

Role of Cooperative Societies in Rural Development in India – An Overview

Dr.Siddaraju VG

Associate Professor

*Centre for the Study of Social Inclusion
University of Mysore, Mysuru, Karnataka*

Abstract

India lives in villages where most of the inhabitants are small, marginal, landless farmers and artisans. After independence, agriculture was identified as one of the thrust areas for rural development. India is a country of rural masses where rural development is essential. Rural development implies both economic improvement of the people and greater social transformation. Even then policy makers visualized the fact that rural development programs could not be ruled out without people's participation and institutional support. Considering the situation in the rural sector, the importance of panchayat system and cooperatives was recognized and these institutions were assigned specific roles to play. Rural development is the root of the cooperative principle. There is great scope for cooperative business development in rural areas. In this background, the present paper is made an attempt to study the role of cooperative societies in rural development and to study the issues and Challenges faced by Co-operative Society in Rural areas. The study will be based on secondary data. The study shows that the co-operatives have played an important role in promoting agricultural and rural development in India, particularly in the field of credit, processing, and marketing. The dairy co-operatives are good example of co-operatives that can promote and sustain rural development.

Key words: *Rural Development, Institutional Support, Cooperatives*

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I. Introduction

India lives in villages where most of the inhabitants are small, marginal, landless farmers and artisans. After independence, agriculture was identified as one of the thrust areas for rural development. India is a country of rural masses where rural development is essential. With more than 700 million of its people living in rural areas and its rural sector contributing about 29 percent of the gross domestic product at factor cost at the 1993-94 prices, any socio-economic development strategy in India that ignores rural people and rural areas can succeed. Rural development implies both economic improvement of the people and greater social transformation. Policymakers visualized the fact that rural development programs cannot be dismissed without people's participation and institutional support. Rural development is influenced by a multitude of factors such as natural resources, human resources, technology, and institutions and organizations including co-operatives. Considering the situation in the rural sector, the importance of panchayat system and cooperatives was recognized and these institutions were assigned specific roles to play. Rural development is the root of the cooperative principle. There is great scope for cooperative business development in rural areas.

A cooperative society is an organization formed to provide financial assistance to its members. Members are responsible for raising capital to help those in need. It mainly protects the weaker sections within rural communities from exploitation by wealthy individuals and companies. Our rural economy needs faster and more sustainable development to meet the needs of its population. Co-operative societies have a responsibility to play a constructive role in this field.

The history of co-operative movement in India began with the passing of the first cooperative societies act in 1904 by the Government of India. The primary objective of this Act was to extend credit facilities to adequate extent at low interest rates. However, in the Act of 1904, nothing was said about the establishment of central bank necessary for financing of the primary credit societies. The Act of 1912 recognized along with co-operative credit societies, cooperatives for marketing, farming, housing etc. Consequent Acts of 1919 and 1925 reduced the limitations of earlier laws. The Co-operative movement has also been highlighted by the Rural Survey Committee (1954), by Vaikunth lal Mehta Committee (1960) and also by the five yearly plans. The Famine Commission in 1901 opined, 'The establishment of mutual credit societies holds great promise for the

future of agriculture in India and the possibility of permanent success, which will be greatly strengthened if mutual credit societies take root and flourish in the country. From the days of Hazari Committee (1971) to Vaidyanathan Committee (2004) and High Powered Committee on Cooperatives (2009), the government has shown its intention in institutional and legal reforms to make the cooperatives viable economic entities.

Features of Cooperative Societies:

The important features of Cooperative societies are as follows:

