrange for debt, and also provide the required financial and technical expertise to the cooperatives. Such models in varying forms exist in respect of cooperatives in many countries. The financial instruments are specifically structured in the form of bonds, debentures, special shares, etc., keeping in view the requirements of the grassroots level cooperatives and the existing regulatory frameworks.

11.6 The share of Cooperative Banks in rural credit has been steadily declining and is around

20%. Cooperative Banks presently depend for their activities on their own funds which are very limited and refinance from NABARD. NABARD does not have the mandate to provide adequate refinance support and concessional rate of interest for short-term seasonal operations. For its activities, NABARD has been depending on external borrowings including General Line of Credit (GLC) support from Reserve Bank of India (RBI). Since GLC support has now been withdrawn by the RBI, adequate refinance through NABARD cannot be relied upon. Many of the Cooperative Banks are weak and unable to raise funds from the market. There is therefore a strong need for an alternative organizational set up to mobilize funds and to bridge the systematic gap in the cooperative credit and banking structure.

11.7 Cooperatives in various countries have adopted different strategies to augment their equity. In India, some cooperatives plough back part of the final price for member produce as share capital contribution. In some countries, the system of compulsory share capital contribution in proportion to patronage exists. The system of tapping share capital from non-members through different classes of shares or special purpose vehicles is also found. However, these have led to concerns about the potential conflict of interest amongst the members and other investors. Depending upon the business of the cooperative, financial instruments need to be developed to raise capital, keeping the one member - one vote concept in mind.

11.8 Sectors such as the service sector which have a high potential for growth are hampered in growth due to lack of adequate funding support. The NCDC, the apex funding institution set up to provide institutional finance to cooperatives has a limited portfolio in funding service cooperatives. This may be diversified to include all service sub-sectors.

11.9 In order to meet high capital requirements of value-added cooperative business projects, there should be debt financing and other appropriate financing options. Financing options such as Farm Improvement and Marketing Cooperatives Loans Act (FIMCLA) by Canadian Government and Business and Industry (B&I) Guaranteed Loan by US Government (guarantees up to 80 percent of a loan made by a commercial lender, depending on factors like stage of development, size of cooperatives) should be studied. FIMCLA is a federal government program in Canada that is designed to increase availability of loans for the purpose of improvement and development of farms and processing, distribution or marketing of farm products by cooperative associations. Under the Act, the Ministry is liable to pay the lender 95% of the loss sustained as a result of loans made, provided the requirements of the Act and the regulations prescribed have been met. Similarly USDA Rural Development is an agency that supports rural communities and the cooperatives in the US.

12. Access to Credit / Finance

In order to address the issue of lack of credit to large sections of the farming community, the Committee recommends

12.1 Providing incentives to become members of cooperatives to those who are outside the credit system - in the form of soft loan/grants for the purpose of share capital contribution to cooperatives.

12.2 Conducting a detailed and focused study on the reasons for large sections of rural and

agricultural population not being covered by formal credit system with emphasis on the need to make modifications to enable larger coverage of these populations.

12.3 Consideration of a separate line of credit for meeting credit needs of the credit worthy farmer members of weak PACS.

12.4 Encouraging the formation of SHGs comprising non-defaulting members of such PACs as have become ineligible for NABARD funding.

12.5 Providing an additional avenue of refinance to cooperatives by drawing up a suitable scheme to fund it from the RIDF.

12.6 Recognizing the high degree of weather dependence of Indian agriculture, the Committee is of the view that mitigation of risk to farmers cannot be completely addressed with the implementation of Vaidyanathan Committee recommendations. As the risks are of recurring and cyclical nature, the whole issue of finance and insurance needs a fresh look and a permanent solution. An Expert Committee can study the issue, taking it forward on the basis of available information and recommendations made by various studies.

13. Rehabilitation of Sick and Weak Cooperatives

13.1 Given the significant degree of sickness among cooperatives engaged in manufacturing, processing, services and other activities relating to rural economy, the Committee recommends that a National Cooperative Rehabilitation Committee be set up for addressing their problems.

13.2 As a sequel to setting up of the Rehabilitation Committee, it is also recommended that a National Cooperative Rehabilitation and Institutional Protection Fund (See page 63) for revival of sick units be created by the Government of India, with contributions from the States. With clearly spelt out modalities and eligible criteria for disbursement from the Fund, the Rehabilitation Committee may be the authority for approving disbursements from the Fund. Liquidation Funds available with the States as also other existing sectoral funds to support industry specific cooperatives may be suitably dovetailed into this recommended Fund.

13.3 Uniform guidelines for easy and non-disruptive exit by way of mergers or closures are recommended to be framed. These guidelines will have to be adopted by all the States.

l During the international economic crisis in the 1920s, some German Cooperative Banks became bankrupt. As a result, the first Regional Guarantee Funds of the Volksbanken and Raiffeisenbanken were established in 1930. Later on these funds were merged to form National Guarantee Funds, supplemented by Guarantee Federations. The deposit insurance scheme of the BVR was established in 1977 by merger of the Guarantee Fund and Guarantee Federations of the Volksbanken and Raiffeisenbanken. The Scheme assets are managed partly by the BVR and partly by the Regional Cooperative Auditing Association as trustees. The scheme is implemented through establishment of a classification method, and decision on classification-based fees. The sources of funds are membership fees, interest income and return flow.

l Rescue strategy enforced is the following:

- h Rescue measures (guarantees, cash contributions, loans)
- h Rescue concept (Status Quo analysis, concept for the optimal strategic positioning of the bank, restructuring measures, business plan)
- h Rescue controlling
- h Claims for personal (nominating a new management) and/or other charges
- h Obtain the consent of the BVR before making any major decisions on business policy
- h Recourse claims against the management

The legal basis of the measures is a contract between the bank and the BVR.

Prevention measures aimed at prevention of the need for rescue by early recognition of existing or threatening problems and prophylactic measures at an early stage include:

- h Classification method, developed by Oliver, Wyman & Company
- h Identification of “monitoring banks” and subsequent status quo analysis (questionnaires, interviews, audit reports, etc.)
- h Determination of the monitoring-type (“Observation”, “Coaching”, “Restructuring”)
- h Usage of different support models depending on the monitoring-type
- h Annual/quarterly reporting by banks
- h Continuous controlling regarding improvements
- h Classification method of banks is on the basis of financial factors concerning assets, profit and risk and involves classification into one out of eight risk grades. The fees structure

is accordingly determined.

14. Constitution Amendment

Taking note of the situation prevailing in the administration and governance of cooperative societies in the country, although “Cooperative Societies” is a State subject, there is a need for uniformity in cooperative legislation, particularly in respect of aspects crucial for autonomous and democratic functioning of cooperatives. Although several States have gone in for parallel legislation on the lines of the Model Cooperatives Act to cover cooperatives which do not have Government equity, even such Acts have been changed from time to time to suit political ends. Cooperative autonomy can be ensured only when certain amendments are introduced in the Constitution so that State cooperative legislation would be brought in conformity with the provisions of the Constitution.

14.1 Recommendations of the Committee on the 106th Constitution Amendment Bill 2006 introduced in the Lok Sabha may be seen from the Report. The main clauses in respect of which the Committee has suggestions to make are as follows:

- 14.1.1 It is important to make explicit what is already implicit in Article 19(1) (c) - that cooperatives are associations and any restrictions on them have to be within the framework of Article 19(4). Also it is necessary to have a definition of cooperatives in the Constitution that will clearly indicate that they are, in fact, promoted, owned, controlled and managed only by their user-members.

Accordingly, insertion of “the word “cooperative societies” after the word “associations” in sub-clause (c) of clause (1) of Article 19 and a definition of cooperatives {new sub-clause (h)} “to form and run Cooperatives based on principles of voluntary, democratic member control, member economic participation and autonomous functioning.” is recommended.

- 14.1.2 Apprehending that introducing new Part IX B after Part IX A of the Constitution as the Bill proposes, along with Panchayati Raj Institutions (PRI) and Municipalities would imply that cooperatives are a part of governance, the insertion of this part may be at an appropriate place in the Constitution to ensure that this construal is dispelled.

- 14.1.3 (Introduced subsequent to Interim Report). The following definition of Cooperative Society should be included in the Section on Definitions:

“A Cooperative Society is an autonomous association of persons united voluntarily to meet their common needs and aspirations through a jointly-owned and democratically-controlled enterprise and adhering to the cooperative principles and values, registered or deemed to be registered under any law relating to cooperative societies for the time being in force in any State or the Centre”

- 14.1.4 **243. ZJ. Number and Term of Members of Board of Directors and its Office Bearers**

- (1) The Bill specifies that the maximum number of directors on the Board shall not exceed twenty one except in the case of the State Level Cooperative Society.
- (2) The Bill specifies that term of office of elected members of the Board and its office bearers shall be five years from the date of election.

(Introduced subsequent to Interim Report). The Committee agrees to these suggestions.

Further the Committee has also recommended that only elected members of the Board of Directors shall be eligible to vote in election and to be elected as Chairman or Vice Chairman or President or Vice President of the Board.

- (3) The Committee has also recommended that the candidates who have lost in elections to the Board shall not be co-opted on the Board either on casual vacancy or otherwise.

14.1.5 **243. ZK. Election of Members of Board**

The Bill specifies that functions relating to, and the conduct of all elections to the cooperative societies, shall vest in the General Body of a cooperative society.

