GOVERNMENT AND THE CO-OPERATIVE SECTOR

6.1 ROLE OF GOVERNMENT IN FOSTERING CO-OPERATION

Government’s role in co-operation and for that matter in the promotion and development of co-operative enterprises considerably varies among the countries. Different countries have perceived the role of the government in co-operatives in different ways. Co-operatives in most West European countries receive no aid from the government apart from legal recognition and, in some cases, limited fiscal advantages. Exceptions are France, Spain, Portugal and to some extent Italy. In Russia and other Eastern European countries co-operatives are state-sponsored in certain defined sections of the economy and receive state assistance in the form of credit, raw materials etc. In most of the Asian and African countries co-operation is largely initiated by government and co-operative enterprises there continue to depend on government supervision and financial aid. Exceptions are Canada and Australia where the aid to co-operatives is arranged at a limited scale. In the United States, government’s role was at one time substantial in the field of finance, but is now mainly advisory. Practically in every country government so far have attached great importance to the development of co-operative organisations as a means of harnessing people’s impulse towards self-help and mutual aid in ways which may increase their efficiency in the various spheres of production and distribution.¹

In a few countries like Canada, Australia and India there is a co-operative department, more frequently at the provincial government level under a ministry of the provincial government. In some countries a national level co-operative council or commission has been set up to exercise general supervision over the co-operative movement. In countries which are in the take off stage, in addition to the task of looking after the incorporation and dissolution of co-operative societies, the government agencies and departments also undertake the tasks of inspection and audit of accounts, education

of members and training of office bearers and employees and also provide technical and 
advisory services and financial support to the co-operatives. India is no exception to this 
phenomenon of state support and control of co-operative organisations.  

Co-operative organisations play an important role in implementing the state 
policies and channelising state assistances. Therefore, a certain degree of initial help 
from authorities is essential in the organisation and development of co-operatives. 
Government assistance is needed in many spheres of co-operative organisations such as 
audit, arranging of training facilities for managers of co-operative enterprises, arranging of 
awareness programmes for members and office bearers, also arranging of initial financial 
aid in the form of working capital, technical know how etc. 

The F.A.O. in its report (1965) stated that government either directly or indirectly 
must play a leading part in establishing a suitable overall climate for private investment. 
They may provide finance by means of direct loans to co-operative societies by way of 
direct investment in the share capital or debentures of co-operative institutions.  

Prof. D.R. Gadgil (1961), who had been a leading light of the Indian 
co-operative movement, strongly advocated in favour of state partnered co-operation in 
underdeveloped countries. He rejected the notion that state partnership will result in 
oficial dominance in co-operatives, making them lose co-operative character. According 
to him, "Government participation by way of subscribing to the share capital of a society 
ought not to be confused with the official domination of the movement".  

Paul Lambert (1963), on the other hand had the view that the relationship between 
co-operatives and the state is complementary and reciprocal. The state, through 
legislative measures extend certain special favour to co-operatives in the larger interest of 
the society. State in turn receive help from co-operative movement in economic planning, 
controlling prices, providing agricultural finance etc. According to him, particularly in 
developing countries the co-operative movement should get special patronage, as for the 
governments of these countries co-operation can be the way to help develop their poor 
citizens.  

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2 see M.V. Namjoshi: op.cit, 1989.  
3 Food and Agricultural Organisation: "Agricultural Credit in Economically Underdeveloped Countries", A 
4 D.R. Gadgil: Towards A Co-operative Common Wealth, Chandigarh, Punjab University Publication Bureau, 
   1961, p. 54.  
5 Paul Lambert: Studies in the Social Philosophy of Co-operation, Manchester Co-operative Union Ltd., 1963, 
   p. 219.
The Co-operative Initiative Panel also observed that the government has always a defined role to play in relation to co-operatives. The state's role should be 'supportive and not restrictive and controlling'. Co-operatives being economic enterprises of members are imbibed with social purpose and co-operative ideology. The state should formulate policies in such a way as will facilitate the transition of co-operatives from a state patronised and protected system to a competitive and vibrant economic system.\(^6\)

While delineating the role of state in co-operatives, scholars like Chithelen, George Shanti and others suggested that co-operatives should be made self-reliant and member-centred organisation with minimum government regulation and control. The role of Registrar should be only that of a registering and monitoring authority. The affairs of co-operatives should be de-bureaucratised and the administrative affairs of the co-operatives should be gradually de-officialised.\(^7\) They also added that, where government sponsored schemes are in accordance with the co-operative objectives, such schemes may be implemented through co-operatives but without affecting their autonomy. All possible action must be taken to create a climate which is conducive to the development of an autonomous and self-reliant co-operative. Climate here includes such variables as macro-environment, land and market reforms, the sources, costs and availability of investment and working capital and the quality and character of government co-operative relations. It was stressed that co-operatives must move away from the tutelage of the government and plan eventually to stand on their own.\(^6\)

For re-orienting the co-operatives towards self-reliant, self-supporting and self-controlling organisations, governments have to come forward to develop related infrastructure and provide for adequate incentives and resources.\(^9\) Governments are to ensure that proper and sufficient credit facilities are created for co-operative members and others. State should provide economic relief to the basic producers and consolidate


people, land resources and means of production. For this purpose necessary legislation, policies and rules should be made.\textsuperscript{10} Narayan (1993) believes that government has only three things to do.\textsuperscript{11}

(i) Government has to give good governance. Without good governance there can not be peaceful, orderly, democratic activity.

(ii) Government has to ensure that there is no unwarranted interference. If we believe that the government has to interfere in the affairs of a co-operative and monitor and control it closely on the ground that the members of the co-operative are incapable of protecting their own interest, such a belief would be the negation of democracy itself.

(iii) Government has also to ensure that there is no discrimination in treatment. Once we say co-operatives are free, voluntary, private enterprises run by members themselves in a democratic manner for a lawful purpose, then obviously the government can not treat them in any manner different from other enterprises.

