

**COOPERATIVES IN THE CHANGING
ECONOMY OF INDIA**



FORUM OF FREE ENTERPRISE
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*"Free Enterprise was born with man and
shall survive as long as man survives".*

— **A. D. Shroff**

1899-1965

Founder-President

Forum of Free Enterprise

COOPERATIVES IN THE CHANGING ECONOMY OF INDIA*

The Theory

Theoretically, a cooperative is a voluntary association of persons, who have come together to set up an enterprise through which they hope to provide themselves services which fulfill some common economic need felt by all the members. The enterprise is based on mutual aid. Unlike most other forms of enterprises, in cooperatives, members are primarily the users of the services provided, and only consequently investors in the enterprise; decision making in cooperatives is democratic, not based on share holding; and profit sharing, too, is based, not on share holding, but on the use of the cooperative's services by each member.

Cooperative Set-Up

That is, a cooperative is set up, not because some persons have money to invest, but because they need a specific service or set of services, a financial/marketing/supply service commonly needed by all of them, which individually they can either not access or can access but on disadvantageous terms, and which they expect to derive a financial gain from if they could jointly organise it for themselves. Therefore, all members are expected to use the services of the cooperative, and derive from that their right to influence decisions in and about the enterprise. They are also expected to contribute equitably to the capital

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of the cooperative, in order that it can organise the services needed by them. Since the aim of the enterprise is to give returns to its members on and through the service being provided, surplus/deficit (profit/loss) on the provision of the services is shared by members in proportion to their use of the services.

Long before it became fashionable to speak of globalisation, cooperative theory expected cooperatives of producers and consumers to talk to one another, and expected cooperatives at local, national and international levels to network and engage in negotiation and trade.

Given this definition of what a cooperative is, let us now examine the relevance of the cooperative form of enterprise in the changing economy.

Cooperatives and the Economy

At a time when "the market" is being projected as the panacea for all ills, let us see what cooperatives have to offer. Let us start with financial services. Imagine a rural area which has savings and credit services offered on commercial banks. What are the implications for most of the people living in the area?

Non-productive Savings

The money lender does not, by and large, offer savings facilities, and the bank funds is too expensive and commercially unviable to offer small savings facilities to such a large number of people. The people nonetheless save but save at home, do not earn interest on their savings, and these amounts, individually small but huge when combined, remain out of circulation, working neither for their owners, nor for anyone else. The lack of security for these savings, too, is a matter of concern, since an owner may not have access to his/her savings when he/she is in need of it and ready to bring it into circulation.

Credit Services : The Moneylenders

In the case of credit services, the small borrower, the borrower of small means, does find the money lender accessible and approachable, but finds (i) his interest rates high, (ii) him threatening where the borrower is a woman (iii) the loan available only if more than fully secured for which some object of value belonging to and in use by the borrower has to be mortgaged and, if movable, kept in the custody of the money lender and, therefore, taken out of use, (iv) the loan unrepayable many a time, since the money lender expects regular payment of interest but expects the whole of the principal to be repaid at one go, and this may not be possible for the borrower.

The Banker

The banker, on the other hand, does charge less interest, may not be threatening, is reasonable on the repayment schedule and instalments, but is interested only in what he/she in his/her limited understanding deems to be a productive loan, wants the loan fully covered except when there is pressure from the government to meet targets, but then is corrupt, and finds the borrower of small amounts too expensive, too taxing, especially if the loans are of diverse purposes and not part of some schematic lending programme of the banker.

The result is that the people cannot and/or do not borrow even where clearly they and the economy at large would benefit from their taking a loan. The result is also that the profits earned from such lending, if and when such lending takes place, more often than not, leave the area, and the local economy is further drained.

Savings and Credit Cooperatives

In an economy, where large numbers of people with small means live, where savings is a habit, where any

reduction in cost of available credit results in significant increase in incomes and the desire to invest and produce more; where borrowing for personal health is borrowing for productive purposes if without medical attention the borrower expects to lose time at work or business; where borrowing for schooling or improved housing could be as productive as borrowing for agriculture or other businesses, it seems foolish to depend only on the moneylender or the bank to meet people's financial needs.

Savings and credit cooperatives, however, because of their decentralised (therefore, lower cost), democratic (therefore, member-sensitive) nature, encourage small and large savings, and bring into circulation large amounts hitherto scattered and hidden, provide small and large loans for a variety of purposes, return profits from the provision of savings and credit services to members in proportion to their use of the services, and give a boost to local capitalisation, to reinvestment, to choice in employment, to choice in consumption, to improved quality of life for large numbers of people. "The market" has little to offer large numbers of savers and borrowers of small amounts, if "the market" does not include vibrant financial services cooperatives, and the losers of such an environment are not just the small savers and borrowers but the economy as a whole.

Marketing Services

Let us now look at marketing services. We could discuss the marketing of skills, of labour, of products, but since many of us might be familiar with milk marketing, let us look more closely at the dairy scene. Assume that there are no cooperatives, but that there are some private companies engaged in the processing and marketing of milk and milk products. What would be the implications?

