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Functional Deficiencies of Agribusiness Cooperatives in Maharashtra: Synthesis of an Unsuccessful Case

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Abstract

The present study, carried out in the state of Maharashtra of India during 2003-04, has its focus on assessing the functional dimensions of agribusiness cooperatives and identifying the reasons for their unsuccessful functioning. The study is based on a case of agribusiness cooperative dealing with the marketing of mainly fruit with its spectrum spread over various other marketing activities. The study has evaluated the performance of Khanapur Group Fruit Sale Co-operative Society (KFCS) which is located about 15 km from *Raver* taluka of the Jalgaon district in Maharashtra. Though it mainly deals with the marketing of banana, its functional dimensions also encompass input marketing and various other welfare activities. The evaluation of KFCS has revealed several deficiencies in its functioning, the major ones being its poor grasp of studying the market forces, its own internal drawbacks in terms of managing the Society, its own personal interests involved in the functioning of Society, and its failure to generate allies for lobbying to safeguard as well as promote interests of the Society or its members. Since the existence of internal interest-cum-entrepreneurial group in providing dedicated and efficient leadership stands very low as the members of the Board are reported to be self-centered with lack of motivation in terms of growth of the Society, there has been adverse impact on the working of this Society. The study has also revealed that because of lack of funds and losses incurred by the Society, coupled with selfish nature of the management, the member-farmers have started diverting their produce to private traders. All these factors have led to some adverse implications insofar as the functioning of the society is concerned. The study has concluded that any agribusiness cooperative marked with such deficiencies will end-up with a similar fate as has been noticed in the case of KFCS.

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Introduction

In the wake of several trade liberalization measures and free market environment, agribusiness has acquired a newer dimension due to the marked change in the trade of agro-based products. Both horizontal and vertical integrations of agriculture with industry have become hallmark for the development of agribusiness industry in India. Business involving supplies and services to the agricultural producers and value-addition to agricultural products, with the aim of facilitating marketing of agricultural products to an ever-growing market place, has paid rich dividends in terms of accelerated production of various agro-based products. In this veritable scenario, since cooperatives are still a dominant force in the rural settings, they assume greater significance encompassing varied agribusiness activities and, therefore, they have to be developed as economically viable and effective organizations, capable of meeting the challenges of the new, liberalized economic environment. However, to exploit the international market, cooperatives, particularly agro-processing ones dealing with horticultural crops, will have to achieve full utilization of the existing infrastructure facilities with due emphasis on scaling up of the economy through expansion of production capacity and up-gradation of technology.

Though there are instances of positive role being played by agribusiness cooperatives in diverting farmers' produce in domestic as well as export markets and ensuring them with remunerative prices with the overall focus on raising their productive capabilities and level of living, the negative factors have diluted the efforts for which they are created (Shah and Kshirsagar, 2001). Factors such as erosion of values, decline in service-oriented leadership, absence of professional management, too much dependence on government help and financial support, adverse impact of rigid bureaucratic response, outdated legal framework, absence of knowledge-based market orientation, etc. have adversely affected the functioning of agribusiness cooperatives in India (Shah, 2006). It was against this backdrop that the present study was carried out in the state of Maharashtra during 2003-04, to assess the functioning of agribusiness cooperatives and reasons for their unsuccessful functioning. The study has been focused on a case of agribusiness cooperative dealing mainly with the marketing of fruit but having its spectrum spread over various other marketing activities.

Methodology and Conceptual Framework

Out of 374 fruits and vegetables co-operative marketing societies operating in the state of Maharashtra, Jalgaon district encompasses 45 societies. From the Jalgaon district, a taluka named *Raver* was purposely

selected for identifying a failure case subject to the condition that it should have a history of at least 10 years of business. Finally, Khanapur Group Fruit Sale Co-operative Society (KFCS) was selected and information was collected with the help of well-structured schedules. The performance of the society was evaluated not only in terms of its business and welfare activities but also with respect to the benefits accruing to its members in particular and the farming community in general.

