

NATIONAL POLICY ON COOPERATIVES



DEPARTMENT OF AGRICULTURE & COOPERATION
MINISTRY OF AGRICULTURE
GOVERNMENT OF INDIA

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"A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise".

"Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others".

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NATIONAL POLICY ON COOPERATIVES

I. INTRODUCTORY

1.1 The cooperative movement in India traces its origin to the agriculture and allied sector and was originally evolved as a mechanism for pooling the people's meager resources with a view to providing to them the advantages of the economies of scales. The first attempt to institutionalize cooperatives began with the enactment of the Cooperative Credit Societies Act, 1904, the scope of which was subsequently enlarged by the more comprehensive Cooperative Societies Act of 1912. Under the Government of India Act, 1919, the subject of Cooperation was transferred to the then Provinces, which were authorized to enact their own cooperative laws. Under the Government of India Act, 1935, cooperatives remained a provincial subject. Presently, the item "Cooperative Societies" is a State subject under entry 32 of the State List of the Constitution of India. Cooperative Societies Acts enacted by State Governments are now in place in the respective states.

1.2 In order to administer the operations of cooperative societies where membership was from more than one province, the Government of India enacted the Multi-Unit Cooperative Societies Act, 1942, which was subsequently replaced by the Multi-State Cooperative Societies Act, 1984, under entry 44 of the Union List.

2. REVIEW SINCE INDEPENDENCE

2.1 In the pre-independence era, the policy of the Government, by and large, was one of laissez-faire towards the cooperatives and Government did not play an active role for their promotion and development. After independence, the advent

of planned economic development ushered in a new era for the cooperatives. Cooperation came to be regarded as a preferred instrument of planned economic development and emerged as a distinct sector of the National Economy. It was specifically stated in the first Five Year Plan document that the success of the Plan should be judged, among other things, by the extent to which it was implemented through cooperative organisations. In the sixties, special importance was attached to achieving increased agricultural production as well as rural development through cooperatives. A significant development on the agricultural front, during 1966-71, was the implementation of the new agricultural strategy, aimed at the achievement of self-sufficiency in food. The introduction of high-yielding and hybrid varieties of seeds and the allocation of large outlays for the provision of irrigation facilities and adequate application of farm inputs led to a manifold increase in the role of cooperatives. Thus, the Green Revolution gave a big boost to the activities of the cooperative societies; increased agricultural production and enhanced productivity necessitated an emphasis on value-addition in agricultural produce, marketing and storage and the development of allied sectors. As a result, specialised cooperative societies in the fields of milk, oil seeds, sugarcane, cotton, agro-processing, etc. were set up. Many large cooperatives emerged in the fields of fertiliser manufacture and marketing of agricultural produce. The role of cooperatives, thus, no longer remained confined to their traditional activities and expanded to new economic ventures as in the case of other such enterprises in the public or the private sector.

2.2 The past few decades have witnessed substantial growth of the sector in diverse areas of the economy. The number of all types of cooperatives increased from 1.81 lakh in 1950-51 to 5.04 lakh in 1998-99. The total membership of cooperative societies increased from 1.55 crore to 20.91 crore during the same period covering about 67% rural households and about 99% villages. Cooperatives advanced agricultural credit to the tune of Rs. 16987.00 crore during the year 1998-99 and had 44.6% share in institutional agricultural credit. The share of cooperatives in fertiliser distribution is of the order of 30.35% while the fertiliser produced by the cooperatives accounts for 18.64% of the total fertiliser production

in the country. 56.8% of the sugar production in the country is from the cooperative sector. There are 84,289 village dairy cooperative societies in the country procuring 157.80 lakh kg. milk per day. These village level dairy cooperative societies are having membership of 106.28 lakh out of which 21.19 per cent are women members. Besides procurement and marketing of milk, dairy cooperatives are actively engaged in the field of superior cattle breeding, product diversification, nutrition, animal health and high quality animal feed. The number of urban cooperative banks rose from 1106 as on 30th June 1967 to 1936 as at the end of March 1999 and deposit increased from Rs. 153 crore to Rs. 50,544 crore. The average deposits per bank, which stood at Rs. 13.83 lakh in March 1967, rose to Rs. 26.11 crore by March 1999.