B.D. Sharma (1998)\textsuperscript{12} advocated that co-operatives should not be treated as an instrument for implementing government policies and programmes. He felt that wherever co-operatives are found necessary for implementation of government economic programmes, these should be elicited on the basis of mutually agreed terms and conditions and not through a directive. Co-operatives should be made to stand on their own. Government should provide adequate support in terms of policies, legal frameworks and financial resources during the transition of co-operatives from a state sponsored system into a member based and member controlled system.

Tushaar Shah (1995) advocated that state should create a supportive and enabling macro-policy environment that: (a) creates space for community initiative and creativity to find expression and (b) leaves plenty of room for communities to device their own rules for operationalising self-governance.\textsuperscript{13}


Goran Hyden (1988) while arguing “green house approach” for new and linkage independent rural co-operatives was of the view that the emphasis of the government should be on providing the people with right stimuli and incentives (so that they themselves organise and accomplish tasks of common interest) rather than on organising people for the purpose in ways which are beyond their comprehension and interest.\(^\text{14}\)

It has generally been recognised that one of the prime determinants, rather \textit{sine-qua-non}, for successful growth of co-operatives is the existence of a clearly articulated government promotional strategy. The state should provide the necessary support and guidance but should neither curb the operational autonomy of enterprises nor allow these enterprises to remain dependent for ever.\(^\text{15}\)

It is also argued that state would be better off in staying away from the regular conduct of the business of the co-operatives, as it does in the case of corporate entities. One will have to allow co-operatives to fight it out in the real world and where such a fight is not possible, allow the co-operatives to die a natural death. The state, of course, can intervene in the affairs of the co-operative purely as a regulatory body. The morale of the co-operatives would be better off if only successful co-operatives continued to function autonomously and the bad ones die a natural death.\(^\text{16}\)

Dr. Verghese Kurien (1997) is of the opinion that to make co-operative a vibrant enterprise of rural people, the first and most important step is to frame and enact new co-operative laws in the states and at the centre.\(^\text{17}\) Such laws should embody the principles of co-operation – not their negation. They should incorporate the principle “that government governs best which governs least”. They must place full responsibility with the members of co-operatives; because to deny this responsibility is to deny our people the opportunity to learn to be responsible. The government must re-define the responsibilities of the Registrar of Co-operative Societies. Co-operatives must be given the freedom to manage their own affairs, without the interference by government in their


every decision. Co-operative laws should be amended to recognise the roles, responsibilities and accountability of the professional managers. A co-operative that fails as an enterprise will fail as a vehicle of service to its members. Co-operatives should be allowed to elect their leaders freely without political interference of the governments, for a co-operative with an appointed chairman and board is no co-operative at all.\(^{18}\)

It is therefore suggested that state governments should develop a clear policy statement on co-operatives recognising that co-operatives are business enterprises with social content. Government must respect the rights of the members to run their business as they see fit. The enacted laws should not permit interference in the business of co-operative unless that business threatens the general public interest.

To sum up, most scholars do agree that since co-operatives are a state subject, it is of great importance that the state governments should develop a clear policy statement on co-operatives, incorporating therein the following policy measures.\(^{19}\)

(i) Co-operatives shall be promoted as instrument of equity, social justice and economic development in fulfilment of the Directive Principles of the State Policy as enshrined in the Indian Constitution.

(ii) Co-operatives shall be encouraged to grow as self-reliant and democratic institutions owned, managed and controlled by members for their economic and social betterment.

(iii) Co-operatives shall be assisted to develop into viable and responsive economic enterprises; without affecting their autonomy and organisation integrity.

(iv) Co-operatives shall be helped through a conducive and consistent policy environment to forge economic links between producers and consumers.

(v) The state shall not interfere in the management and operation of the co-operatives.

6.2 THE LEGAL FRAMEWORK OF GOVERNMENT CO-OPERATIVE RELATIONSHIP

Of course, against the ideals as outlined in section 6.1, how the government actually perceives and articulates its role vis-a-vis the co-operative sector is reflected in

\(^{18}\) see Tushaar Shah; op.cit., 1995, p. 257.

\(^{19}\) Co-operative Initiative Panel: op.cit., 1996.
the provisions of the co-operative laws that are in force at any given point of time.

Looking from the above point of view, it appears that the co-operative laws in India that are now in force at the level of the different states and union territories hardly could workout or do permit any meaningful role for the co-operative entrepreneurs. To put it otherwise, with their explicit regulatory and bureaucratic bias, the existing co-operative laws in the country constrict the operational autonomy of co-operative enterprises and thereby act as a drag in the way of emergence of a self-reliant and vibrant co-operative sector. This becomes clear if one studies the legal provisions included in the Co-operative Acts of the central and state governments. For example, in co-operative law the General Body of a co-operative society is recognised as the society’s supreme authority. They are empowered even to displace the management. But, there is no provision in co-operative law which makes it possible for the General Body to be effective in seeing that its general policy guidelines are followed. Thus, the Co-operative Act recognises the democratic constitution of a co-operative enterprise but does not provide for making the association aspect effective.

On the other hand, the co-operative laws empower the government to fix and restrict the term of office of the Chairman, the Secretary and other elected leaders of a co-operative enterprise. Such a provision often allows government to interfere in society’s affairs even on flimsy grounds. This has detracted the commitment, the standing and the powers of the chairman and the members of the managing committee or board of directors of a co-operative. The law also obstructs the diversification of fund and business and also effective promotion of new organisations. A section of members can always object to new initiatives on the ground that funds are being diverted. Every such action of diversion of funds and promotion of new organisation needs approval of the government accorded through the Registrar of Co-operative Societies of the concerned state.