The performance of co-operatives has been evaluated by several workers including Seetharaman and Mohanan (1986); Gupta (1989), Shah (1992), Baviskar and Attwood (1990) and Datta and Kapoor (1996). Some studies have dealt with the success and failure of agricultural non-credit cooperatives, particularly the marketing societies (Attwood and Baviskar, 1987; Deshpande and Reddy, 1990; Kumar, 1990; Singh, 1990). The success or failure of a society can be measured through its economic sustainability over a fairly long period of time. According to Datta and Kapoor (1996), the major ingredients of success revolve around collective action on account of the stakeholders of the society.

Genesis of KFCS

The KFCS, located about 15 km from Raver taluka of the Jalgaon district, was established in 1981 to deal with the marketing of banana. It was through the efforts of some of the banana cultivators, both poor and rich farmers, that KFCS was formed to meet requirements of marketing of banana and inputs supply. Ever since its inception, the KFCS has been using both tractor and truck for the transportation of banana produce from ten villages located around 15 km from the society premises and Khanapur is one of them.

The major objectives of the society were to (a) provide maximum prices to the farmers for their produce, (b) supply fertilizer at reasonable rates on credit basis, (c) follow fair weighing practices, and (d) extend loan advances to the farmers to meet their various requirements. During initial years, KFCS paid dividend to its members, but stopped it later when it started incurring losses.

Progress of KFCS

Information on the progress of the KFCS over the past two decades encompassing broad quantitative parameters has been provided in Table 1. A perusal of Table 1 revealed a phenomenal growth in its membership, from 138 in 1982-83 to 896 in 2001-02, depicting a more than six-fold rise over the past two decades. A higher increase was witnessed during the 1990s

Table 1. Progress of KFCS between 1982-83 and 2001-02

(Amount in Rs)

Particulars	Triennium Ending			ACGR (%)		
	1984-85	1992-93	2001-02	1982-83 to 1990-91	1991-92 to 2001-02	1982-83 to 2001-02
Membership	138	378	814	10.12*	9.85*	7.09*
Share capital	13800	70933	176533	18.10*	11.64*	10.32*
Reserve & other funds	17661	395774	859786	41.70*	7.73*	21.73*
Profit	10575	77495	-	-	-	-
Loss	-	-	21519	-	-	-
Dividend	9	-	-	-	-	-
Fertilizer sale value	-	1383907	1991501	7.97*	-0.01	3.96
Banana sale value	2293627	2721629	11611098	5.11	25.4*	8.20*
Credit (Loan advances)	665139	1005533	5298817	16.07*	22.16*	11.12*

Source: Computations are based on the figures obtained from various *Annual Reports* of KFCS

Note: ACGR – Annual Compound Growth Rate

* Denotes significance of growth rate at 1 per cent level of probability

than 1980s. Although share capital and reserve and other funds of KFCS also increased by several folds during this period, the overall financial health of the society was seen to be quite depressing, as it had been showing losses for the past several years. In fact, it was only during the period 1982-83 to 1995-96 that this society showed profits, except in the year 1986-87 when it had incurred a loss. After 1995-96, the KFCS was seen to have plunged into losses.

Due to losses incurred by the society in recent years and significant fluctuations in its profit after 1987-88, the KFCS could declare dividend for its members only during the period 1982-83 to 1984-85. The losses incurred by the society over the past six years have further worsened the situation. A significant fluctuation was seen in its marketing of input and output, which basically remained unstable over the past two decades. Not only this, credit extension by the KFCS to its members continued to remain distorted and unstable during all these years. Despite fall in marketing of input, the business turnover of KFCS grew considerably over time, with 2000-01 showing the maximum increase (Table 2).

The total business turnover of the KFCS increased from Rs 32,67,306 in 1983-84 to Rs 2,32,78,074 in 2000-01, with a decline to Rs 1,31,68,772 in 2001-02. In fact, during the period 1983-84 to 2001-02, the increase in gross

Table 2. Growth in sales, turnover and net profit of the KFCS: 1983-84 to 2001-02
(Amount in Rs)