Private Marketing Companies

The cost-benefit factor will encourage the companies to travel the least distance to collect the most milk from the least number of people. This implies that dairy farmers serviced by the companies will be nearer urban centres, and those who produce significant quantities of milk.

The cost-benefit factor may also encourage the companies to engage in such processing and marketing activities as yield the highest margins that is, to opt for converting liquid milk into high margin yielding milk products, which implies that a smaller number of consumers who can afford milk products might be better serviced than the large numbers who want and need plain wholesome milk.

Such a situation might be averted where dairying is big business in the hands of a few large dairy farmers, for then procurement of large quantities of milk might not be difficult, and it may be worth a company's while to sell liquid milk, too. However, that would imply loss of employment for hundreds and thousands of dairy producers in the country.

The profits from the processing and marketing of milk will go to those who invested in the enterprise, and it is highly unlikely that these investors will be in a position to invest those profits in the areas from which milk was procured, even if they so desired. The profits will move out of the area where they were generated, resulting in further depletion of resources in already resource starved areas.

Cooperative Marketing and Supply Services

In an economy where employment generation and the need to increase people's purchasing power are not major issues, such a market for dairy producers and consumers might not raise too many questions. However, in an economy where employment and purchasing power both need urgent attention, it is probably the cooperative with its decentralised,

democratic and, in this case, producer-sensitive and producer-controlled design, which permits, nay, makes possible and viable, the picking up of small quantities of milk from a large number of producers, spread over a large area. The quantities procured also make it worth the while of the producers to sell liquid milk, and not just milk products.

And finally, let us take a quick look at supply services again, we could look at supply of agricultural inputs, of irrigation water, of other production inputs including education and training or credit, or of housing, or consumables. However, since supply of credit has already been discussed in this paper, we need only reiterate here the value of and need for supplying such services through cooperatives.

It is not CDF's argument that at all times, in all places, the cooperative form of organisation has the most to offer in the fulfilling of every financial, marketing or supply need. What CDF does argue is that a market which inhibits or prevents the cooperative form of organisation where this is thought necessary and useful, is a limited, and even more dangerous, a limiting market.

Cooperatives in India

India has thousands of cooperatives servicing millions of members across the length and breadth of the country, and yet much of India remains under developed, and most Indians have little choice in health, in education, in employment, in consumption, in shelter. So, is there a flaw in the theory of what cooperatives have to offer an economy, to the development process?

CDF would argue that the theory is pretty sound, but that India has thousands of institutions which are called cooperatives, but which in fact are not. Theory requires cooperatives to be voluntarily set up by the members to meet needs defined by them, in the manner decided by

them. Theory also requires cooperatives to be managed democratically.

Restrictive Cooperative Laws

Indian “cooperatives”, however, more often than not, have come into being at the behest of a state government, which defines who should be the members, what purposes it should serve, and how. Cooperative laws across the country allow the Registrar of cooperatives to refuse citizens the right to voluntarily set up cooperatives, if he/she is of the opinion that the proposed cooperative might not be viable, or that if allowed to come into existence, it will affect the business of a “cooperative” already in existence, and laws also empower the Registrar to classify cooperatives, a power used by him/her to restrict/contain/expand the very *raison d’être* of a cooperative, its primary objective.

All Pervasive Government Control

Cooperative laws further empower the Registrar/government to (a) amalgamate, merge, divide cooperatives, almost at will; (b) unilaterally amend the bylaws, the basic contract amongst the members, in all matters including the objectives, the activities, membership eligibility, the management of the cooperative; (c) conduct and withhold elections, and nominate persons to the board of directors; (d) supersede the board and appoint anyone, not necessarily members, to manage the affairs for such lengths of time as seem appropriate; (e) decide on staff strength, recruitment, qualifications, service conditions; (f) decide on investment of funds by the cooperative, even in its own business; (g) appoint auditors and receive their report; (h) liquidate or continue the existence of a cooperative even when members think otherwise.

State Promoted, State Controlled Enterprises

What India has today are, by and large, not user-promoted user-controlled, user-sensitive enterprises, but state-promoted, state-controlled, ruling party-sensitive enterprises, and if the Indian economy is where it is today, if India's people are where they are today, it is because the cooperative form of business has not been permitted to come into existence, except where some extraordinary persons have fought, under appalling cooperative laws to have some semblance of voluntarism, of user-control, of user-sensitivity.

Ordinary People and Cooperatives

The question which then comes to mind is that if in spite of the existing laws there have been instances of successful and genuine cooperative action, the problem is perhaps not so much with the law, but with the quality of people we have. Cooperatives are meant for all manner of people who think they can benefit from them, but they are specially attractive, specially useful to ordinary people, because through collective investment, thought, action and control, they can mobilise the necessary material and non-material resources necessary to fulfil their objectives.

If, however, in addition to managing themselves, their agenda, their affairs, they have constantly to manage external political and administrative interference playing havoc with their very identity, and face a judiciary whose understanding of cooperatives is that they are "created by statute, they are controlled by statute and so, there can be no objection to statutory interference with their composition on the ground of contravention of the individual right of freedom of association", (*Daman Singh vs State of Punjab*), then barring the few with extraordinary business and political acumen, and with the will to fight every battle that comes their way, the rest have lost before they ever begin.