As it may not be possible to hold meetings of General Body frequently, the Committee recommends that these functions shall vest in the Board of a cooperative society.

14.1.6 **243.ZL. Supersession of Board of Directors**

The Bill provides that no board of a cooperative society shall be superseded, where there is no Government shareholding of loan or financial assistance or any guarantee by the Government.

Since this would imply that the boards of cooperatives even where there is a minor government shareholding of financial assistance or any guarantee by the Government can be superseded, the Committee has suggested that no supersession of the board of directors should be allowed in any case where Government share holding is less than 51%.

- 14.1.7 As a general rule, the Committee has recommended that in all clauses the word 'shall' should substitute the word 'may' so as to make the execution imperative.

15. Amendments in MSCS Act, 2002

Taking note of the fact that the MSCS Act, 2002 has been in operation for the last seven years and the need to make the Act more comprehensive and mitigate practical problems being faced by Multi-State Cooperative Societies registered under this Act, the Committee in its various meetings held detailed discussions on these issues and has proposed amendments clause-wise.

- 15.1 Detailed amendments are with regard to:

- | Section 3 - Definitions
- | Section 22(5)(c) - Conversion of a Cooperative Society into a MSCS
- | Section 25(4) - Persons who may become members
- | Section 28 - Members not to exercise rights till due payment made
- | Section 30(1) - Expulsion of members
- | Section 30(2) - Readmission of expelled members
- | Section 31 - Vote of members
- | Section 35(1) - Redemption of shares
- | Section 38(3) - Constitution, Powers and Functions of General Body
- | Section 39(1)(k) - Annual General meeting of General Body
- | Sections 41 - Board of Directors
- | Section 43(2) - Disqualifications for being a member of Board
- | Section 44(1) & (2) - Prohibition to hold office of Chairperson or President or Vice President
- | Sections 45(5), (6) & (7) - Election of members of Board
- | Sections 46(1) & (2) - Holding of office in cooperative society
- | Sections 49(2)(a) & (m) - Powers and Functions of Board
- | Section 50(3) - Meeting of Board
- | Section 52(j) - Powers and Functions of Chief Executive
- | Section 53(1) - Committees of Board
- | Section 63(1)(b) - Disposal of Net Profits
- | Section 65 - Restriction on Contribution
- | Section 67(1)(iii) - Restriction on Borrowing
- | Section 70(7)(a) - Appointment and removal of auditor
- | Section 84(1) - Reference of Disputes
- | Section 99(2) - Appeals

(S.G. Patil)
Chairman

(G.H. Amin)
Member

(Amrita Patel)
Member

(Dr. R.C. Dwivedi)
Special Invitee

(H.K. Patil)
Member

(Y.S.P. Thorat)
Member

(Rajendra Kumar Tiwari)
Member Secretary

ANNEXURES

(To be published in the Gazette of India Part-I, Section-1)

No. L-11012/4/2004-L&M
Government of India
Ministry of Agriculture
(Department of Agriculture and Co-operation)

Krishi Bhawan, New Delhi
Dated: the 10th May, 2005

RESOLUTION

The Conference of State Co-operative Ministers held on 7th December, 2004 at New Delhi, inter-alia, resolved to constitute a High Powered Committee to review the achievements of co-operative movement during the last 100 years, and prepare a road map recommending steps to be taken to address challenges being faced by the movement in the changing social and economic environment. In pursuance of the resolution passed in the conference and with the approval of the Competent Authority, it has been decided to constitute a High Powered Committee. The composition of the Committee will be as follows:

- | | | |
|----|--|------------------|
| 1. | Shri S. G. Patil | Chairman |
| 2. | Shri S.S.Sisodia, President, National Co-operative Union of India, New Delhi | Member |
| 3. | Shri H.K.Patil, Chairman, National Federation of Urban Co-operative Banks & Credit Societies Ltd., New Delhi | Member |
| 4. | Dr.Amrita Patel, Chairperson, National Dairy Development Board, Anand (Gujarat) | Member |
| 5. | Shri Y.S.P. Thorat, Managing Director, National Bank for Agriculture & Rural Development, Mumbai | Member |
| 6. | Shri Satish Chander, Joint Secy(Co-operation), Deptt. of Agriculture & Co-operation | Member-Secretary |

2. Terms of Reference of the Committee are:

1. To review the achievements of the cooperatives during the last 100 years.
2. To identify the challenges being faced by the cooperative sector and to suggest measures to address them to enable the movement to keep pace with the changing socio-economic environment.

3. To suggest an appropriate policy and legislative framework and changes required in the co-operative legislation in the country with a view to ensure the democratic, autonomous and professional functioning of co-operatives. Amendments in the Multi-State Co-operative Societies Act, 2002.
 4. Any other incidental or consequential issue as deemed necessary by the Committee for its consideration.
3. The Committee may devise its own procedure for functioning.
4. No TA/DA will be paid to the Government representatives and others representing co-operative interest or any other organization called by the Committee. Persons not belonging to any organization would be paid TA/DA admissible to Class-I Officers of the Government of India whenever invited to attend the meeting as per rules and instructions of Government of India.
5. The Committee will submit its report within a period of six months from the date of this Resolution.

Sd/-
(Satish Chander)
Joint secretary to the Government of India

ORDER

Ordered that copy of the resolution be communicated to all concerned.

Ordered also that the resolution be published in the Gazette of India for general information.

Sd/-
(Satish Chander)
Joint secretary to the Government of India

To

The Manager,
Government of India Press,

(To be published in the Gazette of India Part-I, Section-1)

F. No. L-11012/4/2004-L&M
Government of India
Ministry of Agriculture
(Department of Agriculture and Co-operation)

Krishi Bhawan, New Delhi
Dated: the 20th June, 2007

RESOLUTION

With the approval of the competent authority, President, National Cooperative Union of India, New Delhi is nominated as an ex-officio member of the High Powered Committee on Cooperatives.

Sd/-
(Satish Chander)
Joint secretary to the Government of India

ORDER

Ordered that copy of the resolution be communicated to all concerned.

Ordered also that the resolution be published in the Gazette of India for general information.

Sd/-
(Satish Chander)
Joint secretary to the Government of India

To

The Manager,
Government of India Press,

High Powered Committee Meetings

First Meeting	14.6.2005	New Delhi
Second Meeting	16.8.2005	New Delhi
Third Meeting	25.11.2005	New Delhi
Fourth Meeting	16.12.2005	New Delhi
Fifth Meeting	5.2.2006	New Delhi
Sixth Meeting	13.3.2006	New Delhi
Seventh Meeting	7.4.2006	Mumbai
Eighth Meeting	12.8.2006	New Delhi
Ninth Meeting	28.8.2006	New Delhi
Tenth Meeting	14.9.2006	Mumbai
Eleventh Meeting	27.11.2006	New Delhi
Twelfth Meeting	14.12.2006	Raj Bhawan, Bhopal
Thirteenth Meeting	3.2.2007	New Delhi
Fourteenth Meeting	7.6.2007	New Delhi
Fifteenth Meeting	27.7.2007	New Delhi
Sixteenth Meeting	31.8.2007	New Delhi
Seventeenth Meeting	18.9.2007	New Delhi
Eighteenth Meeting	10.9.2008	New Delhi
Nineteenth Meeting	12.2.2009	New Delhi
Twentieth Meeting	12.5.2009	New Delhi

Core Group Meetings

First Meeting	7.11.2005	New Delhi
Second Meeting	16.12.2005	New Delhi
Third Meeting	16.1.2006	New Delhi
Fourth Meeting	5.2.2006	New Delhi
Fifth Meeting	18.4.2006	New Delhi
Sixth Meeting	4.5.2006	New Delhi
Seventh Meeting	7.6.2006	New Delhi
Eighth Meeting	25.7.2006	New Delhi

Ninth Meeting	10.11.2006	New Delhi
Tenth Meeting	27.11.2006	New Delhi
Eleventh Meeting	8.1.2007	New Delhi
Twelfth Meeting	20.3.2007	New Delhi
Thirteenth Meeting	7 - 8.5. 2007	New Delhi
Fourteenth Meeting	6.6.2007	New Delhi
Fifteenth Meeting	17.7.2007	New Delhi
Sixteenth Meeting	8.9.2007	New Delhi
Seventeenth Meeting	18.9.2007	New Delhi
Eighteenth Meeting	12.10.2007	New Delhi
Nineteenth Meeting	15.11.2007	New Delhi
Twentieth Meeting	10.1.2008	New Delhi
Twenty-First Meeting	12.3.2008	New Delhi
Twenty-Second Meeting	3.5.2008	New Delhi
Consultation At VAMNICOM,Pune	28.5.2008	Pune
Twenty-Third Meeting	24.6.2008	New Delhi
Twenty-Fourth Meeting	17.9.2008	New Delhi
Twenty-Fifth Meeting	5.3.2009	New Delhi

COMMITTEES AND COMMISSIONS ON COOPERATION - MAJOR RECOMMENDATIONS

MACLAGEN COMMITTEE REPORT (1914)

The Committee on Cooperation was set up in October 1914 with E.D.Maclagen as its Chairman.