1. **Voluntary Association:** The membership of cooperative societies is voluntary. Anybody having a common interest is free to join a cooperative society. The member can also leave the society any time after giving a proper notice.
2. **Equal Voting Rights:** A cooperative society is based on the principle of “one man one vote”. A member has only one vote irrespective of the number of share(s) held by him. Thus, a co-operative society runs on democratic principles.
3. **Separate Legal Entity:** A cooperative society is required to be registered under the Co-operative Societies Act. Registration provides it a separate legal entity. Its existence is quite different from its members. The death, insolvency or lunacy of a member does not affect its existence. It can sue and be sued in its own name. It can make agreements as well as purchase and sell property in its own name.
4. **Service Motive:** A cooperative society is based on the service motive of its members. Its main objective is to provide service to the members and not to maximize profits. Earning profits is the most important objective of other forms of business organization. It is not so in the case of co-operatives.
5. **Distribution of Surplus:** Members are paid dividend and bonus out of the profits of the co-operative society. The bonus is given according to the volume of business transacted by each member with the co-operative society. For example, in a consumer co-operative society, bonus is paid in proportion to the purchases made by members during a year. In a producers’ cooperative society, the value of goods delivered for sale forms the basis of distributing bonus.
6. **State Control:** Cooperative societies are subjected to regulation and control by the government. In India a cooperative society can be registered under the Cooperative Societies Act, 1912 or the State Co-operative Societies Act.
7. **Elimination of Middlemen:** The main object of the cooperative societies is to eliminate middlemen and to establish direct contact between members and customers. This ensures availability of goods at fair prices and minimizes unhealthy competition.
8. **Cash Trading:** Generally, a co-operative society buys and sells goods on cash basis. Cash trading does not involve bad debts and credit collection expenses. Thus, it helps the society to have a good working capital and to maintain short-term solvency.
9. **Audit:** Accounts of cooperative society are audited by the auditors appointed by the Government under the supervision and control of Registrar of Co-operative Societies.
10. **Principle of Self and Mutual Help:** Cooperative society promotes the common interests of its members through self-help and mutual help.
11. **Democratic Management:** Annual General Meeting (AGM) of co-operative society is held every year in which the managing committee is elected, which manages the affairs of the co-operative society.
12. **Perpetual Existence:** Existence cooperative remains unaffected by the death, or insolvency of any of its members. Thus, it has perpetual existence.

Objectives and Methodology

In this background, the present paper is made an attempt to study the role of cooperative sector in rural development and to study the issues and Challenges faced by Co-operative Society in Rural areas. The study is based on secondary data. Secondary data were collected from various Annual reports published by Department of Co-operation, Govt. of India, economic survey etc.

Cooperative Societies and their contribution to the rural economy

Co-operative societies have played a critical role in the development of rural population and in bringing them together. The following are some of the cooperative societies are working in rural area for the development:

1. **Consumer Cooperative Society:** Consumer cooperative societies are formed with the objective of protecting the consumer interests. Individuals who wish to purchase products at reasonable rates most likely join consumer cooperative societies. In such type of societies, there are no middlemen involved, the product is purchased directly from the producer and sold to consumers.

2. **Producer Cooperative Society:** Producer cooperative societies are formed with the objective of protecting the interests of small producers. These cooperatives help producers in maintaining their profit and also to assist producers in procuring items that will be helpful in production of goods and services.
3. **Credit Cooperative Society:** These cooperative societies are set up with the objective of helping people by providing credit facilities. They provide loans at a minimal rate of interest and flexible repayment tenure to its members and protect them against high rates of interest that are charged by private money lenders.
4. **Housing Cooperative Society:** Housing cooperative societies are formed with the objective of providing housing facilities to the members of the society. This proves to be beneficial for the lower income groups as it allows them to avail housing benefits at a very affordable price.
5. **Marketing Cooperative Society:** These societies are formed with the objective of providing small producers a platform to sell their products at affordable prices and also eliminate middlemen from the chain, thus ensuring adequate profits.

The Role of co-operative society in the rural development is multi-faceted, and it encompasses every aspect of rural life. It works towards uplifting its members and areas economically and socially. Even though agriculture is the primary source of income and employment in rural areas, the parody of the situation is that a majority of the people living in rural districts are poor and hungry. Co-operative society plays a vital role in improving the deprived conditions of rural areas. The role of cooperatives in rural development can be very significant and beneficial for the rural economy.

