CHAPTER-8

Relevancy as well as sustainability of the Societies in the present economic scenario

A virtual sea-change has taken place in the economic policy framework in India since July 1991. Radical liberalization has been ushered in, to make the Indian economy progressively market oriented and to integrate it with the emerging global economic structure in a more meaningful way. This process was initiated in a modern way in the late seventies. It was improved upon in the early eighties and accelerated significantly in the middle of the decade. One of the underlying objectives of the New Economic Policy is to bring about a programme of structural reforms with the shift of its policy thrust upon private sector from the hitherto followed adherence upon public sector. These, in turn, are bringing about a lot of changes aimed at reducing state control and sponsorship in order to correct the economic balances desirably to be followed in the pursuit of welfare objectives. The Indian planners as well the government were forced to take recourse to a series of measures aiming at economic liberalization owing to various reasons. The Indian economy in the post independence era was inward looking and protected foreign trade was insignificant and foreign investment was discouraged. The experiment with public sector turned out to be state of despair. The stringent system of industrial licensing further throttled the private sector. Consequently, the country faced unmanageable budget deficit, rapid depletion of foreign reserve and growing debt burden which forced the government to devalue the rupee in July 1991. On the
other hand, the formation of World Trade Organization in the year 1995 and its acceptance by the majority of the world nations witnessed a trend of liberalization and market economy which allowed free foreign trade and investment resulting in tremendous increase of their economic structure. India, too, had opted for this new economic order. Consequently, the blessings and curses of the New Economic Policy are diffused upon the various sectors of the economy with varying degrees of implications and ramifications.

India has accepted a mixed economy consisting of private sector, public sector and co-operative sector together. The co-operative sector has been treated as a balancing force between public and private sector, ever since the first five year plan, which has been giving a sense of direction to the entire economic system in the country, as it combines the virtues of the private sector, i.e. freedom and flexibility and that of public sector, i.e. social commitment for the welfare of the community. The main objective of the co-operatives in India are towards supporting agricultural production through provision of required agricultural credit and inputs as well as providing post-harvest support to the farmers. The entire system is closely associated with the rural economy with the object of emancipating the producers and consumers in general and the rural poor in particular from the clutches of the unscrupulous traders. "Co-operatives are the best form of organization for the rural poor."

India has vast rurality for which a large number of rural institutions have emerged to support the various need-based requirements of the rural folk, particularly, in respect of rural financing, agricultural inputs, and agricultural
marketing. As a result, "the co-operative sector in India has emerged as the largest sector in the world with 3.5 lakh societies with a membership of 15 crores and working capital of 71 thousand crores." Thus, it today has an all pervasive effect which has penetrated into every sphere of economic activity of the nation irrespective of caste, creed, community, place and sphere of human activity. "The activities of co-operatives have become increasingly significant, for such important sections of the population as farmers, artisans, factory workers, salaried employees, fishermen and consumers in general." 2

8.2 State Participation

The initial years of co-operative witnessed limited government control and patronage. However, with the recommendation of the Rural Credit Survey Committee (1954), the participation of the government in its ownership increased and this later proved to be the most harmful effect upon the co-operatives. Such a situation started emerging only from the Third Five Year Plan (1960) onwards, with the adoption of highly proactive policy of the state patronage and participation in share capital of co-operatives by the government. Thus, the honesty and earnestness of the government soon had its mischievous exposition resulting in crippling of the co-operative movement. "The recommendation no doubt was well intentioned, with a view to equipping the co-operative with adequate capital base." However, the government did not let this situation go off, once a control and regulation was established. The advocates of government interference in co-operative management try to justify such control, in order to baffle the sinister role of vested interest. "It is worth nothing that the entire advocacy of state participation in co-operatives had
been from the point of view of enabling the co-operatives to withstand the pressure of vested interest. These were the economic vested interest often having social status in rural community." What was most unfortunate that the grant of subsidies were neither based on the principle of capital adequacy norms, nor there was any clear direction for the repatriation of government support even when the co-operative unit acquired self-reliant stage. “During the plan period since 1951 onwards, the growth and diversification of co-operatives in India was under state patronage. However, the share of plan outlay for co-operatives was neither considerable nor increasing.” In the sphere of management, there has also been systematic invasion of the autonomy and established principles of the co-operative movement. Brazen politicians and opportunist leaders used co-operatives as an instrument in their politicking. Like most other institutions, co-operatives have also suffered a process of erosion in their respectability and tradition in varying degrees. Thus we find that in most of the secondary and state level co-operatives, the personnel who are vested with managerial power are drawn from persons who are neither elected nor are they real benefactors of the organization. These persons frame policies conforming to the directives of the government which in essence are truly not co-operative principles. Indeed, the interferences are so widespread and the sense of self-confidence and initiative of the smaller co-operatives are so deeply eroded that they hardly even care to find out whether a particular instruction or approval requirement is authorized under any “Law” or “Rule” or it is just a case of unauthorized “back seat driving”.
8.3 **Forthcoming challenges in the New Economic Environment:**