Year	Annual sale / Business		Turnover	Gross profit	Net profit
	Input	Output			
1983-84	850355 (0.00)	1867636 (0.00)	3267306 (0.00)	23441 (0.00)	16448 (0.00)
1985-86	1204986 (41.70)	1885984 (0.98)	3799702 (16.29)	29639 (26.44)	27883 (69.52)
1990-91	1295807 (52.38)	3957382 (111.89)	6600229 (102.01)	46341 (97.69)	60257 (266.35)
1996-97	2697241 (217.19)	2562799 (37.22)	6403562 (95.99)	98056 (318.31)	-
1997-98	2300994 (170.59)	2129678 (14.03)	6384423 (95.40)	85542 (264.92)	-
1998-99	2272811 (167.28)	4743311 (153.97)	12334742 (277.52)	84505 (260.50)	-
1999-2000	3112741 (266.05)	9841933 (426.97)	22835459 (598.91)	126528 (439.77)	-
2000-01	2428563 (185.59)	16123517 (763.31)	23278074 (612.45)	68382 (191.72)	-
2001-02	433199 (-49.06)	8867844 (374.82)	13168772 (303.05)	9680 (-58.70)	-

Source: Computations are based on figures obtained from various *Annual Reports* of KFCS.

Note: Figures within the parentheses are percentage rise in respective parameters with 1983-84 as base.

profit of the KFCS was highest in 1999-2000 with 1983-84 as the base. But, the gross profit of the KFCS declined by 59 per cent in 2001-02. Similarly, marketing of input of KFCS declined by nearly 50 per cent in 2001-02, whereas the increase in marketing of output was the highest in 2000-01. Thus, the analysis of figures provided in Table 2 showed mixed trends insofar as the marketing of input, output, turnover and gross profit of the KFCS were concerned.

Credit Position of KFCS

Table 3 provides an insight into the borrowing and repayment position of KFCS and its members during the period 1996-97 to 2001-02. The parameters undertaken to evaluate the credit position of KFCS mainly encompassed the amount of loan extended by the society to its members, number of borrowing members, amount of loan borrowed by the society from the DCCB, repayment of loan by the members to the society, and also by the society to the DCCB.

Table 3. Loan advances and repayment of KFCS: 1996-97 to 2001-02

(Amount in lakh Rs)

Year	Loan advanced by KFCS to members	No. of borrowers	Loan taken by KFCS from DCCB	Repayment of loan by the members to KFCS	Repayment of loan by KFCS to DCCB
1996-97	10.16	90	84.89	11.27	92.34
1997-98	17.51	104	16.08	14.09	7.41
1998-99	48.61	183	51.61	32.54	17.53
1999-00	90.59	185	104.66	71.55	55.24
2000-01	32.61	110	13.21	52.56	63.89
2001-02	35.77	87	0.10	33.35	10.18

A critical evaluation of Table 3 revealed a steady increase in the numerical strength of borrowers, amount of loan borrowed by them, and the per member borrowings of KFCS during the period 1996-97 to 1999-2000, with a sharp decline in the same thereafter. During the entire period between 1996-97 and 2001-02, a total amount of Rs 235.25 lakh was extended by the KFCS to its members as loan. This loan was not entirely repaid during the given period as the amount repaid by the members to KFCS stood at Rs 215.36 lakh. Similarly, out of the total amount of Rs 270.55 lakh borrowed by KFCS during this period, Rs 246.59 lakh was repaid by the society to the DCCB. Thus, a deficit of Rs 20-25 lakh was noticed between borrowings and repayment of the KFCS and its members. It revealed that both society and its members defaulted during this period in repayment of loan.

Marketing Activity of KFCS

The KFCS sells banana crop in the wholesale market through private traders and does not store the produce. The marketing of the crop is generally done at the farmer's field. The rates of the banana procured from the farmers by the society are fixed in accordance with the day-to-day prevailing rates in the wholesale market. In order to fix prices, grading of banana is done on the basis of weight of the banana bunch.

The KFCS pays Rs 20-22 per quintal additional procurement rate to the farmers for every additional one kg weight of banana bunch above 10-kg. The KFCS charges commission at the rate of Rs 4/- per quintal from the farmer, and Rs 8/- per quintal from the trader, thus it gets Rs 12/- per quintal of banana crop.

Generally, the society does not sell the crop to the same agency or trader and always looks for the trader who pays competitive rates for the

produce. The packing of the produce is done through banana leaves and no expenditure is incurred on it. There is no loss of the produce during weighing as the damaged banana is removed from the bunch before weighing. Details regarding quantity of banana crop marketed by KFCS, average market prices of the crop, maximum and minimum prices prevailing in different months during the period 1990-91 to 2001-02 are recorded in Table 4.

