



## Promoting Cooperatives in India

This editorial is based on [“The knotty business of running cooperatives”](#) which was published in the Hindu on 10/04/2023. It highlights the current state of the cooperative movement in India, especially in regard to financial cooperatives such as rural and urban cooperative banks.

**For Prelims:** Cooperatives, Poor Governance, Small and Medium-Sized Enterprises, Successful electronic Marketplace (GeM), One-District-One-Product Scheme, Cooperative Banks, Farmer Producer Organisations, Urban Cooperative Banks, Digital India, BharatNet, e-Governance.

**For Mains:** Current State and Impact of Cooperative Movements in India, Challenges with the Financial Cooperatives in India, Government Policies & Interventions, Growth & Development

Cooperatives have a **rich history in India and have been an integral part of the country's development** since Independence. With over **10 lakh cooperatives, of which 1.05 lakh are financial cooperatives**, India's cooperative movement has enormous potential to promote growth, formalize the economy, and reduce inequality.

However, **there are issues with the current system of dual control over cooperative banks**, leading to jurisdictional disputes that have hindered their orderly growth. Despite this, **cooperatives remain a crucial element of India's economic landscape** and are a key tool for improving the standard of living of the poor.

In order to thrive in a **competitive landscape, cooperative banks need to improve their governance**. Alternatively, **State governments should focus on supporting non-financial cooperatives** instead of getting involved in conflicts over financial cooperatives.

### What are the Challenges with the Financial Cooperatives in India?

- **Regulation and Supervision:**
  - The **regulatory and supervisory framework for financial cooperatives in India is fragmented**, with different types of cooperatives being governed by different authorities. This can lead to inconsistencies and gaps in regulation and supervision, which can create vulnerabilities in the financial system.
    - When it comes to [cooperative banks](#) (both urban and rural) **there is dual control leading to jurisdictional disputes**.
    - While incorporation, management, audit, supersession of board and liquidation are administered by the Registrar of Cooperatives, banking licence, prudential regulation, capital adequacy, etc., are prescribed by the RBI.
- **Governance and Management:**
  - Many financial cooperatives in India are **plagued by poor governance and management**, which can lead to mismanagement, fraud, and [corruption](#). There have

been instances where cooperatives have failed due to poor governance, resulting in losses for depositors.

- Poor corporate governance has been the main reason behind the **failure of many cooperative banks**. Since 2004-05, there were 145 mergers of non-scheduled **Urban Cooperative Banks(UCBs)**, nine in 2021-22.
- The collapse of the **Punjab and Maharashtra Cooperative (PMC) Bank in 2019** was mainly due to financial irregularities, failure of internal control, and under-reporting of exposures.

#### ▪ **Capital Adequacy:**

- Financial cooperatives in India **often struggle to maintain adequate levels of capital**, which can affect their ability to absorb losses and continue operating during periods of financial stress. This can also limit their ability to expand their operations and offer new products and services.

#### ▪ **Credit Risk Management:**

- Financial cooperatives in India typically lend to **Small and Medium-Sized Enterprises (SMEs)** and individuals who may have limited credit history or collateral. This makes credit risk management a critical challenge for cooperatives, as defaults and loan losses can significantly impact their financial stability.

#### ▪ **Technology and Innovation:**

- Many financial cooperatives in India **lag behind in terms of technology and innovation**, which can limit their ability to compete with larger banks and fintech firms. Cooperatives need to invest in modern technology and digital infrastructure to enhance their operational efficiency and offer new products and services to their customers.

#### ▪ **Competition:**

- Financial cooperatives in India face **intense competition from other financial institutions, including commercial banks, small finance banks, and fintech companies**. This makes it challenging for cooperatives to attract and retain customers, especially those who are looking for more advanced and sophisticated financial services.

## What is the Need to Focus on Non-Financial Cooperatives?

#### ▪ **Promoting Equality and Democratic Participation:**

- Non-financial cooperatives are based on the **principle of "one member, one vote,"** which means that all members have an equal say in the decision-making process. This **promotes democratic participation and helps to ensure that everyone has an equal voice**, regardless of their financial resources.