In fact the laws empower the Registrar of co-operative societies with the supreme authority to control the operation and management of co-operatives, by incorporating in the co-operative legislations, the following provisions:

(i) power to veto, annul and rescind the resolutions adopted by the members;
(ii) power to issue directions to co-operatives;

\[^{20}\text{see M.V. Namjoshi: op. cit, 1989.}\]
(iii) power to approve right of office;
(iv) power to nominate person to the board of directors;
(v) power to supersede elected managements;
(vi) power to conduct elections;
(vii) power to appoint administrator;
(viii) power to amend bye-laws;
(ix) power to control lending, borrowings and investment of funds etc.

The assumption of the above powers by the Registrar of Co-operative Societies considerably weakened the democratic and autonomous functioning of the co-operatives. As a result the spirit of self-reliance among a large number of co-operatives has almost been extinguished. The criticism against the co-operative laws that are in force in most states and also at union level stem mainly from the following facts:22

1. Co-operative principles are not given due recognition in the Acts. Many provisions are even violative of the co-operative principles.
2. Co-operative laws can prevent a group of people from conducting their business as a co-operative by denying them registration on irrelevant and unreasonable grounds.
3. The voluntary nature of a co-operative is violated by law resulting in forced admission of persons as members and in compulsory amalgamation/ diversion/ merger of co-operatives, leading to involuntary change in membership.
4. The conduct of election, a responsibility of the co-operative is by law made the responsibility of the Registrar. Elections are conducted by the Registrar as prescribed in the Rules. Co-operatives are denied elected boards for years and even when elections are conducted, supersession of boards on the flimsiest of grounds is common with government officers or nominees taking over the management of co-operatives.
5. The right to decide what activities a co-operative may undertake and what it may give up too is interfered with by the Registrar through the standardisation and compulsory amendments of bye-laws. Even investment in co-operative's own business requires the permission of the Registrar.

6. Audit, a responsibility of the owners of any business, has been made the responsibility of the Registrar and the auditors’ reports are to be placed first not to the General Body, but to the Registrar.

7. Staff recruitment, pay, service conditions many a times are not decided by the co-operative, but by the Registrar or government. The co-operative often has no say in deciding the qualifications, service conditions etc. of the staff. Hence the staff is not accountable to the co-operative.

Thus, the co-operative legislation by imposing intensive and extensive restrictions on co-operative societies often goes against the basic feature of “Economic Democracy” of the constitution. While the liberalisation process has brought a sea change in the laws and regulations governing the corporate sector, co-operatives remain the victims of archaic and colonial laws.23

6.3 CO-OPERATIVE LAWS IN ASSAM

In the above context, an examination of the Assam State Co-operative Societies Act, 1949 (Act 1 of 1950) and the Rules thereof, clearly indicates that the State Co-operative Act and Rules are to many extent repugnant to the principle of democratic management and autonomy of the co-operative enterprises.

The Assam Co-operative Societies Act, 1949 (Act 1 of 1950) and the Assam Co-operative Societies Rules 1953, conferred on the Registrar of Co-operative Societies elaborate and extensive powers. There are many provisions in the State Co-operative Act which empower the Registrar to intervene and interfere in the management and administration of co-operative societies. For example, according to the Assam Co-operative Societies Act, 1949 and the Assam Co-operative Societies Rules, 1953, the General Assembly of a co-operative society is empowered to amend its bye-laws.24 Similarly, the model bye-law empowers the General Assembly to alter, rescind or amend bye-laws. There is however, a provision in the Act under which the Registrar of

24 Government of Assam: Assam Co-operative Societies Act, 1949 (Act I of 1950), Section 13 (2) and Assam Co-operative Societies Rules, 1953, Rule 9 (1).
Co-operative Societies can refuse to register such an amendment. This is the negation of the concept of 'autonomy' of co-operative enterprises. Again the power of the Registrar to 'direct' the society to amend its bye-laws in accordance with the amendment drafted by him or the power to make such amendment himself and register it, goes against the principle of democratic management.

Again, by joining a society, a member voluntarily accepts the conditions laid down in the bye-laws. Since the bye-laws of a society are binding on the members, any subsequent voluntary amendment of the bye-law is equally binding on them. The compulsory amendment of a bye-law by the Registrar of Co-operative Societies is violation of the voluntary nature of the contract between the society and the members. What is thus introduced into the contract by a third party by compulsion or without the consent of the contracting parties can not bind them morally. This provision also violates the constitution of the society.

Sections 7 of the Act and the rules made thereunder provided that a society is required to obtain permission from the Registrar for increasing the number of its members. Rule 3 of the State Co-operative Societies Act even put restriction on acquisition of shares in a society. These rules and provisions of the Act undoubtedly make the functioning of the societies restrictive and place the Registrar as the overall lord of the societies.

Besides, the Act by allowing the government to participate in the capital of the society violate the basic principle of equity and equality in co-operation. In Assam, the state government enters directly into the co-operatives through the route of purchasing of shares. Such state participation in the share capital of the societies violates the principles of voluntary membership, democratic control and common need for co-operation.

The Act vested de-facto leadership of the co-operative movement to the Government of Assam, empowering the government to modify, amend and bring about new legislation governing the co-operative societies. Registrar of Co-operatives is also authorised with the power of effecting division, amalgamation and dissolution of societies under the Act and Rules. These indicate that the promotion, formation and the degree

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25 Govt. of Assam: Assam Co-operative Societies Act, 1949 (Act I of 1950), Section 13, (i) (ii).
26 Ibid: Section 14 (1) (i) and Section 14 (1) (ii).
28 see Assam Co-operative Societies Rules, 1953.
of observance of principles of co-operation (with democratic control and management) in co-operative societies largely depend upon the attitude and interest of the government towards the co-operative movement in the state.