A perusal of Table 4 revealed sharp fluctuations in quantity of banana marketed by KFCS during the study period, the maximum quantity of banana was marketed during 2000-01 and minimum during 1992-93. The quantity of banana marketed by KFCS varied between 4,471 quintals in 1992-93 and 64,716 quintals in 2000-01. The per quintal average price for the banana crop marketed by the KFCS varied between Rs 83.55 in 1990-91 and Rs 317.99 in 2001-02. As regards maximum and minimum prices, the KFCS received maximum prices for banana crop during the months of April and May, whereas September, October, January, February and March were the months when minimum prices were received.

The private trader was seen to be the only agency through which the KFCS marketed banana in the wholesale market. The KFCS marketed 27,735 quintals of banana in 2001-02, which was valued at Rs 88,19,453. In the marketing of banana, the only expenditure incurred by the society was on loading, it was Rs 53,838 in 2001-02. Thus, the net sale value of banana produce marketed by the KFCS stood at Rs 87,65,615 in 2001-02.

Table 4. Marketing activity of the KFCS: 1990-91 to 2001-02

(Quantity in quintals; Price in Rs/quintal)

Year	Crop: Banana					
	Quantity marketed	Average price	Maximum price		Minimum price	
			Month	Price	Month	Price
1990-91	40154	83.55	April '90	260	Feb. '91	73
1991-92	22903	128.88	April '91	260	June '91	83
1992-93	4471	205.93	April '92	303	Jan. '93	170
1993-94	7024	221.75	May '93	377	March '94	114
1994-95	9724	182.83	NA	-	NA	-
1995-96	11558	286.00	May '95	573	Oct. '95	168
1996-97	8390	304.38	April '96	503	March '97	256
1997-98	8293	253.43	May '97	412	Feb. '98	157
1998-99	19544	290.59	March '99	593	June '98	197
1999-00	50848	245.70	April '99	617	Oct. '99	130
2000-01	64716	249.14	Feb. 2001	475	Oct. 2000	190
2001-02	27735	317.99	July 2001	548	Sept. 2002	244

Although KFCS has been marketing banana crop in the domestic market, one of the suggestions expressed by the society was exporting of banana. Adequacy and timely availability of transportation facilities through railways and reasonable railway freight rates were the other suggestions extended by KFCS.

Weaknesses of KFCS and Causes of Failure

The major points against the functioning of the society revolved around: (a) unfair weighing practices followed by the society (quoting about 5 per cent lower than the actual weight), (b) lack of availability of cold storage and other related facilities, (c) deduction of 3 per cent commission from the payment due to the farmer, (d) insufficient advance payment extended by the society as compared to the cultivation expenses incurred by the farmers, (e) delay in payment to the farmers, (f) lack of availability of fertilizer input on many occasions, and (g) non-payment of loan by the society to the DCCB and also non-payment of dues to the farmers. Although these were some of the reasons cited by the members associated with the functioning of the society, on closer scrutiny, the following reasons were discerned that weighed against KFCS:

(a) Non-payment of Loan by KFCS Members: One of the reasons for the poor financial health of KFCS was related to repayment of loan extended by the society to its members. Some of the members received loans from the society with the promise that the banana produce will be marketed through the society. In fact, the society recovers loans from the payment due to the farmer members. The society started facing problems in the recovery of loan when these farmers suddenly became hostile and diverted their produce to private groups operating in the village who were also involved in the marketing of banana produce. This resulted in heavy losses to the society not only on account of loan advances to its members but also in terms of lower quantum of banana procurement.

(b) Default Rate: Disproportionate allocation of loans to some members, including board members, was also one of the reasons for the poor financial health of KFCS. Some of the members of its board of management sanctioned excessively high loans to themselves despite their lower acreage under banana crop. These borrowers became defaulters when they diverted insignificant or low quantity of banana produce to the society. At times, they even avoided selling their banana crop to the society.

