



Cooperatives and Their Evolution in India

For Prelims: [Cooperative sector](#), [Primary Agricultural Credit Societies](#), [Multi-State Co-operative Societies Act, 2002](#), [97th Constitutional Amendment Act of 2011](#), [Multi-State Co-operative Societies \(Amendment\) Act, 2022](#), IFFCO.

For Mains: [Status of the Cooperatives in India](#), Major Challenges Faced by Cooperatives in India.

Source: [PIB](#)

Why in News?

Recently, the **Union Home Minister** and Minister of Cooperation addressed the '**Sahkar se Samridhhi**' (**Prosperity through Cooperation**) program organised on the occasion of the **102nd International Day of Cooperatives** in Gujarat.

Note

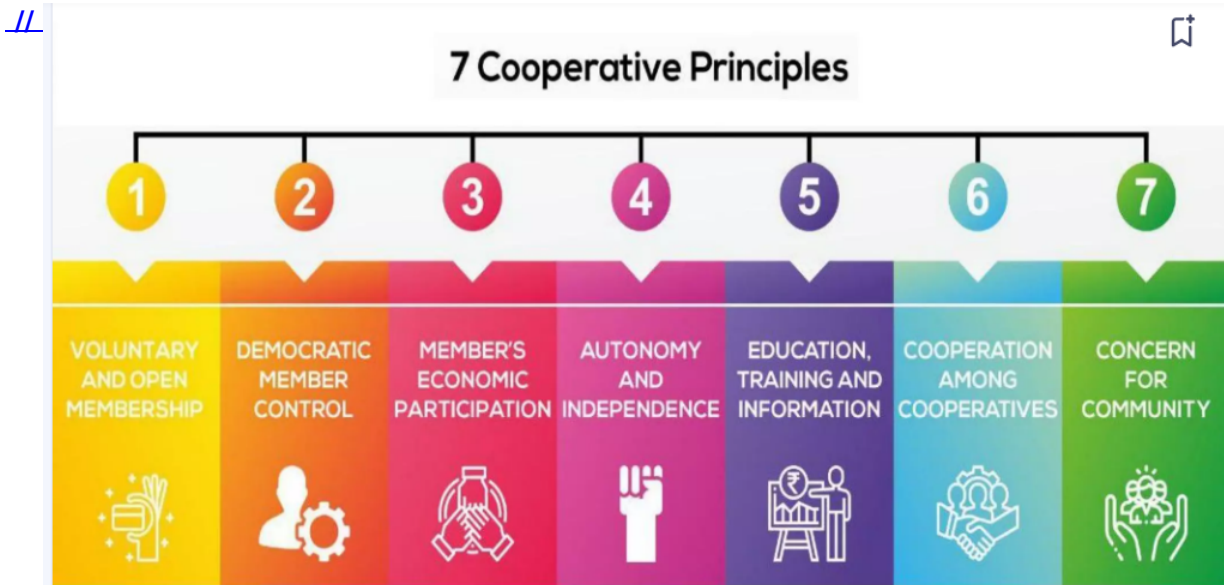
- **International Day of Cooperatives** is celebrated on 6th July every year.
 - The Theme for the year 2024 is "**Cooperatives Building a Better Future for All**".
 - The theme aligns well with the objectives of the upcoming **UN Summit of the Future** whose theme is "**Multilateral solutions for a better tomorrow**".
 - The 2023 UN Secretary-General Report on Cooperatives in Social Development acknowledged that **cooperatives have a track record of promoting the economic and social development** of all people including marginalised groups.
 - This day will build the momentum towards the **2025 International Year of Cooperatives**.

How did Cooperatives Evolve in India?

▪ About Cooperatives:

- **These are people-centred enterprises** owned, controlled, and run by and for their members to realise their **common economic, social, and cultural needs** and aspirations.
- India has one of the **world's largest cooperative networks**, with over 800,000 cooperatives spread across various sectors like agriculture, credit, dairy, housing, and fisheries.
- The cooperative sector's significant contributions include 20% in agricultural loans, 35% in

fertilizer distribution, 31% in sugar production, 13% in wheat purchase, and 20% in paddy purchase.