Recommendations:

- | Numbering not less than 10, individuals combine together as they are unable to obtain credit individually
- | Real security consists not of material assets of members, but their ability and desire to use credit productively and to repay loans out of profits made. Productive use of credit and moral pressure on co-members to duly repay would ensure loan security
- | Societies to be cooperative and business like, small in size
- | One vote per member, transparency of business transactions, development of thrift and obtaining maximum capital from savings
- | Period of the loan be fixed based on purpose of loan and the circumstances of the borrower
- | Rates of interest to be initially substantial, although lower than that on credit from money-lenders
- | Efforts increase deposits both from members and non-members
- | Primary society would be financed by Central Coop. Financing Agencies, either through the RCS Office on his endorsement, or on the recommendation of a Union of which primary societies are members and exercise control on errant societies
- | Maximum borrowing limit of the society be annually fixed
- | Obtaining share capital in instalments excellent means of inculcating thrift and providing capital
- | Interest rates not to be reduced until reserve funds have reached substantial figure
- | Frequent audit by higher cooperative institutions with Government Audit once in 2 or 3 years, with cost being met by the societies
- | Registrar should ensure supervision and control of primary societies without assuming detailed direction
- | To meet their deposits due, Banks must equilibrate their finances with care, providing for retention of adequate fluid resources
- | Need for Registrars staff to be increased and agriculture and industry in the provinces to be coordinated under one head; appointment of a Development Commissioner and a Cooperative Adviser also recommended
- | For coordination and control, a strong apex or provincial bank needed

ROYAL COMMISSION ON AGRICULTURE IN INDIA (1928)

The Royal Commission on Agriculture, appointed to make recommendations for improvement of agriculture and promotion of welfare and prosperity of the rural population, submitted its report in April 1928.

Recommendations:

- | Main activities of the cooperative movement must continue to be directed to expansion of the rural credit system; defects pointed out by the Committee on Cooperation 1914-1915 still persisted and although the number of societies has increased there was no qualitative improvement
- | Need for member education stressed
- | As in Europe where strong Central Federations undertake the work of organization and inspection, such supervising Unions or Provincial Unions, which are efficient, could be assisted by the Government
- | Role of the Registrar to be not merely a registering officer, but to provide supervision, assistance, counsel and control
- | To ensure continuity, Registrar not to be transferred for a minimum period of 5 years
- | More Government contribution in backward tracts and for certain activities such as irrigation, consolidation of land holdings etc.
- | Importance should be attached to every phase of activity; the term rural reconstruction expressed more accurately the nature of activities within the movement
- | Establishment of land mortgage banks with guarantee of interest on its debentures by Government under the Cooperative Act to meet the requirements of the cultivator other than small needs
- | Central Organization for control of debenture issue and measures for financial disciplines
- | Single purpose cooperatives by and large favoured; need for extension of cooperative principles in fields other than cooperative credit; cooperative input and sale societies also identified as areas for development.

COOPERATIVE PLANNING COMMITTEE (1945)

Arising as a result of the recommendation of the 14th Conference of Registrars of Cooperative Societies held in 1944, the Cooperative Planning Committee constituted in January 1945 under the chairmanship of R.G.Saraiya to draw up a plan of cooperative development in the country, submitted its report in November 1945. The Committee felt that supply of credit touches only one aspect of the life of the cultivator and the activities of Primary Cooperative Societies should be so extended as to cover the whole of his life.

Recommendations:

- | The Multipurpose Society should serve as a Centre for general economic improvement. Apart from financing crop production, it should act as an agent for sale of produce to the nearest cooperative marketing organization; supply farmers with their production needs

and dairy consumption requirements; serve as milk collecting station for the nearest dairy and provision of veterinary services, maintain agriculture machinery to be jointly used by members and encourage subsidiary occupations by its members

Membership of such societies should be a minimum of 50 and confined to an area of operation, which would ensure adequate business as well as efficient supervision and control

Except in cases where unlimited liability has been successful, the society should be one of limited liability

The Committee also dealt in detail with cooperatives in the areas of animal husbandry and fisheries, agricultural marketing and processing, agricultural credit, labour and civil construction, consumers, urban credit, housing societies, women and cooperation, cooperative administration and education training and research

Linking of agricultural credit with marketing. Credit societies should give loans on the condition that the borrowing member would sell the marketable surplus through his primary society to the nearest marketing society of the area.

ALL INDIA RURAL CREDIT SURVEY COMMITTEE (1951)

The All India Rural Credit Survey Committee was appointed in 1951 and submitted its report in 1954.

Recommendations:

Large parts of the country were not covered by cooperatives. Even in areas where membership existed, bulk of credit requirement (75.2%) was met from other sources.

Non-economic causes for the failure of the cooperative movement basically structural and functional, low educational levels and lack of training. Multi-purpose Society had not made any significant difference

Location of both power and finance continues to be largely urban and hence more responsive to urban than rural interest; cooperative in danger from various vested interests

Integrated scheme of Rural Credit based on State partnership including financial partnership in cooperatives; training with a rural bias.

Caution against state interference in day to day working. While societies at the rural base should become fully cooperative by process of replacing share capital, partnerships at higher levels have to be retained till base level societies develop sufficient strength.

Setting up of a National Agricultural Credit Long Term Operations Fund and National Agricultural Credit Stabilization Fund to be reviewed at the end of 5 years, responsibility for which would be with the Reserve Bank

Administrative and other matters including training.

Creation of the State Bank of India

Establishment of a Central Land Mortgage Bank in each State with more than 51% of State share capital

Apex Cooperative Marketing Federations

Licenses to be issued on a priority basis to cooperative processing plants

State plans for rationalizing and strengthening Central Cooperative Banks

District Marketing Societies on territorial or commodity basis with at least 51% State Govt. share capital and suitable technical staff, PACS with reasonably large membership and share capital and covering groups of villages; detailed observations with regard to the nature of liability, deposit, reserve, loan operations of PACS; establishment of primary land mortgage banks and primary marketing societies located at important mandis or at taluka centers after due consideration of the conditions of each area

Audit continue to be in the hands of govt. and be strengthened on a high priority; adoption of uniform standards of audit classification on an All India basis

COMMITTEE ON COOPERATIVE LAW (1957)

Appointed under the chairmanship of S.T.Raja in 1956 to evolve a simple law for cooperatives, the Committee submitted its Report in May 1957.

Recommendations:

Increasing decentralization of powers of Registrar

Persons, on whom powers of the Registrar could be conferred, should work under the Registrar

Registration of societies to conform to economic interests of members, social justice and sound business; amendment to by-laws also in accordance

Unlimited liability in case of societies

Amalgamation to be in accordance with wishes and interests of members

Membership not to be open to firms, partnerships and companies

Nominal or associate members to have NO voting powers or share in profit of societies

One man - one vote and no proxy

Ceiling on individual shareholding (Rs 5,000)

Powers of the General Body specifically laid down in the Model Bill; provision for a smaller body of delegates where membership is too large and wide spread

Any transfer of assets or property by members without previous consent of the society to be void, notwithstanding any law in force

State partnership, preferably to be direct

Contributions to reserve fund out of profits to be not less than 25%; contributory provident fund not to be used in business

All states should set up Cooperative Tribunals

REPORT OF SIR MALCOM DARLING (1957)

After studying the functioning of cooperatives in India, Sir Malcom Darling was not in favour of the new large sized society pattern, mainly due to its large area of operation.

Recommendations:

The area of operation of a society should not normally exceed a distance of two miles from its headquarter village

- | Societies undertaking banking should not be allowed to undertake trading, since banking and trading did not go together
- | Small societies should not be amalgamated without the full and free consent of a large majority of their members
- | The old name Thrift and Credit Society should be restored and scrupulously insisted upon at the time of registering a rural credit society at the primary level

NATIONAL DEVELOPMENT COUNCIL RESOLUTION (1958)

Highlights of the Resolution:

- | Cooperatives to be organized on a village basis and primary responsibility on Panchayat
- | Various programmes for increasing agricultural production to be carried out through cooperatives
- | Village societies to be federated through Unions and also become members of Marketing Societies
- | National savings movement to utilize cooperatives as primary agencies in rural areas
- | Development of marketing societies, on the basis of careful surveys of marketable surplus in different areas, emphasized
- | Emphasis on training

WORKING GROUP ON COOPERATIVE POLICY (1958)

This Group was appointed by the Government of India with Damle to consider the administrative and organizational arrangements needed for the implementation of 1958 Resolution of the National Development Council.

Recommendations:

- | The village cooperative should be organized on the basis of village community as the primary unit and include within itself all the families living in the village, whether they are cultivators, agricultural labourers, artisans or other groups such as fishermen etc. and it should provide to them not only credit, but also agricultural requisites and consumer goods
- | It would be more advisable not to combine the credit function which was of primary importance to all the people in the village with such other functions in which only a few people might be interested or which might involve long term investment or financial risks. Thus a village might have, in addition to village multi-purpose society one or more cooperatives for specific tasks and specific interests
- | The Group recommended two patterns of organizations: one being the organization of credit societies each of which would ordinarily have the village as the area of operation and in any case not cover a population of more than 1000 and the other being the organization of credit unions for a group of villages to undertake credit activities, the village societies in such cases being expected to deal with other activities

These recommendations were communicated by the Government of India to the State Governments in May, 1959 for cooperative revitalization.

WORKING GROUP ON COOPERATIVE FARMING (1959)

The Working Group on Cooperative Farming set up in 1959 under the chairmanship of S.Nijalingappa was to examine and suggest measures for promoting joint farming cooperative societies.