The impact of the New Economic Policy poses both challenges and opportunities to co-operatives. Co-operatives in India must evolve their strategies to enable them to face these challenges and also to plan their future operation and growth. The undeterred entry of multinationals into the discriminate fields of production and distribution has cost the responsibility upon co-operatives far more onerous than what it used to be during the guarded days of its existence. It has been perceived beyond doubt that the new economic regime pursued by the government of India intends to create a vibrant and competitive national economy on a sustainable basis by reducing the dependence on the government for financial and other support. Important components of such policy are reforms in the fiscal, financial, trade, industrial and agricultural spheres. The new policy undoubtedly affirms the rule “survival of the fittest”. The policy aims at opening up exciting possibilities of growth for those enterprises, in the private, public and co-operative sector, if such enterprises have the capability to face the rough and tumble of the market place, nationally and internationally. This will certainly eliminate the inefficient and the incapable enterprises in the process of inviting new vistas of competitiveness. In fact, the new policy will affect the co-operative sector even more than the private and the public sector. This is because of the preferential treatment and the special reservations which it had enjoyed hitherto. Truly speaking, the jerk has shaken the confidence of the co-operative sector even more than the other two sectors. The government policy to withdraw subsidies to co-
operative might be fraught initially with some degree of hesitation because of political overtones in the economic policy decision. Once the determination of economic liberalization is strictly adhered to, the quantum of subsidies and the market support are sure to come down considerably. At such an eventuality, the co-operatives shall have no way-out but to improve their own managerial efficiency in order to get rid of the threat of extinction. There is no doubt that some co-operative will be able to cope with the exacting demands of this changed situation.

By and large, co-operative institutions belong to the size of small business. However, the changes brought about in the wake of liberalization process mostly aim at benefiting medium and large scale business. The amendments in FERA, the MRTP Act, do not in any way sprinkle benefits upon small sized concerns like the co-operatives.

The benefits arising out of the trade policies could be availed of by the co-operatives engaged in the respective fields of production and distribution. The Indian economy, of late, is moving towards the Lassies faire type of economy. If co-operatives have to survive, then they also have to be strong, efficient, competent and forward looking. They have to have at least some level of efficiency and competence as the private sector. This requires strengthening of their managerial ability and accountability together with the creation of relevance to its own members. In the bygone years, competition had been its weakness, mainly because of the government policy orientation of favoured treatment. It need not be reiterated that competition is the very blood of the new economic order and the co-operatives must measure up to its demands.
8.4 Areas of Opportunity:

While co-operative in India are faced with many problems arising out of the changed economic situation, there are also promising opportunities for growth of the co-operatives. The results of NEP (New Economic Policy) have also brought mixed efforts upon various types of co-operative organizations. Some of them, to which it has created advantages, could gainfully exploit the situation to their favour, while others with adverse impact must tone up their own operational system for survival and growth. These advantages among others, will certainly crop up in the field of agriculture too. Since most of Indian co-operatives are agrarian in nature, co-operatives have ample opportunities to avail of such advantages. The co-operatives in India should avail of the opportunity to increase their agricultural exports likely to be created in the wake of the new GATT negation. Another sector which is NEP has opened up with glittering prospects for co-operatives is the co-operative banking institution. Although it is difficult to contemplate the impact of NEP on the banking scenario in precise terms, however, the policy moves indicate some direction on the basis of which it could be inferred that the impact of liberalization of the financial sector will largely depend upon the nature of present strains, structure of banking in rural areas, financial strength, present status and problems of the sectors, such as agriculture, small scale industries, exports, etc. Commercial banks are unlikely to compete with co-operative credit institutions in which the cost effectiveness for the former is not encouraging. The commercial banks so long have been investing in the rural sector to discharge only the priority
sector tending obligation. On the other hand, co-operative banks can have an edge over the commercial banks in respect of cost effectiveness and recovery performance. "The co-operatives having sufficient competitive edge in the rural credit with wide network, the government of India should give preference to the co-operatives in the field of agricultural business, agro-industries and agro exports."8

Thus it is likely that the commercial banks may withdraw or restrict rural lending to its minimum if the priority sector investment norms are relaxed by the RBI under the guise of the NEP. This view was also expressed in the recommendations of the Narasimhan Committee which was formed for financial sector reforms. This will invite a more participative role for the co-operative credit institutions to replace the vacuum created in the operation of the commercial banks. The rural co-operative credit institution, however, have an edge over large network and other competitive advantages.

Another lucrative field of opportunity for co-operatives which can be visualized in the wake of the new economic environment, is in the field of marketing and processing of agricultural commodities. In India, a huge quantity of perishable food items get decayed annually owing to lack of adequate preservation facilities. The co-operative producers' societies or other societies could play an important role by striving to achieve this objective in league with marking and processing co-operatives. Such a competitive edge for co-operatives is however not forthcoming for agricultural non-perishable items, since the prices of such items like paddy, cotton and oil seeds, etc. are determined for a relatively long period of time in the market mechanism. Thus, it can be deducted that under the NEP, co-operatives
which subsisted largely on governmental support might face an endangered future, except for a few which are engaged in credit, processing and marking of agricultural goods.