3. EXISTING CONSTRAINTS

Inspite of the quantitative growth, the cooperative sector is beset with several constraints related to legislative and policy support, resource availability, infrastructure-development, institutional inadequacies, lack of awareness among the members, erosion of the democratic content in management, excessive bureaucratic and governmental controls and needless political interference in the operations of the societies.

3.1 *Legislative and Policy Constraints*

Operatives are basically economic enterprises requiring proper legislative and policy support aimed at the creation of an environment conducive to their healthy development. Provisions continue to remain in the cooperative laws which hinder and hamper the development of these institutions. The restrictive regulatory regime has also restricted the autonomy of the cooperatives.

3.2 *Resource Constraint*

The cooperative sector in general and cooperative societies in the agricultural credit sector in particular are facing severe resource-crunch. Mounting over dues in cooperative credit institutions and lack of recycling of funds together

with inability to mobilise internal resources, have made a large number of cooperatives sick and defunct.

3.3 *Infrastructure Constraint*

The cooperative sector is still predominated by poor infrastructure, particularly, in the field of post harvest technology, storage, marketing and processing apart from lack of basic rural infrastructural support such as roads, electricity, communications, etc.

3.4 *Institutional Constraint*

There have been instances of cooperative institutions in some cases working at variance. Some federal cooperatives which were supposed to guide and nurse their affiliate organisations are competing with them resulting in deterioration of the health of the primary and grass root level cooperatives. Lack of professional management and human resource development are also some of the traditional institutional constraints. Cooperatives in the financial sector and particularly in the banking sector are facing the problems of (i) dual controls; (ii) increasing incidence of sickness; and (iii) low level of professionalism, which have been adversely affecting the depositors' interest.

3.5 *Constraint Relating to Member Awareness*

A successful cooperative requires enlightened and informed membership. Although the membership of cooperatives in terms of numbers has increased manifold, dormant membership and the absence of active participation of members in their management have not only resulted in sickness but also encouraged the dominance of vested interests causing blockages in the percolation of benefits to the members. In a large number of cases, elections and general body meetings in cooperatives are not held regularly. The non-conduct of elections and general body meetings regularly has been creating apathy among members towards the management.

3.6 *Constraint Arising Out of Excessive Government Controls and Needless Political Interference*

Unjustified supersession of elected managements by the Government and bureaucratic controls over the management of cooperatives have rendered these institutions as Government driven bodies rather than the member driven. There are institutions where the administrators continue for unduly long periods and members are not allowed to exercise their right to elect their own management. This situation leads to a regulatory regime and excessive governmental control and political interference in the day-to-day management of cooperatives.

4.1 The ideology of cooperatives is based on the principles of self-help, self-responsibility, democracy, equality, equity and solidarity. Members of cooperatives should believe and imbibe the values of honesty, openness, social responsibility and concern for one another.

4.2 Basic Cooperative Principles

As pronounced in the Declaration of the Manchester International Cooperative Alliance (ICA) congress 1995, the basic Cooperative Principles are as follows :

4.2.1 *Voluntary and Open Membership*

Cooperatives are voluntary organisations, open to all persons capable of using their services and willing to accept the responsibilities of membership, without discrimination on basis of gender, social status, racial, political ideologies or religious consideration.

4.2.2 *Democratic Member Control*

Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and decision making. Elected representatives of these cooperatives are responsible and accountable to their members.

4.2.3 Members' Economic Participation

Members contribute equitably and control the capital of their cooperatives democratically. At least a part of the surplus arising out of the economic activity would be the common property of the cooperatives. The remaining surplus could be utilised benefiting the members in proportion to their shares in the cooperative.

4.2.4 Autonomy and independence

Cooperatives are autonomous self-help organisations controlled by their members. If cooperatives enter into agreement with other organisations including government or raise capital from external sources, they do so on the terms that ensure democratic control by members and maintenance of cooperative autonomy.