Recommendations:

- | Flexibility in organization, voluntary membership and more than one society in a village, if required
- | Decision making power to vest with General Body; if required Sub-Committees for different subjects, where membership is large
- | Model by-laws prescribed
- | Finance from Land Mortgage Banks for long-term credit (necessary amendments in Co-operative Act for this purpose), medium-term credit from CCBs against landed security , short-term credit based on repaying capacity
- | Initially Government to participate in share capital, which may be retired over a 10 year period through creation of share redemption fund or members contribution
- | Assistance under various Government schemes, as well as extension services should be made available
- | Managerial subsidy for 3 years
- | Society to be allowed to advance loans for consumption needs; mutual aid fund and chit fund to be created for this purpose
- | Education and training for ensuring success stressed

COMMITTEE ON COOPERATIVE CREDIT (1960)

The Committee on Cooperative Credit headed by V.L. Mehta was appointed in September 1959 and submitted its report in May 1960.

Recommendations:

- | Cooperatives should strengthen themselves financially and otherwise and extend their range of credit and distribution operations.
- | Promotion of viable units
- | Government contribution to share capital on a matching basis; specified subsidy for a period not more than 5 years and subscription by govt. to a special bad debt reserve
- | Loans to tenant cultivators, ceiling on credit limit to ensure needs of small and medium cultivators are met, short-term loans on production of two sureties from fellow members.
- | Detailed guidelines for determining perks of cooperative banks
- | Share capital of government to be conditional on minimum contribution being raised by members over a specified period; partnership of State at primary level to be indirect
- | Nominees of the Govt. or CCB would not have veto rights and Govt. should not interfere in the day to day working
- | At the village level, only one institutional agency for supply of credit viz., the cooperative

- | Arrangements for linking credit with marketing should be strengthened. Cooperative Marketing Societies should be permitted to make outright purchases from the producers.
- | Constitution and strengthening of the Agricultural Credit Stabilization Fund: Credit on the basis of repaying capacity to be provided to land less, tenants, marginal or sub-marginal farmers
- | Government to make outright contributions at fixed percentages for additional finance for agricultural production. This would not include jewel loans. The contribution would go to a special bad debt reserve, distinct from bad debt reserve created out of profits.
- | State to provide initial assistance for cooperatives, but not to interfere in internal management.
- | Special concessions to be given to scheduled castes and scheduled tribes.

WORKING GROUP ON PANCHAYATS AND COOPERATIVES (1961)

Set up under the chairmanship of S.D.Mishra to suggest measures for cooperatives and panchayats to perform their respective roles in coordination, the Committee submitted its Report in October 1961.

Recommendations:

- | To organize lectures by leaders, help increase membership deposits and share capital and to ensure that loans are utilized properly and repaid in time
- | To provide accommodation and also land to cooperatives for godowns etc. and processing licenses to cooperatives preferentially; Panchayat to deposit its funds with the village cooperative
- | Help in member education
- | All commercial agricultural functions to be run by the cooperative
- | Close coordination for drawing up village agricultural production plans and credit requirements
- | All economic and technical matters to be coordinated at Zila Parishad/Panchayat level
- | Work programmes of panchayats to be executed through labour cooperatives or community effort

REPORT OF THE STUDY TEAM ON COOPERATIVE TRAINING (1961)

Appointed under the chairmanship of S.D.Mishra, the Committee submitted its report in 1961.

Recommendations:

- | District and State Cooperative Unions to be strengthened to undertake cooperative training and education
- | Schools to teach cooperation as also universities, rural institutes and teacher training institutes
- | Students to be enabled to be members of school cooperatives, if necessary amending age provisions of Cooperative Acts

- | Member education to be peripatetic and based on the problems of the cooperatives
- | Specialized courses for institutional and departmental personnel should be organized including courses in Banking, Industrial Cooperation, Consumers Cooperation etc. All courses should have more of practical training and use new teaching techniques and audio-visual aids
- | Field studies and research programmes to be undertaken through universities, institutes and institutions, cooperative unions, rural economic division of RBI and the National Board of Cooperative Training
- | Preparation of pamphlets in local languages, text books, films, departmental manuals, cooperative journals, publishing success stories and case studies by NCUI and SCU (expenditure to be shared by Government)
- | Setting up of a National Board for Cooperative Training and NCUI to coordinate member education programme
- | Cooperative institute for advanced study and research to be set up
- | 1% of net profit of cooperatives to be contributed to SCU for cooperative education and training purposes

COMMITTEE ON CONSUMERS COOPERATIVES (1961)

Set up by the National Cooperative Development and Ware Housing Board under the chairmanship of P.Natesan, the Committee submitted its report in 1961.

Recommendations:

- | Setting up of consumer stores in larger towns and cities, service cooperatives to function as consumer stores at village level, with special attention to viability
- | As a rule, avoidance of trading activities along with banking
- | Initial government share capital, to be retired within a period of 10-15 years
- | Trading against cash
- | Creation of Price Fluctuation Fund
- | Rebates to members to be credited to share accounts
- | Incentives to Managers through commission on sales
- | Managerial subsidy
- | Concurrent audit; audit fee to be linked to profit instead of turnover
- | Sales-tax exemption on sales to affiliated primaries
- | Government requirements preferentially met through consumer cooperatives

COMMITTEE ON COOPERATIVE PROCESSING (1961)

Appointed by the National Cooperative Development and Warehousing Board under the chairmanship of R.G.Saraiya, the Committee submitted its report in 1961.

Recommendations:

- | Linking of credit with processing, processing and distributive institutions stressed

- | Proper planning
- | Preferential licensing policy
- | Members to be producers; membership to be opened to Primary Credit Societies in area of operation to facilitate recovery of crop loans
- | Credit Guarantee Scheme of GOI to be extended to cooperative processing units
- | Preferential treatment in case of taxation

COMMITTEE ON TACCAVI LOANS AND COOPERATIVE CREDIT (1962)

The NDC in 1958 had recommended making Taccavi Loans and other facilities through cooperatives to encourage increase in its membership. Progress was, however, not appreciable and GOI appointed a Committee in July 1961 to examine the whole question of implementation of the policy.

Recommendations:

- | Panchayats would prepare production plans which would be implemented through cooperatives
- | Cooperatives would be associated in preparation of plans
- | Cooperatives would be the institutional agency for credit to agriculturists, except in certain cases involving financial risks or delayed returns where govt. would continue direct finance
- | Government funds should supplement the resources of cooperatives and govt. budget provisions should continue
- | Cooperative dues be given priority over Taccavi loans
- | Cooperatives adopt system of credit based on repaying capacity and adequate security
- | Distress taccavi loans be granted by financially strong cooperatives, which would function purely on agency basis
- | Cooperative banking structure be rationalized
- | Land mortgage banking structure be a federal one with central land mortgage bank at state level and primary land mortgage banks at lower level. PLMB may have branches at Taluka Block Headquarters. PLMDB may be given power to sanction loans up to certain limit.
- | GOI to expedite Refinance Corporation for agriculture to help CLMBs in long term resources
- | Cooperatives to continue to charge economic lending rate on short and medium term loans

REPORT OF COMMITTEE ON COOPERATIVE ADMINISTRATION (1963)

Set up in 1963 under the chairmanship of Vaikunthlal Mehta, the Committee was to make recommendations regarding staffing at various levels, criteria for determining staff strength, training of staff and procedures for recruitment.

Recommendations:

- | IAS officers to be inducted as Registrars, taking account of suitability and with sufficient

orientation of the Cooperative Department; continuity through appointment for at least 3 years, preferably 4-5 years to be ensured

Joint Registrars for audit, banking and credit, cooperative marketing and processing (exclusively for cooperative processing, if sufficiently developed) industrial cooperatives and cooperative stores

Technical Experts to be taken on loan from concerned departments

Divisional Offices of cooperatives to have the same jurisdiction as Revenue Department

Functions of Divisional Offices and statutory and financial powers (except those reserved for being exercised only by the Registrar) to cover district offices in the Division

Cooperative enterprises of all kinds to be under administrative control of the Registrar; where such powers given to any other department, officers of Cooperative Department be posted to supervise societies and advise on cooperative aspects

Audit to remain the statutory duty of the Registrar and separate Audit Wing under a Chief Auditor to be set up

While not favouring deputation of departmental staff, on requisition by a society, a panel of names may be provided by Registrar, with ultimate selection by the Society Board

The President of the Board of Directors should be entitled to record his views on the work of the government official in his confidential report

Recommendations on pay scales, recruitment and training of officers of Cooperative Department

Promotion of federal bodies and consideration of transfer to them of statutory powers of the Registrar

SECOND WORKING GROUP ON INDUSTRIAL COOPERATIVES (1963)

Set up under the chairmanship of B.P.Patel, the Group submitted its report in May 1963.

Recommendations:

Banks to be selected and developed for industrial loans

Federations of Industrial Cooperatives to be set up at important market centers on a single or multi industry basis

At least one State level Industrial Cooperative Federation

Revitalization

State Acts to be suitably amended for needs of Industrial Cooperatives

Government share capital loans to members; government share capital in Federal Cooperatives

New District Industrial Cooperative Banks where considerable concentration of small industrial units; SCB and CCBs at district level also be enabled to finance Industrial Cooperatives

List of areas in which SBI expected to operate to be drawn up

CONFERENCE OF STATE MINISTERS OF COOPERATION (1964)

The Conference, after considering the issue of viability laid down the following minimum criteria of viability of a primary society:

- | Appoint a full time paid Secretary
 - | Set up a regular office in a building owned or hired
 - | Contribute to statutory and other reserves
 - | Pay a reasonable dividend
- The Programme for organization of viable societies involved three stages, viz.
- | The formulation of viability criteria by State Governments
 - | Survey to locate viable and potentially viable units
 - | Drawing up of a programme of amalgamation of non-viable units and liquidation of defunct societies

The entire programme of reorganization was expected to be completed by 1966-67 and to bring down the number of primary societies in the country to 1.20 lakhs.