The Registrar of Co-operatives is empowered with the authority to direct a co-operative society for calling its Annual General Meeting or Special General Meeting.\(^\text{30}\) The Registrar can intervene in the affairs of the society in the interest of the members of the society or co-operatives in general\(^\text{31}\) and appoint a secretary to manage the co-operatives.\(^\text{32}\)

Further, section 44 (i) and section 51 of the Assam Co-operative Societies Act, 1949 provides that a co-operative society should obtain approval of the Registrar for lending or borrowing funds as well as for the investment of funds. Subjecting a society's decision in the matter of lending and investment of funds to the approval of the state or its agencies is contrary to the principle of democratic management. Financial management of a co-operative is a matter which should legitimately belong solely to that society. Section 36 (1) and Section 37 of the State Co-operative Act empowered the Registrar to supersede the managing committee of a co-operative society and appoint an officer or administrator, or body of persons to manage the affairs of the society. Thus, the power of the Registrar of Co-operative Societies to dissolve the Managing Committee and to appoint a person or persons in its place to manage the affairs of the society is contrary to the principle of democratic management and autonomy of the co-operative enterprises. Under the Act the Registrar has the power to fix the salaries of the office bearers, employees and of the executive officer deputed to a co-operative\(^\text{33}\) and to examine the proposed pricing system to be followed in the next co-operative year. The Act further restricted the maximum number of members of the Managing Committee of the societies which is to be prescribed by the Registrar of Co-operative of the state.\(^\text{34}\)

Under Section 55 of the Assam Co-operative Societies Act, 1949, the government (or Registrar) is committed to audit the accounts of the co-operatives of the state. The official commitments for auditing the co-operatives at regular interval, usually once in a

\(^{30}\) Govt. of Assam: Assam Co-operative Societies Act 1949, (Act I of 1950), Section 11.

\(^{31}\) Ibid: Section 15 (3).

\(^{32}\) Ibid: Section 35 and Section 37.

\(^{33}\) Ibid: Section 35 and rule 40.

\(^{34}\) Ibid.
year, were intended to instil public confidence in the movement. Such an arrangement was supposed to provide a sense of security to the public about their resources invested in co-operatives. Further, the audit report was supposed to provide a clear idea about the operational efficiency of the co-operatives. But it is observed that audit of the co-operatives often remain pending for several years etc.

In fact, co-operatives of Assam have been crippled with bureaucratic lordship enshrined in co-operative laws and rules framed from time to time by the government of Assam. The law has empowered the Registrar of Co-operative Societies with supreme power of administration. The lordship of the Registrar in the formation, administration and management of co-operatives in Assam as provided for by the Act in many ways negates the co-operative principles. It has in fact restricted the possibility for co-operatives to stand on their own as independent and self reliant democratic institution of the members.

6.4 THE POLICY ENVIRONMENT

It may be worthwhile at this state to have an idea about the gradual evolution of the government policies in India concerning the co-operative sector.

In its initial stages, the co-operative movement in India developed without any major financial aid from the Government. The British government kept it aloof from extending financial assistance to the co-operatives on the plea that co-operatives should be self contained and self-supporting and should be as little officialised as possible. However, the Government could not stick to this policy for long and very soon certain departure could be noticed from the government's earlier policy of non-interference.

In the first instance, permission was accorded to local governments to advance a sum not exceeding Rs. 2000 to rural societies, primarily to start the movement in its infancy and to initiate new societies. The second departure in the government policy towards co-operative movement was the provision for state guarantee of interest on debentures. The third occasion for extending direct financial aid to the co-operative societies came after the outbreak of world war in 1914. All these financial commitments of the central government till 1919 were chiefly in the form of meeting the expenses towards the maintenance of the Registrar and his staff, loans, grants-in-aid and subsidies to co-operative institutions.\footnote{Reserve Bank of India: Review of the Co-operative Movement in India, 1939-46, p. 90.}
The second phase of state co-operative partnership started after 1919, when the affairs of co-operative movement was transferred to the care of provincial governments. From 1919 till independence of the country by and large the direct financial commitment of the Government was not substantial and the movement on the whole developed on its own capital raised by it independently.\(^{36}\)

After independence, in 1954, All India Rural Credit Survey Committee recommended in favour of state participation in the co-operative institutions at all levels. With the acceptance of the major recommendations of All India Rural Credit Survey Committee the question of state aid and state control assumed a wider significance. Both at the central and state government levels cooperatives were recognised largely as an instrument for implementing various programmes adopted by the government for the development of the weaker sections of the society. The successive Five Year Plan Documents in India put emphasis on the state's role on different aspects of co-operative development and government's larger participation in the aid of co-operative institutions.

An overview of the Five Year Plan Documents make it evident that while the initial intention as per the first few plans seemed to promote the co-operative sector with ample assistance and benevolence (state partnership) from the government, the later plans clearly show the clouding of this perception. By the Seventh Plan, the idea that cooperatives are mere instruments in the hands of the government to implement its developmental and populist measures had become an unquestioned assumption. The allocation of budget, the determining of focus and the target implementation approach have all furthered this approach. Increasingly the government outlook has been – what the co-operatives can do for the government rather than what can be done for the co-operatives. This difference in the approach has caused co-operatives to increasingly be identified as another form of public sector enterprise, with the real owners distancing themselves and the political and bureaucratic vested interests taking over, giving the co-operatives a negative identity.\(^{37}\)

Also the continued and massive doses of state support to co-operatives in the post-independent India led to over-dependence of co-operatives on government. As a

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\(^{36}\) see Report of The Co-operative Planning Committee, 1946.


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result, the spirit of self-reliance among a large number of co-operatives has almost been extinguished. The possibility of members assuming responsibility for the success of their co-operatives had become very low.