The Bridging of the Gap

The gap between the theory and practice of cooperation needs to be bridged, and indeed is being bridged. When other forms of enterprise are being heard, and being given even greater freedom than they already enjoy, it was the Government of Andhra Pradesh which first accepted the challenge of liberalising its cooperative laws. In 1995, it made a conscious decision to amend the state cooperative law so that citizens who wished to work through the cooperative form of business, could do so, without unnecessary controls and excessive regulation.

The Andhra Pradesh Initiative

The government, when considering reform of cooperative legislation, had before it 3 choices: (1) to repeal the existing cooperative law and replace it with a more liberal one for all types of cooperatives; (2) to introduce a special chapter in the existing cooperative law which could then govern such cooperatives as were member-created, member-driven, and member-serving; (3) to have a parallel law enacted for cooperatives which were member-sensitive and member-controlled, keeping the existing law in force for those "cooperatives" as served a public cause and which the government, therefore, had a direct interest in.

Government Cooperatives

During the course of the exercise, it was noted that there were several "cooperatives" which played a role in ensuring that certain necessary services (such as supply of subsidised agricultural credit, supply of other subsidised inputs, distribution of subsidised essential commodities, etc.) reached those who needed it the most. These, by and large, had come into being because of governmental policy. They existed primarily because subsidised services were being made available through them. As subsidised services were being made available through them, in such types of

“cooperatives”, government had an interest in ensuring that membership was universal, and that these “cooperatives” did not have overlapping jurisdiction because then the available services/subsidies would have to be spread thin and there would be unnecessary competition among these “cooperatives”.

Related to these was the need to ensure viability of these “cooperatives” through, if necessary, their compulsory reorganisation. As at one tier of the cooperative structure or another, these “cooperatives” had government share capital or government loans or government guarantee for loans taken from other financing agencies, the government also had acquired substantial interest in the financial and organisational management of these institutions.

In Public Service

Keeping these points in mind, recognising that for all their inefficiencies, these “cooperatives” served an important public cause, and, expecting them not to fare too well under a liberal law, especially since that would demand a degree of self reliance (not just in finance) that might evade many of them, and recognising, too, that any structural change in these “cooperatives” might well result in the liquidation of a vast number of them and consequently a rewriting of the balance sheet of the stake holding government itself, the government chose not to repeal the existing cooperative law, restrictive though it appeared to be.

Introduction of a Parallel Law

It was then left with two choices to add a chapter to the existing law, or to introduce a parallel law for self reliant cooperatives.

A quick reading of the existing cooperative law indicated that any special chapter would have to address the

restrictions inherent in most of the provisions of the existing law, and, therefore, that the special chapter would be a rather bulky one. It was, therefore, decided that the best approach would be to introduce a parallel law for self reliant cooperatives that is, for cooperatives which did not have government share capital, and which were entirely member owned.

APMACS Act, 1995

On the first of June 1995, the Andhra Pradesh Mutually Aided Cooperative Societies (APMACS) Act, 1995 came into force, after having been unanimously passed by the Legislative assembly on 4th May 1995, with the floor leaders of all political parties speaking in favour of the proposed reform. For the cooperative movement in India, and perhaps for those in several developing countries, a new chapter began.

Salient Features

What does the APMACS Act offer the people of the state? It offers them an opportunity to set up business enterprises which are cooperative in nature — that is, which provide services to members, give returns to them on their usage of the services, and are controlled democratically by the user-members. Control by members includes their right to define their cooperative, its membership, its services, to decide on the management structure, on the investment of funds, on liquidation, subject to only such restrictions as are reasonable.

Since 1995, over 800 cooperatives have been registered under the new law. In 1996, a similar law was enacted in Bihar, and the other states, too, are seriously considering similar provisions.

Conclusion

Although it is important that cooperative laws undergo reform, what is equally important is that through reform in legislation, the cooperative is being correctly defined once again. Without a correct understanding of what a cooperative is, with the law and the courts projecting cooperatives as creatures of the state or of the statute, the advantages of cooperative action has eluded India. It is not anybody's argument that a good cooperative law brings into being good cooperatives.

It is CDF's argument that bad cooperative legislation did prevent the Indian citizen from participating in and benefiting from an important form of enterprise all these years. The cooperative form of business was relevant earlier too, not as a panacea for all ills as was projected, but as an effective tool for the social and economic betterment of its members.

Cooperatives and the New Economic Regime

Now, at a time, when the market is being projected as having all the answers, it would be a pity if the market did not have a place for the user-controlled, user-sensitive, usage returning enterprises. Under the new economic regime, large numbers of Indian people will not be marginalised only if the apology and the enthusiasm with which the large domestic and multi-national business are being freed from unnecessary controls, is extended to the cooperative sector groaning under unheard of controls. And when all is said and done, private as cooperatives are, they probably have more to offer to economic growth and development than most other forms of enterprise have.

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

— **Eugene Black**

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