MIRDHA COMMITTEE ON COOPERATIVES (1965)

The Committee was to lay down standards to determine genuineness of cooperative societies and suggest measures to weed out non genuine societies; to review existing cooperative laws and practices to eliminate vested interest; and suggest measures to overcome factors inhibiting self reliance and self regulation in the cooperative movement.

Recommendations:

- The Committee:
- | Endorsed the cooperative principles
 - | The Registrar in consultation with apex institutions to lay down detailed conditions for ensuring minimum performance level such as; minimum membership, minimum share capital before registration, promoters to be from different families etc; scrutiny before registration and careful watch after.
 - | Targets to be dependant on financial resources and administrative preparedness
 - | All members to be admitted except moneylenders in credit societies and traders in marketing societies. Similarly, contractors, transporters etc. not to be admitted to labour cooperatives, transport cooperatives respectively
 - | Safeguards suggested for cooperative housing societies
 - | Open membership and provision for appeal against refusal to admit a member
 - | Sanction of loans to managing committee members or their relatives and default in repayment by them to be put up to general body for information
 - | General Body to decide on number of terms a person may hold office in the Management Committee and number of societies. However, conventions should be evolved regarding these
 - | Elections to be held at least with a gap of 2 years to enable committee members to work
 - | Co-option of general members in sub-committees to encourage involvement
 - | Audit arrangements, dates for submission to be fixed and committee members to be answerable for non-compliance

Regular General Body meetings for considering accounts and elections; committee members to be answerable for non-compliance

Federal structure to be strictly followed and individual members normally not to be allowed in central apex or national societies

All important interests to be represented in Management Committee

Government nomination not to exceed one third of committee members or three whichever is less and only government servants should be nominated; code of conduct to be evolved for nominated Directors

Audit, to be objective, should be entrusted to a government agency independent of the Registrar

Federal cooperatives to take responsibility for supervision; governments may strengthen apex societies for this purpose

State partnership in cooperatives to continue; Long Term Operations Fund to be strengthened

Overall assessment of credit requirement to be made

Cooperative institutions to be allowed to raise deposits and a system of ensuring or guaranteeing deposits be evolved to build up public confidence

National Cooperative Bank through which all finance to cooperatives by Central Govt. and RBI may flow

Cooperative education emphasized; NCUI and SCU to be responsible for training institutions; societies may contribute to Cooperative Education Fund out of their net profits

ICA COMMISSION ON COOPERATIVE PRINCIPLES (1966)

The Report of the Commission on Cooperative Principles set up in 1964 under the chairmanship of D.G. Karve, to examine the need for reformulation of the cooperative principles was accepted by the 23rd Congress of the ICA in 1966.

Recommendations:

The report identified the six Principles of Cooperation.

ALL INDIA RURAL CREDIT REVIEW COMMITTEE (1969)

Also known as the Venkatappaiah Committee, the Committee submitted its report in July 1969.

Recommendations:

Agricultural Credit Corporations to be set up in States

SCB to play major role in rectifying deficiencies in cooperative credit and various steps taken to strengthen SCBs

SCB through its branches to finance PACS, where CCB is inoperative and similarly, CCB to finance cultivators where PACS dormant

Appropriate staffing and upgradation through training

Special grants by State Government to cooperative banks for employment of staff and to write off irrecoverable debts in certain cases

Supercession of management and appointment of Administrative Officer in special cases

Amalgamation of Banks where required

Rehabilitation of weak Central Banks

Promotion of viable units at the primary level so as to ensure that area of operation is not too large for the cultivators' convenience

Efforts to convert all PACS to limited liability

Reactivation of dormant societies or their liquidation

State government to contribute additional sums to share capital of PACS where levels of non credit business warrant this

Managerial subsidies to societies which employ a full time paid Secretary

Data verification of land records etc. to ensure reliability of credit finance

Scales of finance to be fixed up and credit to consist of two components viz., cash and kind

Recoveries to be tightened up

Supercession of management where Society affairs are unsatisfactory and Central Bank having a say in the management until a fresh elected Board is in position

State Acts and Rules to incorporate provisions for defaulters to be disqualified from continuing on Board of Directors

Financing of defaulters to be barred, those unable to repay on account of crop failure to be provided with conversion facilities or in certain cases to be granted extensions

Detailed guidelines for structure and resources of LDBs and lending policies and procedures were laid down

Special care to be taken for financing small cultivators. Small Farmers Development Agency to be established in selected districts for this purpose

RBI Act to be amended to provide for the constitution of Agricultural Credit Board, which would function through separate Standing Committees and may also deal with non agricultural aspects of rural credit and all relevant aspects of cooperative credit

Provisions of the Banking Regulations Act may be gradually extended to select agricultural credit societies

To cover rural electrification aspect, a Rural Electrification Fund to be administered by a Rural Electrification Corporation may be set up

The Committee also made recommendations with regard to medium term finance for agriculture, credit for animal husbandry, fisheries and other activities, and credit for marketing

Grant of pledge loans by marketing societies to members to be continued subject to certain safeguards

Need for qualified staff at all levels and appropriate training was emphasized; a study team was proposed to examine and design training courses and determine the magnitude of training required at all levels.

Training should emphasize practical aspects of working

Member education was also emphasized

NATIONAL COMMISSION ON AGRICULTURE (1971)

The Committee examined in depth the organizational structure for rural credit with special reference to small and marginal farmers.

Recommendations:

The Committee recommended the establishment of Farmers Service Societies (FSS) to serve through an integrated credit service to the large number of small and marginal cultivators and provide for meeting all their needs. The FSS could be sponsored by a commercial bank or could form part of the Cooperative Credit System.

GROUP HEADED BY SHRI T.A.PAI

The Group during the same period examined the most appropriate institutional credit structure for rural areas.

Recommendations:

The Group suggested that only the viable multi-purpose, professionally managed cooperative society, organized on the lines of FSS would fulfil the requirements of the rural areas.

BANKING COMMISSION (1972)

The Banking Commission set up in 1969 under the chairmanship of R.G.Saraiya to review the working of cooperative banks and recommend coordinated development of commercial and cooperative banks and to review the existing legislative enactment relating to commercial and cooperative banking, submitted its report in 1972.

Recommendations:

Primary credit societies to be so strengthened to enable them to function as Rural Banks. Societies which are potentially viable can be converted to Rural Banks with technical assistance from Central Bank/SCB and where these are weak from Commercial Banks

Rural Cooperative Banks to have 'Associate Members' who can avail themselves of facilities of the Bank, but will not have voting rights or receive patronage dividends

Rural Banks to be supervised by Parent Bank and Reserve Bank

Resources for share capital contribution may be made available from National Agricultural Credit Long-term Operations Fund

First priority in establishing Rural Banks be given to well run PACS. Special legislation for this purpose and appropriate amendments to cooperative laws to be made

Flexibility to Cooperative Banks as in the case of Commercial Banks

Diversification of farming essential; hence primary units to be functionally equipped to provide credit for all productive purposes to farmers

Real as well as financial assets should be accepted as security

Supervision of credit through provision of specialized services for this purpose by Central/SCB, if necessary, suitably subsidized by Government initially

- | Guarantee for financing small and marginal farmers under the Schemes of the Credit Guarantee Corporation
- | Removal of impediments to take action against defaulters
- | As far as possible entire credit should be from a single agency
- | Coordination machinery to be set up
- | Deposit Insurance Scheme should be extended to Cooperative Banks
- | Cooperative credit be transferred to the Union/Concurrent list
- | Establishment of National Cooperative Bank not favoured
- | Strong case for combining Agricultural Refinance Corporation and Agricultural Finance Corporation
- | Establishment of Urban Cooperative Banks be encouraged

WORKING GROUP ON COOPERATION FOR THE FIFTH FIVE YEAR PLAN (1973)

Translated the viability criteria into concrete terms to mean a minimum credit business of Rs 2 lakhs (by way of outstanding short term agricultural loans). In May 1976 the Reserve Bank of India suggested to the State Government that a normal cropped area of 2000 hectares of land should be able to provide the minimum business of Rs 2 lakhs as envisaged.

COMMITTEE ON INTEGRATION OF COOPERATIVE CREDIT INSTITUTIONS (1976)

Set up in 1975 to study the feasibility of integrating the long term and short term structure of the cooperative movement, the RK Hazari Committee submitted its report in 1976.