#### ▪ **Encouraging Community Development:**

- Non-financial cooperatives often **serve specific communities or groups of people**, such as local farmers or small business owners. By providing goods or services to these communities, non-financial cooperatives can help to support local economic development and build stronger communities.

#### ▪ **Fostering Sustainable Practices:**

- Non-financial cooperatives are often **focused on promoting sustainable practices, such as fair trade or organic farming**. By prioritizing environmental and social sustainability, non-financial cooperatives can help to create a more just and equitable society.

#### ▪ **Empowering Workers and Consumers:**

- Non-financial cooperatives are **often owned and controlled by workers or consumers**, giving them a greater sense of ownership and control over their work or consumption. This can **help to promote worker empowerment and consumer rights**, leading to a more equitable and just society.

## How Government Plans to Develop Non-Financial Cooperatives?

#### ▪ **Ministry for Cooperation:**

- The Government has recently created a **separate Ministry for Cooperation to promote and develop the cooperative sector** in the country. The Ministry is mandated to provide a supportive policy and regulatory environment for cooperatives, strengthen the cooperative movement, and increase their reach across the country.

- **Fiscal Incentives for FPOs:**
  - The Government provides **fiscal incentives such as tax exemptions, credit guarantee schemes**, and subsidies for [Farmer Producer Organisations \(FPOs\)](#).
- **Schemes for Handicrafts and Handlooms:**
  - The Government has **launched several schemes to promote and develop the handicrafts and handloom sector**, which is an important source of livelihood for rural artisans.
- **Government's Electronic Marketplace (GeM):**
  - After the electronic national agriculture market (eNAM), the [Government's electronic Marketplace \(GeM\)](#), version 4, is a successful innovative online platform dedicated to the marketing of several goods and services produced by MSMEs and non-financial cooperates.
    - As of now, more than 62,000 government buyers, 49 lakh sellers, 10,000 products, and 290 services are registered on this platform.
- **One-District-One-Product Scheme:**
  - It aims to promote the unique products of each district in the country and develop them as brands.
- **Welfare Schemes for Dairy Development:**
  - Government has launched **several welfare schemes for dairy development and fisheries**, which are important sources of livelihood for rural households.
    - Milk cooperatives are a grand success in India.
- **Cooperatives as a Business Model:**
  - Cooperatives can be **pursued as a business model in several areas** such as post-harvest processing, warehousing, and packaging.
- **Use of Technology:**
  - The Government has the **vision to use technology for rural development** under several schemes such as [Digital India](#), [BharatNet](#), and [e-Governance](#).
- **Growing Opportunities for Start-ups:**
  - Opportunities are growing for [start-ups](#) in rural areas, which can be pursued under non-financial cooperates.

## What Should be the Way Forward?

- **Embrace Technology:**
  - In today's digital age, **it's important for financial cooperatives to keep up with technology trends** and offer digital services such as mobile banking, online account opening, and remote deposit capture. This can **help attract new members and retain existing ones**, especially younger generations who are more tech-savvy.
- **Expand Services:**
  - Financial cooperatives can **expand their services beyond traditional savings and loans to include investment products**, insurance, and financial education.
  - This can help members achieve their financial goals and strengthen their loyalty to the cooperative.
- **Collaborate with other Cooperatives:**
  - Financial cooperatives can **collaborate with other cooperatives, including credit unions, to share resources, expertise, and best practices**. This can help improve efficiency and reduce costs.
- **Focus on Non-Financial Cooperatives:**
  - While financial cooperatives, **such as credit unions and microfinance institutions, are also important for providing access to credit and other financial services**, they can sometimes become a source of conflict and controversy.
  - Given the potential benefits of non-financial cooperatives, **it may be more productive for state governments in India to focus on supporting these types of organizations**, rather than getting involved in conflicts over financial cooperatives.
    - This could **involve providing funding and technical assistance to help establish and grow non-financial cooperatives**, as well as promoting these organizations through public education and outreach campaigns.

What is the current state and impact of cooperative movements in India, and how do they contribute to the socio-economic development of the country?

## UPSC Civil Services Examination, Previous Years Question (PYQ)

### **Mains**

**Q.** Discuss this statement in the background of agricultural finance in India. What constraints and challenges do financial institutions supplying agricultural finance face? How can technology be used to better reach and serve rural clients? **(2014)**

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