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Editorial

Modernizing Cooperative Societies in India: Challenges and Prospects

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ABSTRACT

The cooperative movement in India comprises one of the largest networks of self-help groups, and democratically constituted economic enterprise at the grassroots levels for the benefit of their members. Cooperative societies originated as a response to mitigate high incidence of indebtedness in rural areas in the country. Ever since cooperative societies have emerged as a formidable pillar country's socio-economic landscape. Cooperative societies have also emerged as a viable alternative to public or private companies by integrating social equity into entrepreneurial functions. This article examines the historical roots of cooperative movement, challenges faced by cooperative societies and the way forward for their modernization. The article provides a strategic roadmap for converting cooperative societies into growth engines for realizing the vision of Viksit Bharat @ 2047.

KEYWORDS: Cooperative Movement, Cooperative Society, Social Equity, India

INTRODUCTION

Cooperative movement signifies a unique socio-economic model designed to integrate commercial operations with universal human values, business ethics and societal concerns (Ghosh, 2007). Functioning as user-owned, user-controlled, and user-benefitting entities, cooperative societies offer an essential edifice to protect the interests of the vulnerable people

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who live on the fringe sans any effective support mechanisms (Rahaman et al., 2023). In developing countries where income inequality is rampant, cooperative societies act as an important institutional buffer. Cooperative societies promote democratic practices, decentralization of wealth creation and distribution and above all contribute towards reduction in income inequality (Lewis et al., 2013).

India has traditionally been a hub of cooperative movement. Long before the statutory provisions governing cooperative societies, we have had instances of community-based collaboration in farming in Kolhapur, Maharashtra. Over the last hundred years, the scale of Indian cooperative movement has turned phenomenal encompassing farming, dairy, fisheries, housing, and consumer goods. Magnitude of cooperative movement is such that it touches approximately two-thirds of all the rural households in the country (Sajan, 2016). The cooperative societies account for close to 50% of all agricultural credits. Also, around 60% of sugar in India are produced by cooperative societies while 35% of the fertilizers in the country come from cooperative sector. However, legacy is the biggest roadblock for cooperative movement in the country. To remain competitive in a highly competitive and digitalized global economic order, the cooperative sector needs immediate course correction and transformational thrust.

HISTORICAL ROOTS

Cooperative societies were formalized in early 20th century in India to mitigate systemic agrarian distress and farmland alienation. Indian farmers were entrapped in the vicious cycle of poverty and indebtedness aggravated by exorbitant land revenue and exploitative moneylenders. The first law governing cooperative society was enacted as Cooperative Credit Societies of 1904. The 1904 law aimed at encouraging frugality, financial prudence, and self-help and collaboration among farmers, artisans, and other vulnerable individuals. The law of 1904 fizzled out as it mandated strict norms for credit to members. Thus, the purpose of the 1904 Act was defeated. Further, to remove the barriers created by 1904 law, Cooperative Societies Act 1912 was enacted. The 1912 Act expanded the scope of the cooperative societies beyond credit mitigation. The 1912 Act allowed cooperative societies to indulge in processing, distribution and marketing of agricultural and other consumer products. The 1912 Act also recognized Central Cooperative Federation at the national level and district cooperative bank at local level. Thus, the 1912 Act enabled evolution of a multi-tier cooperative banking structure.

After independence in 1947, cooperative societies were repositioned as viable grassroots level institution for nation building. Accordingly, the development of cooperative societies was included in the Five-Year Plans of the country. It was further observed that unlike the private sector which was driven by profit, and the public sector which functioned under bureaucratic mandate, cooperative sector served as growth engine of the country through resource mobilization with social equity at the grassroots levels, covering vulnerable people as major stakeholders. Considering the potential of cooperative sector in socio-economic transformation of the country, the government of India implemented the report of Rural Credit Survey Committee in 1954.

Thus, the state agencies became active partners in cooperative sector ecosystem. As a result, the state agencies invested heavily in cooperative societies through the National Cooperative Development Corporation which was set up in 1963. However, state funding created an additional layer of regulation and oversight which created more problems for cooperative societies than resolving issues faced by them. To address structural issues, Multi-state Cooperative Society Act 2002 was enacted. Cooperative sector is part of the concurrent list of the Indian constitution. Hence, both central and state governance can make laws to regulate the functioning of cooperative societies. The Act of 2002 tried to rationalize state control over cooperative societies and structural barriers induced by multiple state jurisdictions. The Act of 2002 also focused on restoration of democratic governance principles in cooperative societies.