Recommendations:

- | Need for proper linkage between production and investment credit to intensify modernization of agriculture and rectify imbalances in the credit structure
- | Commercial and cooperative credit can jointly play an important role in agricultural finance.
- | Compartmentalised approach means the farmer has to approach different agencies for his needs. Public sector agencies are a specialized class of borrowers and LDB cannot lend to them.
- | Integration of credit functions between the two wings was felt necessary, for the cooperative credit structure to play an effective role
- | A 3-tier structure at the State, District and Primary level was suggested. A District Cooperative Development Bank (DCDB) at the district level and State Cooperative Development Bank at the State level (SCDB) through transfer of staff, assets, and liabilities of the DCCB and PLDB at the district level to the newly constituted DCDB and similarly those of the SCB and SLDB at the state level. At the primary level, the process of reorganization and strengthening of PACs to be simultaneously undertaken.
- | Gradual decentralization of sanctioning powers
- | Secretaries Cadre Fund to be created and maintained at the SCDB for caderisation of PACs and a permanent cadre of officials at senior and middle levels for the SCDB and DCDB.
- | System of Farmers' passbooks to be introduced.

- | Group guarantees, where Hypothecation not possible.
- | GEHAN to be a new form of security.

COMMITTEE ON URBAN COOPERATIVE BANKS (1978)

The Committee was set up in 1978 under the chairmanship of Madhava Das.

Recommendations:

- | There is a need to stop the practice of primary credit societies commencing banking business without first obtaining licence from RBI.
- | Primary credit societies should not be allowed to use the word “bank”, “banker” and “banking” as a part of their name to enable the public to distinguish between such societies and banking institutions coming under the purview of B.R. Act, 1949.
- | Corresponding legislative amendments required to give effect to these recommendations.
- | Existing primary credit societies may be allowed a maximum period of 4 years from the date of coming into force of the amended provisions of the B.R. Act, 1949. During the intervening period, till such amendments are carried out in the statute, the societies should either reach the level of prescribed viability standards to qualify for the licence or take suitable steps to go out of the purview of B.R. Act, 1949.

COMMITTEE TO REVIEW ARRANGEMENTS FOR INSTITUTIONAL CREDIT FOR AGRICULTURE AND RURAL DEVELOPMENT (1981)

The CRAFTICARD, under the chairmanship of B. Sivaraman was to review the ARDC, to examine the feasibility of integrating the long-term and medium-term credit structure and to examine the 2-tier vs 3-tier credit system, the role of the AFC and the RBI, submitted its report in January 1981.

Recommendations:

- | No single pattern feasible for the entire country
- | Farmers Service Societies and LAMPS to be developed
- | Reorganisation drive for societies, which would be single contact point for all types of credit including other rural producers such as artisans, craftsmen, agricultural labour etc.
- | Categories of membership: Weaker sections and others
- | Deposit mobilization to be taken up by PACs
- | SCB and CCBs to create a Primary Cooperatives Development Fund
- | Exemptions to defaulters to be completely stopped
- | Rate of interest to be high and a rebate of 2-3% allowed for timely repayment
- | Publishing list of defaulters to act as a deterrent for default
- | Training to be emphasized and planned
- | RRBs to be given preferential licensing in rural areas
- | NABARD to be set up and to take over the work of ARDC and different depts. of the RBI concerned with rural credit

- | A 2-tier structure may exist in the smaller states and UTs, while a 3-tier structure may be the general pattern for the larger states
- | Suggestion of the Hazari Committee for PACs to channel long term funds accepted
- | However desirable to have more than one organization for different purposes working in coordination
- | GOS may seek prior approval of RBI before dissolution of Boards of cooperatives
- | SCBs to use surplus funds to finance processing activities; enter into consortium arrangements with commercial banks
- | Differential rates of interest to be permitted for small and large farmers
- | LDBs to be permitted all kinds of term loans including composite loans
- | NAC(LTO) Fund and NAC(Stabilization) Fund to be taken over by the NABARD

COMMITTEE ON DEMOCRATIZATION AND PROFESSIONALIZATION OF COOPERATIVE MANAGEMENT (1985)

The Committee with Ardhanareeswaran as Chairman has examined various State Cooperative Acts and made the following observations:

- | The existing Cooperative Societies Act contain provisions which militate against the democratic character and the autonomy of cooperatives
- | Over the years, the Registrar has acquired undue powers in respect of management decisions of the cooperatives, which should be curtailed
- | The role of the Registrar should be made more positive and he should be looked upon as a development agent
- | The federal cooperative societies should play a more active part in the developmental functions relating to promotion, organization, proper functioning and growth of the affiliated cooperative societies
- | The changing complexities of member management, human resource development, financial management have necessitated availability of professional assistance to cooperatives through adequate trained and professional paid staff on appropriate terms working under the general guidance of a democratically elected body.

COMMITTEE ON STRUCTURE AND ROLE OF NATIONAL COOPERATIVE SOCIETIES (1987)

The Committee was set up under the chairmanship of B.Venkatappiah to assess the performance of National Level Cooperative Federations and examine various parameters of their functioning. The Committee was also to indicate the directions in which re-organization and re-orientation of federations is required in the context of emerging needs and the role of cooperatives in overall development, particularly in rural areas.

Recommendations:

- | A cooperative federation is answerable to its constituent units and can justify its existence only in terms of the services it renders to those units

NCUI Member Education Programme should be strengthened and financial responsibility shared by GOI, State Governments, Financial Institutions and cooperatives

NCCT Training should be strengthened and NCCT be de-linked from NCUI and reorganized on the lines of Swaminathan Committee. The possibility of corpus of funds should also be examined

NAFED should play a more important role as a leader of the cooperative marketing structure rather than as agent of government price support operations; undertake projects in backward areas for strengthening PAMS; play a more active role in spokespersonship and staff training

NCCF should conduct surveys of consumer needs to identify commodities that may be taken up by consumer cooperatives. The T&P Cell of the Federation needs further strengthening

Federations in the credit sector should develop their Research and Consultancy Wings and undertake micro level studies on simplification of loaning procedures, streamlining accounting methods, funds flow to weaker sections etc.

The task of strengthening cooperative infrastructure devolves on institutions such as NDDB, NCDC and NABARD. However, where feasible federal responsibilities need to be transferred to concerned cooperative federations

District federations of labour cooperatives should be organized in all districts with 15-20 primary societies

National Federation of Industrial Cooperatives be divested of its cooperative character together with its formal status as a federation

Responsibility of benefiting weaker sections devolves on the entire federal structure

Inter-sectoral coordination through a "single window system" and linking of marketing of agricultural produce with distribution of consumer goods may be attempted

Members of National Federations should be limited to state level federation. Lower level cooperatives may be admitted as members on a wholly transitory basis where there are no state federations

Only experts to be nominated on the Board of cooperatives and nominated members should not have the right to vote in election

Provision in Section 29(3) permitting Chief Executives to represent their societies in General Bodies of the National Federations should be deleted

Administrators of cooperatives should not be eligible to vote

Sizes of Boards should be manageable and not exceed fifteen

Provisions of proviso (Section 22(d)) of MSCS Act may be availed by National Federations desirous of giving voting rights on equitable rather than equal basis

The Chairman of the General Body should be a person not from among the members of the Board. The General Body should be much larger than the Board of Management. General Body should have the power to review, check and issue binding directives on matters of policy

New cooperative national federations should be organized only for facilitating operations of its constituents, spokespersonship, promotional and consultancy work. Business functions should be taken up only to the extent entrusted by its units.

AGRICULTURAL CREDIT REVIEW COMMITTEE (1989)

The Committee under the chairmanship of Prof. A.M.Khusro was to examine the problems of agricultural and rural credit, take stock of structural and operational deficiencies, constraints, quantitative and qualitative gaps and recommend major systemic improvements.

Recommendations:

The Committee recommended:

- | Prompt elections
- | Changes in Cooperative Law against protracted supersession
- | Completion of reorganization of primary societies based on viability norms, wherever the exercise has not been done
- | A programme of development for all such PACS which have not reached the loaning business of Rs 10 lakhs to be taken up for increasing its loan business, enlarging its package of profitable non-credit activities, augmentation of resources (deposits) and reduction in overdues
- | Improvement in quality of staff and accountability
- | Staff to be selected by societies
- | Incentive system
- | National Cooperative Bank of India

The Committee has suggested that the Eighth Plan should, in fact, become the plan for revival of the weak primary agricultural credit societies.

COMMITTEE ON MODEL COOPERATIVES ACT (1991)

Appointed by the Planning Commission, Government of India under the chairmanship of Choudhary Brahm Perkash, the Committee which was expected to make a broad rapid review of the status of cooperative movement submitted its report in 1991 suggesting future directions and drafted a Model Cooperatives Act.

Recommendations:

- | State policy on cooperatives and the principles of cooperation have been stated in the beginning of the Act as a guide to the remaining provisions of the Model Cooperatives Act and to facilitate the government to conform to the basic ideology of cooperation
- | Procedure for Registration of a new cooperative is simplified and all artificial restrictions by way of area of operation, economic viability etc. are removed
- | The Model Cooperatives Act gives no rule making power to the government. The law itself lays down the broad parameters necessarily to be observed by cooperatives and leaves all other matters relating to constitution, management and business of the society to be conducted in accordance with its bye-laws
- | The Model Cooperatives Act gives no power to the Registrar or the Government issue to orders for any of the following in a cooperative:
 - | Supersession of the Board of Director

Compulsory amalgamation or division of societies

Compulsory amendment of the bye-laws

Veto/rescind/annul the resolution

Issue directives

Cooperative Federations/Unions are to assume greater responsibility towards the member cooperatives and in particular to ensure regular conduct of elections to the Board of Management and timely conduct of annual audit of accounts

The Role of the Registrar under the Model Cooperatives Act has been confined to the registration and liquidation of cooperatives, conduct of inquiry and in case of default to conduct elections, audit and to convene meeting of general body

The Model Cooperatives Act prohibits cooperatives from accepting funds from the Government by way of equity

To ensure the character of cooperative as a member user organization, special obligations have been imposed on members

Board of Directors have been made accountable for timely conduct of elections, regular convening of meetings of the managing committee and the general body and for participation therein and for the timely conduct of the audit of the books of accounts

Model Cooperatives Act prohibits officers of the Government to work in a cooperative

The Model Cooperatives Act provides for the Constitution of Cooperative Tribunal for settlement of disputes including appeals on matters relating to constitution, management and business of a cooperative and to take cognizance of any offence under the Act.

