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Subject III

Co-operatives in Rural Economy

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At the outset, the participants were briefed about the number and nature of papers contributed on the subject. Based on the type of co-operatives studied, the 58 papers which were accepted for discussion were grouped into seven categories, namely, credit co-operatives, milk co-operatives, sugar co-operatives, processing and marketing co-operatives, natural resource management co-operatives, co-operative spinning mills and weavers' co-operatives, and other co-operatives. Drawing upon the papers contributed and based on his own work on the subject, the Rapporteur identified six issues for detailed discussion. With the consent of the Group, the discussion and comments were primarily organised around those six issues. The discussion was conducted in six sequential sessions.

I

ISSUES DISCUSSED

What follows is a summary of the major points made by the participants while deliberating on the issues identified for discussion.

1. *Poor Performance of Co-operatives as Business Enterprises*

The Group took note of the fact that the performance of co-operatives (co-ops) in India has been, by and large, not satisfactory and that most of the co-ops are not financially viable. The participants identified many institutional, economic, social, political, organisational and managerial factors responsible for the poor performance of co-ops. The major factors identified by the participants included lack of honest and committed leadership, lack of professionalism in management, growing member alienation, frequent transfers of chief executive officers of co-ops, corrupt practices adopted by the employees of co-ops, lack of freedom to hire and fire co-op employees, collusion between employees of co-ops and private traders, discontinuation of social welfare services rendered by co-ops, tight government controls over co-ops through dominance of government officials on the management committees of co-ops, caste-based politics, and lack of freedom to co-ops in determining their operating policies such as fixation of prices for their produce and services. The participants highlighted the need for the government to liberate the co-ops from the regime of administered prices and various other shackles imposed by the archaic law, bureaucrats and other vested interests. They also emphasised the need for amending the existing state co-operative acts providing the much needed autonomy to co-ops and allowing them to be controlled by their members. The participants also suggested that co-ops should be managed professionally. In this context, the participants sounded a caveat that professional management need not necessarily imply that only MBA graduates should be employed by co-ops

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and that professionalism in management could be achieved by the existing personnel of co-ops if they are given exposure to management techniques, tools and practices through short-term training programmes and if they are given adequate incentives to do their jobs efficiently. It was noted by the participants that despite the reasonably good infrastructural facilities for training of co-op personnel existing in the country, the quality of training is poor. The participants emphasised the need for training of trainers, employees of co-ops, elected representatives of members of co-ops and members of co-ops. For training of members, the Japanese model of employing veteran co-operators as trainers may be followed. For this purpose, they recommended that the existing courses and curricula need to be revised and updated.

2. *State Support and Intervention*

The participants emphasised the need for removal of unnecessary government controls and withdrawal of government financial support to co-ops and for providing co-ops full autonomy. However, it was realised that the government would need to continue to perform its existing role in the areas of registration and regulation with the objectives of ensuring checks and balances, safeguarding the interest of the poor members and preventing misappropriation of public money. In the absence of financial support from the government, the co-ops would have to raise resources internally from their members and externally from the banks and capital markets. The participants were not sure whether most of the co-ops would be able to raise enough resources for meeting their capital requirements. It was suggested that case studies of co-ops which have been liberated from government controls and have been successful in raising resources on their own may be conducted and their findings disseminated widely.

3. *Growing Alienation of Members*

The participants took note of the growing alienation of members from their co-ops and its adverse impact on the performance of co-ops. They emphasised that the primary mandate of co-ops was to serve the needs of their members and that the policy decisions should be made by the elected representatives of the members. It was also suggested that the members should be educated about their rights and responsibilities vis-a-vis co-ops, that they should not interfere in the managerial functions and that they should clearly distinguish between the roles of elected leadership and professional management. Internal transparency of transactions of co-ops and accountability of employees of co-ops to their members were also considered necessary for the co-ops for winning and retaining the loyalty of their members. In this context, the role of honest and committed leadership was also emphasised.

4. *Professionalisation of Management*

The participants realised that in order to survive and grow in the present era, co-ops must be managed professionally. The Group identified both internal and external constraints on induction of professional managers in the co-operative sector in India. The major constraints identified by the participants included lack of congenial work environment, lack of prospects for professional growth and development, unwarranted interference by local politicians and petty bureaucrats and low volume of business and the consequent inability of co-ops to pay the professional managers market rates of compensation. It was suggested that co-ops should try to upgrade the managerial skills of their employees, provide them incentives such as commission on the business done by employees, depute them to attend short-term management development programmes rather than trying to attract and retain fresh MBA graduates. In this context, it was mentioned that what is most important is the integrity and commitment of co-operative employees and not any formal training in professional management. It was contended that skills such as accounting and record keeping can be acquired easily by the existing employees of co-ops through experience and/or inservice training but integrity and commitment cannot be imparted through formal training.

5. *Liberalisation and Co-ops*

The participants recognised the threat to the survival and growth of co-ops posed by the new economic policy characterised by liberalisation and globalisation. They identified the following pre-requisites for the survival and growth of co-ops in the present era.

(a) They must improve their marketing methods and practices;
(b) The co-ops must be financially strong;
(c) They must adopt innovative methods, practices and product-mix using the most modern technologies available;
(d) They must be sensitive to market signals and be able to adjust their operating policies to cater to the changing demands of their clients;
(e) They must ensure and maintain high quality of their products and services and establish their credibility and image by providing good value for the money spent by their clients; and
(f) They should enjoy full autonomy to determine the prices of their products and services and follow democratic practices in the decision-making and elections.

6. *Alternatives to Co-ops*

The participants agreed that non-formal co-ops such as the Self Help Groups (SHG) and non-governmental organisations (NGOs) could serve as alternatives to co-ops in those areas where co-ops have failed but people have propensity to co-operate. In this context, the Rapporteur brought to the attention of the participants a successful pilot project launched by National Bank for Agriculture and Rural Development to promote SHGs by linking them to banks so that they could avail themselves of the institutional credit for meeting the credit needs of their members. It was also mentioned that many NGOs have been providing various services and inputs to people more cost-effectively than co-ops and public sector organisations. However, the participants realised the need for a formal legal backup for SHGs and NGOs. This, in their opinion, could be done within the framework of the proposed new co-op legislation.

II

ISSUES FOR FURTHER RESEARCH

The participants identified the following issues for further research:

1. Case studies of co-ops which have failed and which have survived after the launching of the new economic policy highlighting the factors responsible for the success and the failure;
2. Evaluation of alternative sources of raising funds by co-ops;
3. Feasibility of establishing backward and forward linkages with other organisations including private companies in areas where the co-ops are weak;
4. Case studies of effects of new co-operative legislation on the governance and performance of co-ops in those states where the new legislation has been implemented;
5. Social welfare effects of privatisation vis-a-vis co-operativisation;
6. Implications of a change from the existing 'one member-one vote' system to 'voting in proportion to the patronage' system; and
7. Studies on the superstructures in the co-operative and public sectors between the producer and the consumer and its welfare implications with special reference to handicrafts and other commodities where the producer's share in the consumer's price is relatively low.