One may consider in this connection the evolution of the policy-environment in the state of Assam. The real step to popularise economic co-operation as a means of economic development of the weaker section of the society in Assam started only in the year 1949 with the enactment of the Assam Co-operative Societies Act, 1949 (Act 1 of 1950). Since then, the Government of Assam accorded the co-operatives a significant place in the successive Five Year Plans of the state. In the area of producers' co-operatives, during the first two Five Year Plans, the state government put much emphasis on the promotion of particularly artisans' and craftsmen's co-operatives and processing co-operatives both at the village level and at the state level. Financial and technical support to the artisans' cooperative and margin money assistance to the primary co-operatives were arranged for facilitating their development. Since the year 1955 a considerable number of co-operatives in the industrial and agro-processing sectors were directly promoted by the state government. Such co-operatives included the sugar co-operatives, co-operative jute mills, co-operative Khandsari mills, co-operative spinning mills, tea plantation co-operatives, fruits and vegetables co-operatives etc. Government financed the lion's share of the capital of the enterprises and also advanced technical, managerial and administrative supports to the co-operatives. The control of affairs of the enterprises virtually remained with the government and government became the owner-manager of the co-operatives in practice.

For the purpose of promotion and developing the co-operative movement in the state and bringing small producers under the fold of co-operative organisations, Government also initiated the formation of a state level union of the co-operative in the year 1955. Accordingly the Assam State Co-operative Union was formed in the year 1955 with the support of the government of Assam. The objective was to promote spirit of co-operation among the rural poor, organise them to form co-operatives, helping them by

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38 see C.R. Samaddar; Co-operative Movement in Assam, Guwahati, 1995.
extending training and consultancy facilities, supervising their management and representing their problems to the state government. The government also empowered the Union to manage the co-operative training institutes constituted by the government and propagate co-operative awareness among the people.\textsuperscript{40}

During the last two and half decades and particularly during the year between 1975 and 1985 the state government placed high priority to the development and re-organisation of the producers' co-operatives in the state. The priorities of the state co-operative policies during those period were more significant in the cases of fishery co-operatives, dairy co-operatives and handloom weavers' co-operatives. In the year 1978 the Government of Assam initiated the policy of re-organising the fishery co-operatives of the state by promoting the State Level Federation of the Fishermen's Co-operative, popularly known as FISHFED. The objective of the government behind the formation of the FISHFED was to promote fish production in the state through an organised effort of the government and also to arrange for technical and marketing services to the primary fishery co-operatives.\textsuperscript{41} In the same year, Government of Assam promoted a state level federation of the Handloom weavers' and Artisans' Co-operative known as ARTFED. The state policy was directed towards the process of re-organising the primary handloom weavers' co-operatives under a three tier system of integration with the ARTFED at the apex level, the district level weavers' and artisans' co-operative at the middle level and the primary co-operatives of the handloom weavers and artisans' at the bottom level. As an implication of the state policy district level co-operatives of the weavers and artisans' were formed in almost all districts of the state and the primary co-operatives were brought under the direct supervision of the district handloom weavers' and artisans' co-operatives.\textsuperscript{42}

Further in pursuance to the central government policy to shift production of 'Dhuti', 'Saree' and other coarse clothes from the exclusive right of the textile mills to the handloom weavers' co-operatives, the state government also took up the scheme of production of 'Dhuti', 'Saree' and other coarse clothes known as 'Janata clothes' through the handloom weavers' co-operatives and vested the power of executing the scheme to

\textsuperscript{40} Assam State Co-operative Union: \textit{Sahayatri}, Vol. 28, No. 2, 1999.
\textsuperscript{42} Ibid. p. 36.
the 'ARTFED' with exclusive support of the central government.\textsuperscript{43} The scheme assured the weavers a guaranteed rate of remuneration per meter of cloth produced and also marketing of the products through the ARTFED. The scheme virtually received a positive response from the weavers and artisans at large and as a result a large number of handloom weavers' and artisans' co-operatives were organised in the state (including South Assam Plains) during the period 1980 to 1990.

Another milestone in the government policy to strengthen the workings of the handloom weavers' co-operative has been the shifting of the power of organisations and administration of the handloom weavers' co-operatives from the Department of Co-operation to the Department of Handloom and Textiles in 1983-84. This was also a follow up action at the state government level to the policy measures initiated by the Central Government.\textsuperscript{44}

It was also observed that following the successful launching of the Operation Flood I scheme at the all India level during the period 1970 to 1980 and also launching of the second phase of operation Flood II scheme from 1980 throughout the country by the National Dairy Development Board, the Government of Assam initiated the steps to implement the scheme of operation Flood II in Assam to replicate Anand pattern dairies in the villages of the state. For this purpose, the government initiated promotion of three district level unions of milk producers co-operative in the state. One of such district level unions of the milk producers' co-operatives was also promoted exclusively in South Assam Plains. The objective of the scheme and the policy of the state was to re-organise the existing primary milk producers' co-operative by bringing them under the two tier system of operation with the District Level Co-operative Milk Union (DCU) at the top and the primary milk producers' co-operative at the bottom line of operation. The district level co-operative unions were designed to control, supervise and assist the primary milk co-operatives in their operation and accelerate production of milk at the village level. The marketing functions of the business were absolutely the responsibility of the DCUs to which government extended financial, technical and professional supports. The scheme


became operative in the three plain districts of South Assam since 1983-84.\textsuperscript{45}

All the above schemes and policies of the state government were designed following the schemes and programmes of the central government. Central government contributed to the schemes by way of financing the projects and also by arranging the required technical knowhow at the initial years of implementing the schemes.

6.5 IMPLICATIONS OF GOVERNMENT POLICIES FOR GROWTH OF CO-OPERATIVE ENTERPRISES IN SOUTH ASSAM

In what follows, we present a general assessment of the implications of the prevailing pattern of state-cooperative relationship on the continuity and growth of the sample enterprises.