STRUCTURAL CHALLENGES

While cooperative societies started as grassroots level organizations, they have been entrapped by excessive state control, also termed as bureaucratic paternalism. The existing laws governing cooperative sector have vested sweeping statutory powers in the office of the Registrar of Cooperative Societies. On several occasions, the office of the Registrar of Cooperative Societies overreaches its mandate. The office of the Registrar of Cooperative Societies has absolute powers to suspend the democratically elected cooperative board and take control over the functioning of the society. In the emerging scenario, cooperative societies have lost their agility under the burden of continuous threat of arbitrary administrative takeover. Thus, bureaucratic paternalism has stifled creativity, innovation and competitiveness of cooperative societies. Besides the bureaucrats, even the politicians have developed vested interests in cooperative societies. For example, most cooperative societies in Maharashtra are

governed by leaders of various political parties. Thus, the most important stakeholders, i.e., the poor and the marginalized, have been diligently pushed outside the ambit of decision-making.

It has been observed that credit allocation decisions are subverted by political patronage. Cooperative banks ignore rigorous credit risk assessment protocols at the behest of influential and powerful board members. (Koteswari and Sudha, 2018). Moreover, rural cooperative societies are always at risk of being taken over by the elite. Cooperative boards are generally dominated by wealthy people who take advantage of low-interest rate credits meant for the poor. Even the subsidies routed through cooperative societies usually do not reach the people who need them the most. Yet another challenge faced by cooperative societies is capital inadequacy and financial distress. Cooperative societies cannot raise funds through equity capital. They depend on state agencies like NABARD for funding support. Indeed, capital procurement trap in cooperative societies is quite intense. Table 1 below summarizes the structural challenged faced by cooperative societies in India.

Table 1: Structural challenges faced by Cooperative Societies in India

Structural Challenges	Structural Manifestation	Systemic Impact
Regulatory/ Bureaucratic	Excessive statutory authority vested in the office of Registrar of Cooperative Societies, Arbitrary board suppression	Erosion of institutional autonomy, operational stagnation, risk aversion
Political/ Governance	Subversion of credit allocation by political elite, No voice of common men in the cooperative boards	Systemic deterioration of credit discipline, Marginalization of small holders, High incidence of loan defaults
Financial	Inability to public equity, non-appreciable par value share structure	Severe capital deficit, high dependency on debt, financial insolvency of grassroots PACS

THE WAY FORWARD

Cooperative societies have the potential to become lifeline of vulnerable people. Hence, the government of India has enacted 97th Constitutional Amendment Act which provides

constitutional safeguards to cooperative societies and their respective stakeholders. Now, right to form cooperative society has been elevated as fundamental right under Article 19 (1) (c) of the Constitution of India. However, unless the arbitrary powers of the office of the Registrar of Cooperative Societies is not rationalized, the cooperative societies cannot thrive.

Capital deficit in cooperative societies can be managed by allowing them to adopt innovative institutional formats like the producer company model under the Companies Act 2013. The producer company follows democratic ownership principles of cooperative societies with the modern operational flexibility of a joint stock company. Each member in the producer company has just one vote. Besides, the producer company functions without regulatory oversight of the office of the Registrar of Cooperative Societies, operating, instead, under the national corporate disclosure standards.

Moreover, modernization of cooperative ecosystem requires digital transformation (Williams, 2016). Cooperative societies can reach the next levels by leveraging Internet of Things (IoT), Blockchain Ledger Technology, and data analytics engines. For example, IoT can help cooperative societies streamline their supply chain networks. Blockchain Ledger Technology can help cooperative society get premium price margins in export-oriented organic products. Furthermore, cooperative societies can leverage algorithmic models to forecast supply and demand trends, optimize price structure and restructure inventory management.

CONCLUSION

Cooperative societies have contributed significantly towards reducing poverty, increasing financial inclusion, and mitigating rural distress despite all their structural bottlenecks. There are inspiring success stories like Amul, IFFCO, etc. which have transformed lives of millions of vulnerable individuals. However, it is imperative to revitalize cooperative societies in line with dynamics of highly competitive corporate world. The future of cooperative movement depends on enforcement of constitutional safeguards and adoption of flexible institutional structure like the producer company. Besides, cooperative societies also need to go for digital transformation to remain relevant and competitive in a highly volatile and uncertain world today.

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