HIGH LEVEL COMMITTEE ON FORMATION OF COOPERATIVE BUSINESS AS COMPANIES (1999)

The Committee under the chairmanship of Y.K. Alagh was to draft a legislative framework to enable formation of cooperative business as companies and to convert existing cooperative business into companies under a regulatory framework similar to that of private limited companies. The Committee submitted its Report to the Government (Department of Company Affairs) on March 15, 2000.

Recommendations:

A statutory and regulatory framework that creates the potential for producer-owned enterprises to compete with other enterprises on a competitive footing. The Companies Act would provide for various forms of companies including private limited, public limited, trusteeship companies and nidhis, each with specific and appropriate provisions applicable to them, to provide for the formation and registration of producer companies which include the mutual assistance and cooperative principles within the more liberal regulatory framework afforded by the Company Law with suitable adaptations, and to provide an opportunity to cooperative institutions to voluntarily transform themselves into the new form of producer companies. This facility will be available to inter-State cooperatives whose objects extend to more than one State.

Conversion of inter-State cooperatives to producer companies would be purely voluntary

Member equity may not be publicly traded, but may only be transferred, with the approval of the Producer Company's Board of Directors. Producer companies would not be vulner-

able to take over by multinationals or other companies

The conversion option by inter-State cooperative society to producer company can be exercised only if two-thirds of the Members of the concerned society vote in favour of a resolution to that effect

The new form of company would be designated as “producer company” to indicate that only certain categories of persons can participate in the ownership of such companies. The members of the producer company have necessarily to be “primary producers”, that is persons engaged in an activity connected with, or relatable to, primary produce

The objects of a producer company have been defined to include, among other things, production, processing, manufacture and sale of primary produces as well as allied matter

Provision for converted producer company to go back to the original fold of cooperative

In State Cooperative Laws, the Registrar’s approval is required in most matters of governance and, especially, business. This regulatory and restrictive system presents significant obstacles to cooperatives being competitive in a market economy. Competing in a market economy requires speedy decisions on financial and administrative matters, for which autonomy is imperative, as is the case with other types of business, which conversion to producer companies will enable.

COMMITTEE ON URBAN COOPERATIVE BANKS (1992)

The Committee was set up in 1992 under the chairmanship of Marathe.

Recommendations:

Primary credit societies, which attained the revised entry point norms before 30 June 1993, be considered for inclusion in the list of functioning primary cooperative banks as a one time measure.

Such societies should, thereafter, be taken up for inspection and considered for issue of licence based on merit.

After the expiry of the cut off date of 30 June 1993, the primary credit societies, which do not satisfy the revised entry point norms should discontinue banking business and the concerned State Government should initiate necessary steps in this regard.

TASK FORCE TO FORMULATE ACTION PLAN FOR IMPLEMENTATION OF NATIONAL CO-OPERATIVE POLICY (2001)

Based on the recommendations made at a Conference of State Ministers for Cooperation in 2001, the Government of India constituted a Ministerial Task Force to formulate a plan of action for implementation of National Cooperative Policy. The Task Force suggested that a single law instead of parallel laws should be introduced in the States. It also recommended among others that to depoliticize cooperatives, Members of Parliament or Members of Legislative Assemblies should not be allowed to hold office of any cooperative society.

TASK FORCE FOR REVIVING RURAL COOPERATIVE CREDIT INSTITUTIONS (2004)

In August 2004, the Government of India set up a Task Force to suggest an action plan for reviving rural cooperative credit institutions and legal measures necessary for facilitating this process. The Task Force, chaired by Prof. A. Vaidyanathan, has recommended that any financial restructuring without addressing the root causes of the weaknesses of the system would not result in its sustained revival. This would require legal measures for enabling cooperatives to evolve into democratic, self governing and financially well managed institutions.

The recommendations of the Task Force in accordance with its Terms of Reference are basically confined to credit cooperatives. The revival package suggested by the Vaidyanathan Committee is a financial package for wiping off accumulated losses, covering invoked but unpaid guarantees given by State Governments, increasing the capital to a specified minimum level, retiring government share capital and technical assistance. It has also laid down the eligibility criteria for institutions, amongst which implementation of the recommendations for legal and institutional reforms is an important condition.

The Vaidyanathan Committee has also suggested a model cooperative law that can be enacted by the state governments. In states, where there are already two laws, the old Cooperative Societies Act and the new Act on the lines of the Model Cooperatives Act, it would be better to gradually converge and have only one Act so as to reduce confusion and legal problems. In respect of states, which have not yet passed the Model Act, the Task Force has recommended

Magnitude of the Cooperative Movement

The preoccupation of the government with the cooperative sector and its potential for bringing about development, right upto the nineties, resulted in an increase in the number of cooperatives and their contribution, making the Indian cooperative movement, one of the largest movements of its kind in the world.

In 1946-47, there were about 84,000 primary societies with a membership of 31 lakhs, paid up capital of Rs 14 crores, deposits of Rs 3 crores and working capital of Rs 21 crores. These societies advanced loans to the tune of about Rs 9 crores and did non-credit business of about 8 crores. As against this, in the year 2003-04, at the primary level, there were 1.5 lakhs PACS and 4 lakh non-credit cooperatives. The aggregate membership at the primary level was around 22 crores with 65% of the membership belonging to PACS. Aggregate share capital in cooperatives of all types is estimated at around Rs 22,000 crores with Rs 30,000 crores as reserves and working capital deployed is estimated at around Rs 4 lakh crores. These figures give a fair idea about the length and breadth of the movement spreading across all sectors and at all levels of the economy.

Credit Cooperatives

Right from its initiation the thrust of the Cooperative movement in India has been on credit with the 1904 Cooperative Credit Societies Act covering only Cooperative Credit Societies. With the Reserve Bank of India (RBI) Act 1935, rural finance as an activity was fully reserved for the cooperative sector, with the RBI as the principal support source. The Cooperative Movement thus largely grew as a cooperative credit movement.

At the time of the All India Rural Credit Survey, cooperatives supplied a little over 3% of the credit needs of farmers. By 1961-62, the All India Rural Debt & Investment Survey put this figure at 25%, with coverage of about 83% of the villages and 40% of agricultural population and by the end of sixties, this had further multiplied.

Since the 70s, the decadal average growth of short-term credit however stagnated at around 15%, while that of the long-term credit actually declined from 20.2% in the 70s, to 11.9% in the 90s. Although recently with the steps taken to increase the flow of credit to agriculture, credit disbursed by cooperatives had increased to 42.8% of total credit to agriculture in 2004, it has since declined to around 18% presently.

Urban Cooperative Banks (UCB) till 1996 were allowed only to lend money for non-agricultural purposes and were traditionally centred around communities, localities and work place groups. They essentially lent to small borrowers and businesses, however, their scope of operations has widened considerably. The general realization that UCB have an important role to play in economic construction was asserted by a host of Committees. The Indian Central Banking Enquiry Committee (1931) felt that urban banks have a duty to help the small business and middle class

people. The Mehta-Bhansali Committee (1939), recommended that those societies which had fulfilled the criteria of banking should be allowed to work as banks and recommended an Association for these banks. The Co-operative Planning Committee (1946) went on record to say that urban banks have been the best agencies for small people in whom Joint stock banks are not generally interested. The Rural Banking Enquiry Committee (1950), impressed by the low cost of establishment and operations recommended the establishment of such banks even in places smaller than taluka towns.

The first study of Urban Co-operative Banks was taken up by RBI in the year 1958-59. The Report published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks; emphasized the need to establish primary urban cooperative banks in new centers and suggested that State Governments lend active support to their development. In 1963, Varde Committee recommended that such banks should be organised at all Urban Centres with a population of 1 lakh or more and not by any single community or caste. The committee introduced the concept of minimum capital requirement and the criteria of population for defining the urban centre where UCBs were incorporated. came to be seen as important players in this context. The Working Group on Industrial Financing through Co-operative Banks, (1968 known as Damry Group) attempted to broaden the scope of activities of urban co-operative banks by recommending that these banks should finance the small and cottage industries. This was reiterated by the Banking Commission (1969).

The Madhava Das Committee (1979) evaluated the role played by urban co-operative banks in greater details and drew a roadmap for their future role recommending support from RBI and Government in the establishment of such banks in backward areas and prescribing viability standards. While the Marathe Committee (1992) redefined the viability norms and ushered in the era of liberalization, the Madhava Das Committee (1999) focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks.

Cooperative Marketing

Cooperative, marketing and processing grew substantially during the Second Plan and State Marketing Federations were established in all states as well as a National Cooperative Marketing Federation. Cooperative sugarcane processing and godowns were also substantially supported.