- **Provide credit facilities:** Cooperative societies can help their members (individuals or small businesses) in rural areas with financial assistance. Credit Cooperative societies are involved in disbursing loans at low rates of interest and flexible repayment terms. The role of cooperatives in rural development is crucial as they protect their members from private moneylenders who give loans at very high-interest rates. Rural India has been facing highest number of instances of farmers' suicide due to exploitation by money lenders hence co-operatives have played a massive role in channelizing the money lending in a formal manner by setting up the Co-operative banks and credit societies. Credit cooperatives rarely raise large amounts of capital due to the limited financial resources of their members. However, they play a vital role in sustaining the viability of both agrarian and non-agrarian occupations in a rural economy. It has helped people in the rural areas to be financially independent, and the farmers and other business owners are offered loans and other banking services. They are also encouraged to deposit their savings to earn a good rate of interest.
- **Housing facilities for lower-income groups:** Housing cooperative societies in rural areas assist their members in getting a place to live. They are primarily involved in helping people from lower-income groups get housing facilities at affordable rates.
- **Help consumers get affordable products:** Several Consumer Cooperative Societies help rural households get products at relatively cheaper rates. They purchase products directly from the manufacturer and sell them to their members below market price, thus removing the involvement of intermediaries. Anyone who wants to buy a product at these rates becomes a member of Consumer Cooperative Societies.
- **Assist small businesses to stay profitable:** Cooperative Societies help small scale entrepreneurs procure raw materials at cheaper rates to reduce their cost of production. They also provide producers with a platform to sell their products directly to consumers. Removing intermediaries helps to cut down the selling price and ensure higher sales and profits for producers.
- **Share Profits among members:** Cooperatives were established to serve the economically weaker sections of rural communities. They distribute profits from the operations among their members as a dividend. These earnings are vital for the sustenance of rural households.
- **To increase employment opportunities for marginalized groups:** Since 65% of India's population depends on agriculture, it has become a dominant source of livelihood in rural districts. People earn through the activities of farming, fisheries, forestry, and livestock. The agricultural co-operative society actively supports the men and women agrarian producers to increase employment opportunities for marginalized groups.
- **Enhancing the quality of facilitates to agriculture Sector:** The co-operative society helps in enhancing the quality of fertilizers and facilitates better facilities for product marketing, including storage, processing, transport, and availing modern cultivation techniques.
- There are multiple co-operative societies wrathfully working on different aspects to acquire a sustainable economy in rural areas.
- **Poverty-stricken sections:** The co-operative societies impart several services to poverty-stricken sections, such as access to advanced technologies, proper training in natural resource management, and boost agricultural productivity by increasing the supply of goods.

- **Financial security to the people:** The purpose of co-operative society does not restrain to provide social benefits but also to give financial security to the people performing agrarians' activities. So, co-operatives avail finance through agricultural funds and credits to strengthen the economic position of farmers.
- **Improve their standard of living:** Co-operative societies are working hard to provide new and global opportunities to the small scale industries, and artisans help them with adequate credit and skill assistance. This opens up employment opportunities, thus improve their standard of living.
- The co-operative societies work for producers, manufacturers and farmers and help them in eliminating the issues faced due to the lack of raw materials, machinery, and basic input by making it readily available.
- **Impacted the education sector:** Co-operative societies have impacted the education sector in rural areas by encouraging students to attend school. Co-operative schools have their presence scattered across India. Many co-operative societies associate with NGOs and arrange various skill development programs which emphasize on the development of a particular field.
- **Women empowerment:** Another massive role of co-operative society in rural development can be seen as the women empowerment. These societies, through various programs, encourage the rural women to know their rights and empower them through skill development. These societies have worked on the ground level for women development by breaking cultural and social stigmas.
- The objective of co-operative society is not just limited to providing social benefits but also financial benefits to the people performing agrarian activities.

Issues and Challenges faced by Co-operatives in Rural Areas

While cooperatives have played a major role in rural development, they are not free from some challenges. A co-operative society has limited working capital which is insufficient. So the challenge of inadequate funding is real for these societies. Moreover, these societies easily fall victim to the tactics of politicians, as these politicians abuse cooperative societies for vote bank. Besides, there are instances where some members of these societies join the association for personal gain. It defeats the original purpose and creates a rift in the community. The credit movement has been hampered by several problems, which creates barriers in its path to success. Many co-operatives are unable to function efficiently because of the following problems.