▪ Cooperatives in Pre-Independence Era:

- **First Cooperative Act in India: Indian Famine Commission (1901)** led to the enactment of the first Cooperative Credit Societies Act in 1904 followed by the (amended) Cooperative Societies Act, 1912.
- **Maclagan Committee:** In 1915, a committee headed by Sir Edward Maclagan, was appointed to study and report whether the cooperative movement was proceeding on economically and financially sound lines.
- **Montague-Chelmsford Reforms:** Through the [Montague-Chelmsford Reforms of 1919](#), co-operation became a provincial subject which gave further impetus to the movement.
- **Post Economic Depression, 1929:** Various committees were appointed in Madras, Bombay, Travancore, Mysore, Gwalior, and Punjab **to examine the possibilities of restructuring** the Cooperative societies.
- **Gandhian Socialist Philosophy: Cooperation according to Gandhiji was necessary for the creation of a socialistic society and complete decentralisation of power.**

- He was of the opinion that cooperation was one of the important means to empower people.

- In South Africa, **Mahatma Gandhi instituted the 'Phoenix Settlement'** as a cooperative in a socialistic pattern.

- He established the **Tolstoy Farm as a rehabilitation cooperative settlement** for the families affected by the South African freedom struggle during the period.

▪ Cooperatives in Post- Independence India:

- **First Five-Year Plan (1951-56):** Highlighted the promotion of cooperatives for comprehensive community development.
- **[Multi-State Co-operative Societies Act, 2002](#):** Provides for the formation and functioning of multi-state co-operatives.
 - **[Multi-State Co-operative Societies \(Amendment\) Act, 2022](#)** introduced the **Co-operative Election Authority** to oversee board elections in multi-state co-operative societies.

- **97th Constitutional Amendment Act of 2011:** Established the right to form cooperative societies as a **fundamental right (Article 19)**.
 - Introduced a new Directive Principle of State Policy on Cooperative Societies (**Article 43-B**).
 - Added a new Part IX-B to the Constitution titled "The Co-operative Societies" (**Articles 243-ZH to 243-ZT**).
 - Empowered Parliament to enact laws governing **multi-state cooperative societies (MSCS)** and delegated authority to state legislatures for other cooperative societies.
- **Establishment of Union Ministry of Cooperation (2021):** Assumed responsibility for cooperative affairs, previously overseen by the Ministry of Agriculture.
- **Impact of Cooperatives:**
 - **Empowering Marginalised Communities:** The **Amul Dairy Cooperative in Gujarat**, with over 3.6 million milk producers (many from small & marginal farms), empowers rural communities by providing fair prices for milk and fostering economic independence, particularly for women.
 - **Boosting Agricultural Productivity and Marketing: Indian Farmers Fertiliser Cooperative Limited (IFFCO)** is the world's largest fertiliser producer. Cooperatives like IFFCO provide farmers with **essential agricultural inputs** like fertilisers, seeds, and credit at competitive prices, leading to increased productivity and farm incomes.
 - **Facilitating Access to Essential Services: Kerala State Milk Marketing Federation (Milma)**, a dairy cooperative, procures milk from farmers and supplies it to consumers in Kerala at affordable prices. This ensures market access for producers and provides essential dairy products to the population.
 - **Promoting Inclusive Growth and Job Creation:** A NITI Aayog report highlights that **sugar cooperatives in Maharashtra** provide employment to over 5 lakh people (direct and indirect), contributing significantly to rural job creation and income generation.