6.5.1 Fishery Co-operatives

Survey of the four sample fishery co-operatives revealed that majority of the sample fishery co-operatives in South Assam Plains were promoted in between the year 1959 and 1975, long before the promotion and constitution of the state level federation of the fishermen's co-operatives (i.e. FISHFED) in the State of Assam. Also, the background of the promotional drives and motivation of the fishermen of the sample co-operatives revealed that the government policy to offer settlement of natural fishing grounds and fish mahals on lease preferably to the fishery co-operatives impelled the fishermen of the state to form the fishery co-operatives in their respective areas. Further, the government initiative and financial aid towards the formation of fishery co-operatives in the state had a direct bearing upon the promotion of the sample fishery co-operatives. At the initial stage of formation of the co-operatives, government contributed the lion's share of the capital of the sample fishery co-operatives. Financial statements of the sample co-operatives showed that the state's contribution to the share capital of the enterprises ranged between 87.1 per cent and 98.0 per cent.\textsuperscript{46} Government also helped the enterprises by extending consultancy and technical supports for promotion and management of the enterprises.


\textsuperscript{46} see Table 3.1, Chapter III.
The structure of organisation of the enterprises revealed that all the sample fishery co-operatives are linkage independent enterprises of the member fishermen. These are self-contained decision units of the members. There is no district level or regional level union of the Primary Fishery Co-operatives in the state. The effort of the state government to re-organise the primary fishery co-operatives in the state had no direct impact on the structure of operation of the sample enterprises. Three out of the four sample co-operatives are not even members of the State Level Federation of Fishery Co-operatives i.e. FISHFED. The government’s intention to extend supervisory, technical and marketing supports to the primary fishery co-operatives through the FISHFED was not materialised in the area of our study.

Although, the favourable government policy and financial assistance acted as a catalysing force towards the promotion of the fishery co-operatives, there had been no perceptible government control or interference in the affairs of the enterprises. The fishery co-operatives were found managed by the Managing Committee elected by the members of the enterprises. Operational profile of the enterprises revealed apart from contributing to the share capital of the co-operatives, government extended no other major financial assistance in the form of concessional grants or subsidies to the sample fishery co-operatives. All the fishery co-operatives are self-managed and self controlled. There is no integration of any kind of the primary fishery co-operatives with the state level federation. These in turn helped the enterprises to operate their business independently without much dependence on the government and also with less control by the government. The enterprises were found rendering vital services to their members since the last two and half-decades particularly by making available to them the fishing rights in the specified fishery mahals taken by the co-operatives from the government.

As a whole the government policy of according preferential treatment to the fishery co-operatives in the matter of leasing of natural fishing grounds and also of ensuring that the operation of the enterprises remained free from excessive government control contributed considerably towards the continuity and survival of the fishery co-operatives.

6.5.2 Dairy Co-operatives

In Assam till 1980, there was no specific policy effort for promotion of dairy co-operatives in the state. It was only in the early eighties, that the Government of Assam took active initiative in the promotion and development of dairy co-operatives in the state.
In the year 1978-79, the Government of Assam initiated the policy of organising the milk producers at the village level for promoting milk production and distribution under co-operative fold. It was for this purpose that the Cachar District Milk Producers' Co-operative Union Ltd., popularly known as 'CAMUL' was promoted at the sole initiative and financial assistance of the Government of Assam and the National Dairy Development Board of India. In South Assam also, the intention of the government was to organise the milk producers of the three plains districts (i.e. Cachar, Hailakandi and Karimganj) under the district milk union and promote milk production in the region.

As a result of the above policy, a large number of primary milk producers' co-operatives (PMPCs) were promoted in the three plains districts during the early eighties. Survey of the five sample PMPCs revealed that all of these PMPCs in South Assam Plains were promoted during the early eighties. Financial statements of the sample enterprises showed that more than 72.7 per cent of the capital of the PMPCs in the region were contributed by the government.

It was further observed that the PMPCs in the three plain districts were initiated by the state government in its attempt to replicate Anand pattern of dairy co-operatives under Operation Flood II scheme of the National Dairy Development Board (NDDB). While promoting the enterprises, the socio-economic conditions of the producers of the locality were not given proper consideration by the policy makers. The PMPCs had to adopt the organisational structure and also the operational design as prescribed by the government. The members had little say in the management of the PMPCs. Also the Managing Committees of the enterprises had little innovative role in discharging the entrepreneurial functions of the enterprises. Majority of the primary milk producers' co-operatives in the region were captive decision units of the government promoted District Level Milk Producers Co-operatives Union i.e. CAMUL. Although there were elected Managing Committees in all the sample PMPCs, it was observed that in all the cases the real locus of control of the PMPCs rested upon the District Level Milk Producers Co-operative Union i.e. (CAMUL). The Secretaries of the enterprises despite their being accountable to the Managing Committees in principle were required to attach priority to the instructions of the CAMUL for conducting the activities of the enterprises.

The PMPCs of the three plains district of South Assam had to be closed or became dormant within a short span of time after their launching. This is evident from the

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47 see Table 3.2, Chapter III.
table 3.2 in Chapter III, which showed that four out of the five sample PMPCs were non-functioning since 1995-96. Only one PMPC was found to be operating on a very small scale. Further, the failure of the government to create awareness of co-operation among the producers and arranging training for the leaders of co-operatives led to the lack of interest among the producers and to entrepreneurial ineffectiveness among the leaders of the enterprises. Only three out of the 15 leaders interviewed by us attended the leadership development programmes organised by the government and that was only for a short period of two weeks only. There was no continuous effort for leadership development programme meant for the primary co-operatives in the state.

To sum up, it was observed that the state policy to replicate Anand Pattem under Operation Flood II resulted in the promotion of primary milk producers' co-operatives in the three plain districts. The government initiative to organise the milk producers under the two-tier integrated system of co-operation with the district level co-operative union as the supervising and controlling authority at the top and the PMPCs at the bottom actually did not work well. Government initiated the enterprises as a means for implementing their scheme of Operation Flood II launched by the NDDB. But no serious effort was initiated to make the primary level milk producing co-operatives self-reliant. Naturally, as soon as the government assistances and central aid dried up, the district level milk union (i.e. CAMUL) became defunct and so also the PMPCs.