- **Inadequate Funds:** Many members don't have the habit of savings. The inability to raise adequate funds leads to their dependency on moneylenders for credit. The co-operative society has a limited working capital that is insufficient to perform any course of action. Having a weak owned fund base, the co-operative society borrowing from the central financing agency gets considerably constrained. Therefore, lack of resources and funds stands as a barrier in the way of meeting the credit requirements of indigents.
- **Managerial Problems:** Management lack professionalism while sometimes mismanagement leads to failure. Many co-operatives in India are victims of various scams & frauds.
- **Competition from private agency:** There is competition from private credit providers, such as moneylenders, Jamindars & Traders etc.
- **Lack of government support:** -Government doesn't take much interest to make co-operative credit financially strong. Also the lack of proper supervision by government leads to inefficiency and corrupt practices in co-operative credit societies.
- **Poor response & Co-operation from people:** Many people in India are illiterate. There are not many facilities available today. Even after much efforts of awareness about the co-op credit society, there is poor response from the people.
- **Lack of motivation:** Most of the time workers working for co-operative credit society are not properly motivated. They are not paid properly, also they are illtreated. This lack of motivation leads to inefficient functioning and finally resulting in non-co-operation from workers.
- **Poor performance:** Performance of co-operative societies in India is not satisfactory. Dispute between management and workers, excessive government interference, huge government grants & equity participation leads to poor performance. As a result of this most co-operatives in India are financially less viable.
- **Lack of professionalism in Management:** Competition poses a major threat to co-operatives that is used for thriving on government conferred privileges including monopolistic status, huge grant & subsidies. One of the main reasons is the lack of finance that would be useful to attract professional managers. Most of the cooperatives from rural areas can't afford to hire professional managers.
- **Excessive government control & political interference:** - Co-operative was dragged into the party politics when they reported about the unprincipled politician who began to see them as vehicles for political mobilization and to fill vote banks.

- **Lack of good leadership:** Good leadership is a pre-requisite not only for creating a co-operatives but also for providing a vision, inspiration and guidance for both the members and the management so as the enable the co-operatives to achieve its purpose. Every co-op. needs an honest, skilled, energetic & dedicated leader who should be preferably drawn from the cardinal stakeholder. It is unrealistic to expect a good leader to spend his time & energy for an organization without any compensation.
- **Availability of Agricultural Loans Only:** Even after aggressively participating in the progression of rural areas, co-operative societies fail to offer financial support to every department. The credit services of co-operative society are limited to agricultural operations. Credit societies usually overlook the other financial needs of farmers. The farmers plead to co-operatives to address different credit requirements as well, which leads to a reason for dispute amid them.
- **Political Intrusion:** The biggest problem of co-operative society is that they become the victim of politicians' tactics. The politicians misuse co-operatives for their advantage and to inflate their vote bank. They clench onto the co-operative society like a leech, which affects the productivity of co-operatives.
- **Mixed Intentions:** It happens in several instances that some members of co-operative society join the association for personal gains. It not only violates the original goal of mutual help but also creates a clash between private interests and the interest of the co-operatives that ultimately divert their way to attaining a higher economy in India through rural development.

II. Summary and Conclusion

The study shows that the co-operatives have played an important role in promoting agricultural and rural development in India, particularly in the areas of credit, processing, and marketing. Dairy co-operatives are a good example of co-operatives promoting and sustaining rural development. The rural sector needs to develop as a major GDP contributor of India as the scarcity of resources in rural areas affects the development of the entire nation. Cooperatives cover about 95 percent of villages in India, and are therefore a critical part of expanding the overall economy. The role of cooperatives in rural development is much more important than we think. They enable individuals and businesses to become financially independent, and they also help run small and medium enterprises that are the backbone of a nation's economy. Despite facing such challenges, co-operative societies are playing such a huge role in the development of rural areas of the country. In this connection, cooperatives need to explore other non-conventional ways to raise the resources required for their operations & meeting their working capital requirement. Cooperative needs to train its staff for better performance. To protect cooperatives from misappropriation of funds, elected leaders should be adequately compensated for their services, regular audit by an independent and reputable authority is necessary. Co-operative societies must earn profit to serve their members. There is a major need for better human resource practices and better feedback from people. Therefore, the role of cooperatives will be helpful for the success of rural areas in the future.

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