The structure of marketing cooperatives is by and large two-tier, with primary marketing societies at mandi level, and marketing federations at state level except in Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Maharashtra, Karnataka, Manipur, Punjab, Tamil Nadu, Uttar Pradesh and Pondicherry where it is three-tier. From around 3108 marketing societies with membership of 1.5 million during the second plan period, the number of cooperative marketing societies, both general purpose and specialized/commodity societies has increased and today numbers nearly 10,700 with a total membership of 5.4 million. Marketing of agricultural produce by these cooperatives is estimated at Rs 43 billion, agricultural requisites at Rs 19 billion and consumer goods around Rs 13 billion as against a total sales turnover of Rs 1.05 million over the second plan period.

The fertilizer cooperatives have been playing a major role in providing adequate quantities of plant nutrients for achieving self-sufficiency in foodgrains production and rapid growth of

agriculture. Agricultural Cooperatives have played a major role following upon Independence, in the growth of the agricultural sector, and in particular in promoting the Green Revolution. The cooperative network provided the required credit and inputs to farmers, during this period, as well as processed resulting increased output of farmers. Cooperatives today contribute 26% of N and 30% of P production against the Public Sector 29% N and 8% P and Private Sector 45% N and 62% P production. Cooperative distribution, which upto the eighties contributed more than 70% of total fertilizer sales in the country, today however accounts for only 36% of total fertilizer distributed in the country, through a network of 28 State Level Federations, 29 Commodity Federations, 171 District Marketing Societies, 3920 Special Commodity Societies, 3632 Marketing Societies and around 1 lakh PACS.

Sugar Cooperatives

Although 4 cooperative sugar factories were set up between 1933 and 1935, development in this sector has been basically a post-Independence one. The Pravara Cooperative Sugar Factory, set up in 1950-51, proved an outstanding success and inspired sugarcane growers and the Government to set up similar factories. Today, there are 316 Cooperative Sugar Factories in India of which 239 are in operation. The cooperative share in total production, which had consistently increased over the period to around 60% in 1992-93 has been steadily declining and presently accounts for only 50%. The total membership of the sugar cooperatives is estimated at 5.13 million with total share capital of around Rs 3,300 crores.

The model of sugar cooperatives is one of the successful models, particularly in the state of Maharashtra. The sugar cooperatives have succeeded as a result of ensuring remunerative prices to their members, democratic management, providing proper depreciation reserves and resource generation through compulsory deposits by members, provision for technical guidance and inputs through creation of Agricultural Departments by each cooperative, making available irrigation facilities, equitable distribution of benefits amongst members, and very importantly, the provision of welfare services.

The economic and welfare activities of these units are impressive. Starting as a nucleus factory, each sugar cooperative has led to integrated development of downstream cooperatives and backward linkages with farmers. The number of educational, social and economic activities developed by cooperative sugar units in Maharashtra alone are: 187 educational institutions, which include 9 medical colleges and 4 engineering colleges; 90 social initiatives focusing on cultural centres, libraries, rural hospitals and health centres, Krishi Vigyan Kendras etc; and 44 economic Institutions such as Banks, Milk Federations, Poultry Farms, Transport and Employees Credit Societies etc.

Dairy Cooperatives

Dairy cooperatives today number 121180 and have a total membership of 12.94 million and a total share capital of Rs 3,743 million.

The birth of Amul initiated the growth of the Indian dairy cooperative movement, with the Amul model being successfully emulated all over the country. Today, there are around 183

Cooperative Dairy Unions formed by the dairy cooperatives on the same pattern, in the different States of the country. This entire dairy cooperative edifice owns 190 dairy processing plants, collects approximately 160 lakh kgs. of milk per day and makes payments of Rs.6000 crores to milk producers every year. It has been estimated that an incremental return of Rs.40,000 crores has been annually generated by an initial investment of Rs.2000 crores, over a 20 year period under the Operation Flood Programme.

Cooperative Spinning

The Cooperative Spinning Sector made its debut in 1954 when the first spinning cooperative was set up. The progress in the initial years was slow and picked up in mid-sixties, driven primarily by the Government's policy of encouraging large scale industries in the cooperative sector and NCDC's involvement in developing the sector, besides term loan assistance from the financial institutions. Presently, there are 164 spinning cooperatives with an installed capacity of 35 lakh spindles and 16896 rotors, and membership of 4.25 lakh cotton farmers.

The basic objective of the spinning cooperatives is to ensure remunerative return to cotton growers through value addition and to ensure consistent supply of quality yarn at reasonable prices to the handloom weavers and their societies. Cooperatives have established backward, lateral and forward linkages with farmers, cooperative marketing federations and weavers and their cooperatives.

Consumer Cooperatives

Following the war with China, the consumer cooperative movement in the country received a boost. The Government of India sponsored a number of schemes for: consumer cooperatives in urban areas; industrial workers; central government employees; and a scheme for supply of essential commodities to the rural population.

By the commencement of the Fourth Plan period, a country-wide infrastructure had been built up, comprising 14,000 primary consumer cooperatives, 387 central stores with several branches and 14 state federations as well as a National Cooperative Consumers Federation at the apex. Besides this, primary marketing societies, village service and tribal societies as well as primary cooperatives were engaged in the distribution of consumer items.

From around 7,058 consumer stores in the second plan period, the number of stores today is estimated at around 21,000 with a membership of around 8.46 million. Total sales increased from Rs 442 million to around Rs 15,000 million over this period. The structure of consumer cooperatives is by and large three-tier with a primaries at the village level, wholesale stores at district level and state federations at the state level. There are 30 federations, 695 wholesale consumer stores and 20,946 primary consumer cooperatives.

Fishery Cooperatives

The number of fishery cooperatives is around 14,000 with a membership of 1.9 million. The

fishery cooperatives are estimated to generate employment of 2.06 million and have a total sales turnover of Rs 1800 million.

Other Agri-processing Cooperatives

There are 690 foodgrains processing units, 139 oil mills, 49 fruit and vegetable processing units, 23 cooperative tea factories and 52 other processing units.

Other Cooperatives

The growth of cooperatives in other sectors has also been substantial and a large number of poultry, handloom, transport, handicraft, housing, farming, irrigation and electricity cooperatives etc. also exist.

Questionnaire for State Governments, Cooperators, Academicians and Cooperative Institutions

1. What are the specific achievements of cooperatives in your state/sector/society over the last 100 years?

If successful, please mention the factors responsible for success?

If failure, please mention the reasons for failure?

2. What measures are required to increase membership and change the public perception of cooperatives?

3. If cooperatives are schools of democracy, are they functioning as such? How should cooperatives be made vibrant and effective to work, to protect and enhance self-respect and cause self-reliance among members?

How can perception of cooperatives as member owned and user oriented organizations be propagated?

4. What are cooperatives doing for the common man which the corporate sector (be it public or private sector) is not doing?

5. Do you feel that cooperatives have been given special treatment by the Government or do you think on the other hand, they are being discriminated against as compared to the private and public sector enterprises? Please elaborate.

6. Do you feel that cooperatives lose out in competition to corporate sector invariably because

- (a) they are handicapped when it comes to economies of scale.
- (b) they operate essentially in rural areas, which are more difficult environments to function in business entities.
- (c) they generally lack professional skills and in many cases are reluctant to have professional management.
- (d) there is too much of political and bureaucratic interference/controls.
- (e) they suffer from inherent limitations of being democratically managed entities where professionalism becomes a casualty.
- (f) elections are politicised resulting in use of money and Power, which is against the cooperative principles.
- (g) cooperatives do not circumvent provisions of various rules/tax provisions to maximize

their profits.

If yes, please give your views on how to reverse the trend, taking each of the statements individually.

What other measures would you suggest for cooperatives to become more competitive?

7. Keeping in view the present day requirements, do you suggest some structural/policy/procedural changes in the cooperative system, particularly in credit/banking, marketing and other areas?

8. What is your opinion on the thinking that cooperatives being essentially grass roots organizations, should be open and also permitted to collaborate with other forms of enterprises like corporates, both domestic and multinationals, for mutual benefit and for synergization, (e.g. would you like growers cooperatives to link up with corporate processing units or export companies, even if they are MNCs?)

9. What changes in the cooperative policy and laws would you suggest to enable cooperatives to become more member oriented? Has it been possible for cooperatives to make their members conscious of their duties, rights and obligations to their society?

10. How important is it for State Governments to be receptive to suggestions to give autonomy to cooperatives, both in legislation and operations? What are the areas in which they can give up their controls over cooperatives? Please give specific instances.

11. Please give your views on each of the following points separately. Where the answer is 'no', please give reasons.

- | Is there any provision in your State Law for Government to issue directives to cooperatives? If yes, should the government have powers to issue directives to the cooperatives?
- | Is there need for government directors on the boards of cooperatives having less than 51% equity participation?
- | Should there at all be provision for powers to Registrar for supersession of Boards/ Office Bearers?
- | Do you feel that States should not have powers to make Rules except those concerning procedures for elections?
- | Should Ministers in Centre/State be allowed to be on the Board of Directors of Societies?

12. What specific measures do you suggest for

- (i) Cooperatives to be more transparent in their operations in order to win the confidence of their members and public at large.

(ii) Should there be any code of conduct for Board of Directors?

13. What measures do you suggest for evolving strong & effective self-regulatory systems, which alone will bring long-term credibility to the sector? Suggest a plan of action for moving towards a strong self-regulatory system?

14. What measures would you suggest to ensure that State Governments desist from interference in day to day functioning of cooperatives?