Government Initiatives to Strengthen Cooperatives

- **Umbrella Organization for UCBs:** RBI has accorded approval to the **National Federation of Urban Co-operative Banks and Credit Societies Ltd. (NAFCUB)** for the formation of an **Umbrella Organization (UO)** for the UCB sector, which will provide necessary IT infrastructure and operation support to around 1,500 UCBs.
- **Ensuring Transparency and Sustainability:**
 - **Model Bye-Laws** for PACS making them multipurpose, multidimensional and transparent entities.
 - **World's Largest Decentralised Grain Storage Plan (2023)** in the Cooperative sector.
 - The government aims to ensure **every panchayat has a PACS by 2029**, fulfilling Prime Minister Modi's vision of 'Sahkar se Samridhi' (Prosperity through Cooperation).
- **Other Initiatives:**
 - National Cooperative Database for authentic and updated data repository.
 - **Issuance of Rs 2000 crore bonds by National Cooperative Development Corporation (NCDC) for cooperative welfare.**
 - Inclusion of Cooperatives as 'buyers' on the GeM portal.
 - Expansion of NCDC to increase its range and depth.
 - **National Cooperative Organic Limited (NCOL)** was established to promote organic farming and ensure fair pricing.
 - Launch of **Bharat Organic Atta**.

What are the Challenges Faced by the Cooperatives?

- **Governance Challenges:** Cooperatives struggle from the challenges of lack of transparency, accountability, and democratic decision-making processes.
 - Limited member participation, inadequate representation of marginalised communities, and concentration of power within a few individuals can undermine the inclusive nature of cooperative enterprises.
- **Limited Access to Financial Resources:** Many cooperatives, particularly those serving marginalised communities, face challenges in accessing financial resources. They often lack collateral or formal documentation required by traditional financial institutions, making it difficult to obtain loans.
- **Socio-economic Disparities and Exclusion:** Cooperatives often face issues related to lack of inclusivity, existence of structural inequalities etc.
- **Infrastructural Constraints:** Infrastructural constraints and lack of connectivity affects their efficiency and effectiveness leading to limited outreach.
- **Lack of Technical and Managerial Capacities:** Lack of training and skill development initiatives is another challenge that leads to outdated human resources.
- **Social and Cultural Factors: Lack of awareness about the cooperative model and its benefits among potential members limits their participation.**
 - In some cases, social hierarchies and caste-based divisions create barriers for equitable participation and representation within cooperatives.

Way Forward

- **Implement digital platforms for financial reporting, conduct regular audits, and encourage member participation in decision-making processes.**
- Establish cooperative development funds with flexible collateral requirements to cater to the needs of marginalised communities. Encourage cooperatives to explore **crowdfunding, social impact bonds**, and other innovative financing solutions.
- Design outreach programs to educate and attract members from marginalised communities, addressing specific needs and challenges.
- Advocate for government investment in rural infrastructure development, improving connectivity and access to markets for cooperatives.
- Partner with government agencies and training institutions to offer skill-building workshops for cooperative members and managers.
- Launch targeted awareness campaigns in local languages to educate potential members about the benefits and principles of cooperatives.

Drishti Mains Question:

Q. Discuss the major challenges faced by the cooperative sector in India. How can these challenges be addressed to strengthen the cooperative movement in India?

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims:

Q. In India, which of the following have the highest share in the disbursement of credit to

agriculture and allied activities? (2011)

- (a) Commercial Banks
- (b) Cooperative Banks
- (c) Regional Rural Banks
- (d) Microfinance Institutions

Ans: (a)

Q. With reference to India, consider the following: (2010)

1. Nationalisation of Banks
2. Formation of Regional Rural Banks
3. Adoption of village by Bank Branches

Which of the above can be considered as steps taken to achieve the “financial inclusion” in India?

- (a) 1 and 2 only
- (b) 2 and 3 only
- (c) 3 only
- (d) 1, 2 and 3

Ans: (d)

Mains:

Q. “In the Indian governance system, the role of non-state actors has been only marginal.” Critically examine this statement. **(2016)**

Q. “In the villages itself no form of credit organisation will be suitable except the cooperative society.” – All India Rural Credit Survey. 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)**