(c) Interference of Private Traders: Another reason could be associated with the interference of private groups dealing with the marketing of banana produce. On many occasions, the banana procured by KFCS from the

farmers was diverted to a particular private group, who on several occasions failed to make payment to the society. Consequently, the farmers also did not receive their payments for the produce diverted to the society. Due to these unfair practices indulged in by the society, the members gradually lost faith in the society and stopped selling their produce to KFCS.

(d) Interest Rate Structure: Excessively high rate of interest on loan advances could be the other reason for poor recovery performance. Notably, while KFCS received loans from the DCCB at 20 per cent annual rate of interest between 1996-97 and 2001-02, it extended loans to its members at 22 per cent annual rate of interest. Both these rates of interests appeared to be quite high as compared to the market rate prevailing during that period. Because of substantially high rates of interest involved on loan advances, the farmer members as well as the society itself became defaulters on several occasions. This obviously had affected the financial health of the society.

(e) Hostility of Members in Repaying Loans: The farmer members received loans not only from KFCS but also from the Primary Agricultural Cooperative Credit Society (PACS). The KFCS, on the other hand, borrowed from the DCCB. The amount of loan released by the DCCB to the KFCS always stood lower than the sanctioned amount due mainly to the fact that the DCCB first deducted the loan amount that was due from its farmer members, who also received loans from the PACS operating in the village. As a result, the amount of loan received by the KFCS from the DCCB reduced to the extent that their members received loans from PACS. The DCCB left it to KFCS to recover that amount of loan from the payment due to their members. However, when the members of KFCS became hostile and stopped diverting/selling their produce to the society, it became difficult for it to recover this loan. This in turn affected the financial position of the society.

(f) Favourable Attitude of Private Traders: One of the major reasons as to why the farmers were diverting their banana crop to the private groups operating in the village despite the presence of the KFCS was that these groups extended much higher amount of loans to the farmers as compared to that advanced by the society.

(g) Unfaithful Board Members: Interestingly, as many as four Board Members of the KFCS were noticed to be defaulters. These members had borrowed significant amount of loan from the society, which stood unpaid even at the time of survey conducted during 2003-04. Any society having such defaulting board members cannot function efficiently.

(h) *Diversion of Poor Quality of Produce:* From the society's point of view, the members were equally responsible for the poor health of the society as they sold poor quality produce to the society and diverted their good quality produce to the private traders.

(i) *High Litigation Expenses for Recovery of Loans:* Because of poor/deteriorating financial health, the KFCS was not able approach the court of law to recover the loans unpaid by the members as the expenditure in such litigation cases is unbearable for the society.

In short, the major problems faced by the society were related to the recovery of loans extended to its members and shortfall in its procurement figures owing to diversion of produce to private traders. These problems had a catalytic negative effect on the functioning of the society and were responsible for its failure. Any society beset with these kinds of problems/deficiencies will have a similar fate, as noticed in this case study. Due to multiple problems as cited above, it is difficult for the KFCS to recover from its present situation of deteriorating financial health.

Synthesis of Case Study

With a view to evaluate the performance of the society, various parameters relating to its functioning were assigned qualitative scores, ranging from high to low, and these scores for each qualitative parameter are shown in Table 5.

The economic sustainability of KFCS dealing with the marketing of banana was very low, as it had incurred heavy losses over the past several years. The reserve and other funds and share capital base of this society were also too low. The members' centrality was also low since transactions of members in terms of marketing of input and output and their involvement in other activities were too low as they had diverted their produce to other private traders. Further, KFCS secured low score with respect to business performance since the business activity of KFCS was shrinking over time.

The KFCS was assigned high to medium scores in terms of local transportation facilities extended by it to its members as it either borne local transportation expenses incurred by the farmers or sent its own trucks to lift the crop from the farmer's field. Interestingly, there was no participation of state government in the activities of the society, as the government was neither acting as a facilitator nor in terms of exercising control in the marketing of banana crop. The society was doing business as per its own regulations. As a result, the society was ranked low in respect of role of government in interfering with the business of the society. As for the competition, the KFCS faced stiff competition from private traders.