6.5.3 Industrial Co-operatives

In the case of the industrial co-operatives particularly in the cases of artisans co-operatives it was observed that the state had no specific strategy for the promotion of artisans' co-operatives in the rural areas. Except their participation in the share capital, government had no major policy package for supporting the primary industrial co-operatives in the region. In our sample case, it was observed that the members of industrial co-operative initiated the promotion of the enterprise mainly to facilitate joint marketing of their produce and for ensuring economies of scale. Marketing subsidy, margin money assistance and other incentives which were available to the producers of other co-operatives, specially to the handloom weavers co-operatives were not available to the primary industrial co-operatives. The only involvement of the state was through the extension of financial aid towards the capital of the enterprise. Government contributed 72.6 per cent capital of the co-operative by participating in the share capital of the enterprise (see table 3.3, Chapter III).
It was observed that the industrial co-operatives of the region were unitary in character. They were in fact linkage independent co-operatives of the producers and artisans. There is no top-down structure of integration in the cases of the industrial co-operatives. This enabled the co-operatives to operate their business independently. From resource mobilisation to marketing of the products, every aspect of business is managed by the co-operative independently.

Though there are co-operative institutions in the state for arranging training of the leaders of the co-operatives and creating awareness for co-operation among the rural producers, little efforts were made in this respect in our sample industrial co-operative. Interview with the leaders of the sample enterprise further revealed that they received no training for managing the enterprise effectively. Lack of training for effective management of the enterprise and also apathetic attitude of the financial institutions in extending working capital finance to the enterprise retarded the growth of the enterprise to its expected level. Nevertheless, the relative autonomy enjoyed by the co-operative enabled it to exhibit a good deal of entrepreneurship that included the innovation of new sources of raw materials, developing new product design and exploring new markets for the finished products.

6.5.4 Agro-processing Co-operatives

The promotional background of the sample agro-processing co-operative revealed that like other producers' co-operatives, the sample agro-processing co-operative was also promoted mainly at the initiative of the government. The government initiative and help towards the formation of the enterprise was mainly in the form of formational guidance, technical consultancy and financial aid. Study of the financial statements of the enterprise showed that the government's contribution to the share capital of the sample enterprise was 99.0 per cent of the total share capital. Government also assisted the enterprise by extending working capital loan on liberal terms and concessional rate of interest.

46 see Table 3.4, Chapter III.
Study of the structure of organisation of the enterprise revealed that there was no vertical integration of the enterprise with any federal body. The sample co-operative was an independent and self-contained decision unit of the members. The leaders of the enterprise received no training for managing the co-operative effectively. Government's policy to impart training to the leaders of co-operative organisation in the state fall flat in the case of the sample processing co-operative.

To sum up, we observed that the government's effort to promote the processing co-operative from above did not bear the desired result. The enterprise remained from the beginning excessively dependent upon the government for its financial needs and also for management of its affairs. The enterprise stopped processing operation since 1996-97.

6.5.5 Handloom Weavers' Co-operative

Handloom weavers' co-operatives are one of the major components of the producers' co-operatives operating in South Assam Plains. This sector of producers' co-operative account for 54.2 per cent of the total producers' co-operative of the region. Our survey of the promotional background of the sample handloom weavers' co-operatives revealed that 7 out of the 9 sample handloom weavers co-operatives in the region were promoted in between the year 1985 and 1998, noticeably after the promotion of the state level federation of the weavers' and artisans' co-operative in the state. It was also revealed that majority of the sample handloom co-operatives were promoted after the promotion of the District level weavers co-operatives in their respective districts. The structure of organisation and the operational profile of the sample enterprises suggest that the primary handloom weavers co-operatives are linkage dependent units of their respective district level weavers co-operative, which in turn are vertically tied to the state level federation i.e. ARTFED.

The promotional and organisational profile of the handloom weavers co-operatives in South Assam Plains indicate that the government policy to shift the production of a particular brand of coarse cloth called Janata Cloth from the textile mills to the

49 see Table 2.2, Chapter II.
50 see Table 2.2, Chapter II.
handloom co-operatives largely boosted the promotion of handloom weavers co-operatives in South Assam Plains. Besides the *Janata cloth* scheme, the promotion of the ARTFED at the Apex level and the District level co-operatives at the district level under the three-tier scheme of operation of the ARTFED also accounted for the promotion of primary handloom weavers co-operatives in the region. Government contribution towards the share capital of the sample handloom weavers' co-operative ranged between 54.6 per cent and 92.0 per cent (Table 3.5, Chapter III).

The central government's policy to create employment avenues in the handloom sectors by extending the scheme of target production and marketing along with payment of guaranteed minimum wages to the weavers facilitated the operation of the co-operatives at the initial stage, but the discontinuation of the scheme in the early nineties disrupted the smooth functioning of the weavers' co-operatives.

The decreasing trend of business in the cases of the majority of the sample weavers co-operatives during the last few years and the low level of participation of the members in the business of the co-operatives since the mid-nineties, were largely due to withdrawal of the scheme of subsidised production of *Janata cloth* by the state. The substitution of *Janata cloth* scheme by the introduction of marketing development assistance scheme since 1989-90 and its implementation in the state since the early nineties were not found beneficial to the large section of the members as well as to the co-operative enterprises in the region. The impact of the above policy was that the assured marketing scheme that originally had been one of the prime motivation and incentives to the weavers virtually became a myth in the early nineties and the problem of marketing became the topmost area of crisis of the weavers co-operatives across the different parts of Assam including South Assam Plains since mid-nineties.