4.2.5 Education, Training and Information

Cooperatives provide education and training to their members, elected representatives and employees so that they can contribute effectively to the development of these institutions. They also make the general public, particularly young people and leaders, aware of the nature and benefits of cooperation.

4.2.6 Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through the available local, regional, national and international structure.

4.2.7 Concern for Community

While focusing on the needs of their members, cooperatives work for the sustainable development of communities through policies accepted by the members.

5. THE NEED FOR A NATIONAL POLICY

The role of cooperatives has acquired a new dimension in the changing

scenario of globalisation and liberalisation of Nation's economy. Internal and structural weaknesses of these institutions combined with lack of proper policy support have neutralised their positive impact. There are wide regional imbalances in the development of the cooperatives in the country. This has necessitated the need for a clear-cut national policy on cooperatives to enable sustained development and growth of healthy and self-reliant cooperatives for meeting the sectoral/regional aspirations of the people in consonance with the principles of cooperation. In this connection, it is also imperative to address the issues which require to be attended to by evolving a suitable legislative and policy support to these institutions.

The proposed National Policy on Cooperatives, as follows, is a part of the concerted efforts of the government to provide appropriate policy and legislative support to cooperatives with a view to revitalizing them.

6. OBJECTIVE

The objective of the National Policy is to facilitate all round development of the cooperatives in the country. Under this Policy, cooperatives would be provided necessary support, encouragement and assistance, so as to ensure that they work as autonomous, self-reliant and democratically managed institutions accountable to their members and make a significant contribution to the national economy, particularly in areas which require people's participation and community efforts. This is all the more important in view of the fact that still a sizeable segment of the population in the country is below poverty line and the cooperatives are the only appropriate mechanism to lend support to this section of the people.

The National Policy on Cooperatives to this end would seek to achieve:

- Ensuring functioning of the cooperatives based on basic cooperative values and principles as enshrined in the declaration of the International Cooperative Alliance Congress, 1995;

- Revitalization of the cooperative structure particularly in the sector of agricultural credit;
- Reduction of regional imbalances through provision of support measures by the Central Government/State Government, particularly in the under-developed and cooperatively undeveloped States/regions;
- Strengthening of the Cooperative Education and Training and Human Resource Development for professionalisation of the management of the Cooperatives;
- Greater participation of members in the management of cooperatives and promoting the concept of user members;
- Amendment/removal of provisions in cooperative laws providing for the restrictive regulatory regime;
- Evolving a system of integrated cooperative structure by entrusting the federations predominantly the role of promotion, guidance, information system, etc. towards their affiliate members and potential members;
- Evolving a system of inbuilt mechanism in Cooperative legislation to ensure timely conduct of general body meetings, elections and audit of cooperative societies;
- Ensuring that the benefits of the cooperatives' endeavour reach the poorer sections of the society and encouraging the participation of such sections and women in management of cooperatives.

7. POLICY

The Government of India in consultation and collaboration with the State Governments hereby enunciates the following:

- (i) While upholding the values and principles of cooperation, it recognizes the cooperatives as autonomous associations of persons, united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprises;
- (ii) upholds the preservation of the distinct identity of cooperatives, its values and principles by providing an appropriate environment and taking the required administrative and legislative measures;
- (iii) recognizes cooperatives as a distinct economic sector and an integral component of the socio-economic system of the country and an effective and potential instrument of socio-economic development. It considers them as essentially community initiatives for harnessing people's creative power, autonomous, democratically managed, decentralized, need-based and sustainable economic enterprises. Cooperatives will, however, remain the preferred instrument of execution of the public policy especially in the rural area;
- (iv) the regulatory role of the Government will be mainly limited to the conduct of timely elections, audit of the cooperative societies, and measures to safeguard the interest of the members and other stakeholders in the cooperatives. There shall, however, be no interference in the management and working of the cooperatives. The Government recognises the apolitical nature of cooperatives;
- (v) reiterates and reinforces its commitment to the cause of the SC/ST, women and other weaker sections of the Society and their development through the cooperatives. Wherever members belonging to women or Scheduled Castes/Scheduled Tribes and other backward castes want to have their exclusive societies provided they find a socio-economic reason to form such a society, encouragement and assistance will be

provided by the Government. Cooperative Societies, if they so decide, can provide for the representation of such category of persons in their bye-laws which they are competent to frame;