8.5 Steps for Revitalization:

As a sequel to the changes brought about by the new economic environment, the co-operative sector like the other two sectors, has not escaped the need for transformation both in its policy and objective, the crying need of the hour is the promotion of the co-operative as a system for uplift of the rural economy. "In course of time co-operatives came to be recognized as the best means of economic development, particularly, programmes relating to rural and agricultural development". The co-operatives have to be placed in proper perspective where entire impetus for them is internally generated and not imposed from outside, i.e. the state. For a fruitful exercise in rejuvenating and revamping the role of co-operatives, it is desirable that the following critical issue should receive due weightage for purposeful action. They are:

(a) re-instalment of autonomy;

(b) developing managerial skills in co-operatives;

(c) structural cohesion of co-operative.

Autonomy for co-operatives is a vital issue which needs to be examined from various angles. First, co-operatives must prepare themselves adequately to the need of the situation where they can confidently place demands for more autonomy. Second, since co-operatives are after all public bodies, its members should be vigilant and alert to dissuade the dishonesty of a few unscrupulous hands. Third, leadership
in co-operatives must come from within and the invisible hands of politicians should be eliminated. Fourth, elections to the bodies of co-operatives should not be postponed indefinitely at the behest of the government.

Thus, we find an urgent need, for a review of the government role in co-operative development as the government and the co-operative movements have a common objective of improving the socio-economic conditions of the people, more so, in the backdrop of liberalized economic scenario. A move for the radical amendment of co-operative legislation in India is in the offing and a Bill to this effect has already been drafted by the government on the recommendation of the Brahm Prakash Committee. The Bill is likely to be introduced as the Model Co-operative Societies Bill. However, such an exercise should be meticulously undertaken by involving all concerned parties through debate and discussions. A legal score in resolving co-operative disputes can be attained if the cases of co-operatives are recognized by the higher courts as public interest petition. In revamping and rejuvenating the role and image of co-operatives to establish their rightful place in the changing economic scenario, the government should come forward to clarify its stance vis-à-vis co-operatives. In this task, the government should take into confidence the academicians and the co-operative thinkers to draft out a new policy framework and agenda for the co-operatives at the earliest.

The operational inefficiency of co-operatives is commonly attributed to be the singular cause of its failure as a system. The loyalty of co-operative members can be established only when they work efficiently. The human resource is also the most important input in any organization for achieving its goal. The lack of
professional expertise is one of the most important factors contributing to the poor performance of some of the co-operatives in the country. The success of the co-operatives will invariably depend upon a base of user members' strength and a comparatively lower cost of operation. A great degree of professionalization in its management will have to be introduced for achieving this end. The present system of "adhocism" in the appointment of top brass personnel through deputation should be done away with due to the lack of accountability and their dubious integrity. This calls for a complete re-orientation in the sphere of management system whether it be the case of management structure or recruitment of personnel in co-operatives. A clear definition of the respective roles of elected and paid functionaries should be envisaged in order to locate responsibility centres.

An integration of the system of co-operative structure is a fundamental necessity, wherein the stronger co-operative will cease to treat the weaker co-operative as its agents with frequent interference into the latter's area of operation. The dependency of lower co-operatives upon higher co-operatives should be removed and due share of profit should be enjoyed by each of them. Thus, a full degree of mutuality in relationship should exist avoiding any collusion of conflicting interest. Each should recognize the rights and obligations of the other paving the way towards interdependence and survival for all.

Apart from the above measures, there should also be realistic measure which really benefit and strengthen any co-operative enterprise in future. These measures have already been tried upon private and public sectors whereby, the sick and non-viable units have been closed down under the directive of Board for Industrial and
Financial Reconstruction (BIFR). Alternatively the viable and potential units should be nourished further so that they are rejuvenated to competitive enterprises. It is commonly found that out of the various elements in the organizational process of any business, the control of human factor invites the highest challenge. Persons with the responsibility of co-operative management should have long term stake and should be in a position to achieve the objectives. There should be a system of reward and punishment for those engaged in management of co-operatives.

The recent development in India's economic policy, particularly during the period of post-GATT agreement has opened up new vistas of future progress for agricultural co-operatives. The co-operatives may avail of the benefits for increasing agricultural exports arising out of the GATT accord. The banking sector may prove to be the best potential for the rural co-operative banking institutions, since such functions are at present being discharged by the commercial banks only under obligation of the RBI. Another rosy field of earnings for co-operatives in India is in the marketing and processing of agricultural commodities.

Recognizing the role of co-operatives in the context of the Indian economy, it cannot but be said that the existence of co-operative is indispensable for the development of India's agrarian economy and any step in this direction should aim at mending the co-operatives rather than ending it. Three things are essential for revamping and rejuvenating the co-operatives in India reinstatement of autonomy, developing managerial skills in co-operatives and structural cohesion of co-operatives. A more meaningful and realistic measure has to be undertaken to test the viability of co-operatives and appropriate steps for their re-vitalization or
otherwise should also follow accordingly. Such steps should conform to the line of BIFR (Board for Industrial and Financial Reconstruction). Moreover, any steps for revitalization should invariably include creation of accountability and responsibility centres for those who are placed at the help of affairs.

8.6 Reference