However, the state policy to shift the administration of the handloom weavers co-operatives from the Department of Co-operation to the Department of Handloom and Textiles, minimised the state's intervention in the affairs of the co-operatives. The transfer of administration, supervision and control of the weavers co-operatives from the Registrar of Co-operatives to the Director of Handloom and Textiles resulted to a considerable growth in the number of handloom weavers co-operatives in the area of our study since 1984-85.

As a whole, we observed that the state policy to shift production of a particular quality of clothes from textile mills to the handloom co-operatives and the state's decision to bring the handloom co-operatives under the direct administration and supervision of
Handloom and Textiles Department, resulted in the promotion of the large number of weavers co-operatives in all the three plain districts of South Assam. Subsequently withdrawal of the direct support to the weavers in the form of guaranteed wages that was earlier available under the *Janata cloth* scheme resulted to continuous detraction of interest of the members of the enterprises. Since the mid-nineties the volume of business of the enterprises started decreasing at an alarming rate and by the year 1998-99 majority of the enterprises started showing a declining trend of business for successive years.

6.6 SUMMING UP THE CHAPTER

Survey of literature revealed government's role in co-operative sectors considerably varies among the countries. In most of the Asian and African countries, co-operation is largely initiated by the government and co-operative enterprises there continue to depend on government supervision and financial aid. India is no exception to this phenomenon of state support and control of co-operative organisation.

Scholars were generally of the view that the state's role in co-operative sector should be 'supportive' and not 'restrictive'. They argued that government has only three things to do in the context of the co-operative sector:

(i) Government has to give good governance because without good governance there can not be peaceful, orderly and democratic activity.

(ii) Government has to ensure that there is no unwarranted interference in the affairs of a co-operative.

(iii) Government has also to ensure that there is no discrimination in treatment.

Of course, against the ideals perceived by the scholars, it appears that the co-operative laws in India hardly could work out or do permit any meaningful role for the co-operative entrepreneurs. In fact, co-operative laws of the country empower the Registrar of Co-operative Societies with the supreme authority to control the operation and management of co-operatives. In Assam, the Co-operative Act vested de-facto leadership of the co-operative movement to the Government of Assam, empowering the government to modify, amend and bring about new legislation governing the co-operative societies. The lordship of the government vis-à-vis the Registrar of Co-operative Societies in Assam, in fact, restricted the possibility for co-operative to stand on their own as independent and self-reliant democratic institution of the members.
Our survey of the prevailing pattern of the government co-operative relationship in South Assam revealed the following:

In the cases of the fishery co-operatives although the government policy to accord preferential treatment to the co-operative organisations while leasing the natural fishing grounds and fish mahals inspired the formation of the co-operatives, on the whole government interference into the affairs of the enterprises was relatively less. There had not been instances of frequent interference by the government in the day to day operation of the co-operatives. Also, the enterprises were found not heavily dependent upon government for their day to day operation.

The dairy co-operatives (PMPCs) on the other hand, were promoted absolutely at the initiative and assistance of the government. Government policy to implement Anand pattern co-operative under a two-tier structure of operation led to the promotion of the PMPCs in the region. Government not only contributed major portion (72.7 per cent) of the share capital of the PMPCs but also assisted the enterprises by extending liberal grants, subsidies and other concessional input services. The PMPCs virtually remained dependent upon the government and upon the district level union (i.e. CAMUL) for their day to day operation. The two-tier system of operation with the district co-operative union (i.e. CAMUL) at the top of the system meant absence of autonomy of the PMPCs in managing their own affairs. Naturally the enterprise became non-functional since the mid-nineties when the government managed district level co-operative union (i.e. CAMUL) suspended it operation.

In the case of the lone industrial co-operative, major promotional drives for the formation of the enterprise came from the members themselves. Government of course, helped the enterprise by contributing major part (72.6 per cent) of its capital.

The structure of operation of the enterprise being unitary, there had been lesser external interference into the day to day operation of the co-operative. This enabled the enterprise to retain members' allegiance and interest in the affairs of the co-operative. It has been found functioning since the last four and half decades with minimum government interference and involvement in it day to day business operation.

The sample agro-processing co-operative was found absolutely dependent upon the government in the matter of its formation and operation. Government contributed 99.4 per cent of its capital. This naturally invited government's intervention in the affairs of the co-operative. After a few years of commissioning the processing plant of the enterprise, government directly intervened into the operation of the co-operative by deputing a special
in the co-operative for looking after the day to day business of the enterprise.

Excessive dependence upon the government for financial support and for management of the enterprise, paved the way for alienation of the members of the enterprise. This alienation combined with the lack of professionalism on the part of the managers created grounds for mismanagement. The enterprise developed huge accumulated loss and ultimately suspended functioning since the mid-nineties.

In the cases of the handloom weavers' co-operatives it was observed that the government policy of re-organising the handloom weaves co-operatives through a three-tier system of operation promoted the formation of the enterprises. Government not only contributed major part of the capital of the enterprises, but also extended liberal financial assistances and other support services to the enterprises. To much government intervention into the affairs of the co-operatives along with the dependence of the enterprises upon government for subsidies and concessional grants made the handloom weavers' co-operatives practically agencies for implementation of government schemes. However, discontinuation of the government grants, subsidies led to the declining trend of business of the enterprises after the mid-nineties.

To sum up, our broad observations were as follows:

1. In all the cases of producers' co-operatives in South Assam studied by us, the involvement of the government in the launching phase of the co-operatives and also in the subsequent phase of their day to day operation was found to be rather elaborate.

2. Of course, the degree of government control and intervention in the affairs of the co-operatives varied among the enterprises studied by us from being moderate (as in the cases of the fishery co-operatives or the lone industrial co-operative) to high (as in the cases of the dairy co-operatives, the agro-processing co-operative and the weavers' co-operatives).

3. The performance of the enterprises generally varied inversely with control. That is enterprises with low to moderate degree of government intervention and control were found to be doing better than the enterprises with a relatively high degree of government intervention and control.