- (vi) accepts the need to phase out its share holdings/equity participation in the cooperatives. It shall, however, endeavour and extend appropriate support for improving financial viability and resource mobilization by harnessing local savings and adequate refinance facility, and to the possible extent providing a policy framework to ensure that there is no discrimination against the cooperatives in the matter relating to resource mobilisation to attain financial viability. The cooperatives shall be enabled to set up holding companies/subsidiaries, enter into strategic partnership, venture into futuristic areas like insurance, food processing and information technology etc., and shall be independent to take the financial decisions in the interest of the members and in furtherance of their stated objects;
- (vii) recognizes the role of the Government in ensuring that the benefits of liberalization and globalisation in the emerging economic environment are extended to the cooperatives in equal measure through suitable fiscal policies and pledges to provide support and protection to the cooperative movement through suitably designed investment programmes with a view to providing the cooperatives a level playing field vis-a-vis other competing enterprises especially in the field of agro-processing and marketing;
- (viii) recognizes the need for more effective regulation of cooperatives operating in the financial sector and accepting public deposits;
- (ix) also recognises the need for incorporating special provision in the Cooperative Societies Acts with regard to banking, housing, real estate development, processing, manufactures' co-operatives, infrastructure development, etc.;

- (x) recognizes the need to provide preferential treatment, as far as possible, to the cooperatives engaged in areas such as credit, labour, consumer, services, housing, development of SC/ST and women and development of emerging areas as well as sectors requiring people's participation especially in rural areas;
- (xi) undertakes to devise and execute suitable programmes and schemes to build and develop cooperative institutions in the cooperatively under-developed States/regions with particular reference to the North Eastern States including Sikkim;
- (xii) recognizes the need to support the cooperative movement to develop human resources, cooperative education and training, appropriate technologies and infrastructural facilities so as to promote professional management in cooperatives particularly at the primary level, for their greater functional and operational efficiency. It may also include the introduction of cooperatives as a curriculum vitae at school level;
- (xiii) undertakes to initiate structural reforms in order to improve the functioning of the cooperatives at various levels to ensure greater efficiency and viability. These may include steps to activate idle membership, enhance member participation and involvement, provision of multi cooperatives approach, ensure timely conduct of general body meetings and elections, provide for effective audit, devise suitable mechanism for rehabilitation of the sick societies particularly in the processing sector, expedite winding up of defunct societies; and providing legal framework for voluntary winding up of cooperatives;
- (xiv) undertakes to bestow autonomy to cooperatives to follow appropriate personnel policies including those relating to recruitment, promotions and other such matters with due emphasis on quality and transparency;

- (xv) undertakes to introduce the required electoral reforms through legislative measures. Elections to the cooperative societies should be held through an independent authority like the State Election Commission; and
- (xvi) also undertakes to take other such measures as would be required for efficient and healthy growth of the cooperative movement.

8. PLAN OF ACTION

A plan of action for implementation of the policy shall be formulated and pursued with adequate budgetary support by the Government of India, state governments and other concerned agencies including federal/national level cooperative organizations in a time bound manner.

9. CONCLUSION

The Government of India trusts that the enunciation of this statement of Policy on Cooperatives aimed at professionalisation and democratization of their operations will facilitate the development of cooperatives as self-reliant and economically viable organizations, providing their members improved access to the economies of scale, offsetting various risk elements, safeguarding them against market imperfections and bestowing the advantages of collective action.

And further trusts that the above statement of policy would ensure enduring autonomy and lasting viability to them as democratically owned, self-reliant enterprises, responsible and accountable to their members and to a larger public interest.



PRINCIPLES

The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle : Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their service and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle : Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3rd Principle : Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes : developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle : Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle : Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle : Co-operation among Co-operatives.

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle : Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.