Table 5. Factors influencing demand for and supply of action plans and collective action in co-operative business in Jalgaon district of Maharashtra

Sl No.	Particulars	KFCS
	Success Indicators	
	(1) Economic sustainability	L
	(2) Member centrality	L
	(3) Member participation & direct demand factors	M/L
A	Core and major activity characteristic	
	• Non-standard attributes of production/marketing, processes and inputs in which the co-operative has comparative advantages in handling	L
	• Transportability of inputs and outputs	H/M
B	Context characteristics	
	• Agrarian structure strengthening the socio-economic status of the dominant groups	H
	• Role of the state	L
	• Nature of competition	H
	• Relevance - ideology and cultural heritage	H
C	Member characteristics	
	• Socio-economic homogeneity	M
	• Physical proximity and compactness	H
	• Potential loss due to collective inaction	H
D	Leadership characteristics	
	• Existence of internal interest-cum-entrepreneurial group	L
	• Leader's access to members	L
	• Leadership's capability for envisaging co-operative activities compatible to member's resources and endowments	L
	• Leadership's back-up knowledge and grasp over application of modern technology	M
	• Leadership's vision and capacity to conceptualize welfare activities for strengthening member loyalty and rope in potential members	L
	• Leadership's ability and willingness to groom future leadership	L
	Direct Supply Factors	
	Evolution and institutionalization of a governance structure to determine the relation of the society vis-à-vis the players in the system so as to:	
	(a) Minimize opportunistic behaviour of each of the following internal stakeholders	
	i) Various categories of members	L
	ii) Non-members	L
	iii) Employees (incl. professionals)	L
	iv) Board	L
	v) Higher-tier bodies	M/L
	vi) Outside supplies of inputs/services	L
		<i>Contd.</i>

Table 5. Factors influencing demand for and supply of action plans and collective action in co-operative business in Jalgaon district of Maharashtra — Contd.

Sl. No.	Particulars	KFCS
(b)	Tap the following economies	
	i) Economies of scale/bargaining power	M/L
	ii) Economies of scope	M/L
	iii) Economies of value addition	M/L
(c)	Achieve autonomy in functioning of the co-operative vis-à-vis outside environment	L
(d)	Be able to generate allies for lobbying in safeguarding and promoting its interest	L

H = High; M = Moderate; L = Low; H/M = High to moderate; M/L = Moderate to low
Based on a 'Model' of study by Datta and Kapoor (1996)

The existence of internal interest-cum-entrepreneurial group in providing dedicated and efficient leadership was very low in KFCS; the members of its Board were self-centered with lack of motivation in terms of growth of the society. Because of unfair and manipulative trade practices followed by the society, the farmer members had gradually lost faith in it. A majority of the member farmers of this society were reluctant to sell their crop because of losses incurred by it, which were due to inefficient management of the society. Although the leaders of the society were moderately educated and had knowledge about modern trade practices, they did not impart this knowledge to their members. Further, because of lack of funds and losses incurred by the society coupled with self-interests of the management, the member farmers were seen diverting their produce to other private traders. This had adverse implications on the functioning of the society.

In respect of supply side action plans also, KFCS had shown low score. The roles of various members, non-members, employees, Board, higher-tier bodies and outside suppliers and their influence in this respect were either quite low or moderate. The major reason being loss of faith in the society and society's inability to cop-up with the situation, and also influence or dominance of private traders.

Concluding Remarks

The KFCS has shown poor grasp in terms of either studying the market forces or inefficiencies because of its own internal drawbacks in terms of managing the society or its own personal interests involved in the functioning of the society. It is unable to generate allies for lobbying to safeguard as

well as promote its interests. Since the existence of internal interest-cum-entrepreneurial group in providing a dedicated and efficient management stands very low, as the members of the board are reported to be self-centered with lack of motivation in terms of growth of the society, there has been adverse impact on the working of this society. Further, because of lack of funds and losses incurred by the society coupled with self-interests of the leaders, the member farmers are now diverting their produce to other private traders. This certainly has some adverse implications insofar as the functioning of the society even in future is concerned.

It is suggested that efforts should be made to rectify the deficiencies in the functioning of these cooperative societies dealing with the marketing of high value crops. Some remedial measures and strategies framed or initiated by these marketing societies, particularly in respect of recovery of their loan advances, will certainly improve their efficiency and functioning in future. Government support in this respect will have a catalytic effect in improving the overall efficacy and efficiency, as well as functioning, of various Primary Cooperative Marketing Societies (PCMS) operating in the state of Maharashtra.

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