

Why cooperative societies are languishing

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Lack of trust, multiple controls and bureaucratic interference have been the bane of coops

The new Ministry of Cooperation is supposed to oversee the Central Registrar of Cooperative Societies to regulate and control Multi-State Cooperative Societies (MSCSs). One of the basic principles of collective action is to let the people decide the rules of the game without being influenced or captured by third-party.

Nobel Laureate Elinor Ostrom names the principle as ‘Minimal Recognition of Rights to Organise’, meaning the rights of users to devise their own institutions are not challenged by external governmental authorities. In this regard, it is questionable how the central regulation and control would help cooperation in general.

MSCSs are formed to ease the operation of collectives throughout the country. They are registered under Multi-State Cooperative Societies Act, 2002. Otherwise, cooperatives are formed under the respective State Cooperative Societies Act. But to operate throughout the country it is not necessary to become MSCS. The best example is Gujarat Milk Marketing Federation Ltd (GCMMF). It markets milk products throughout the country under the popular brand Amul. It connects a farmer producer of a village to the city dweller in some other part of the country through a three-tier structure with Village Dairy Cooperative Societies at the lowest level. Since 2011, GCMMF has been collecting milk from other States as well.

Economies of scale

The three-tier structure, also known as Amul model of cooperatives, connects the buyer and producer. It achieves efficiency through economies of scale. Every farmer owns the organisation and has voting rights, which ensures fairness and equity. This structure ensures stable price and share of profit as bonus to farmers.

The federations compete in the market with private players, ranging from local milkmen to large corporates like Nestle. It is competitive within the realm of Gujarat Cooperative Societies Act only.

On the contrary, in spite of their potential, MSCSs are facing issues regarding trust, which is the very basis of cooperation. The MSCSs were, therefore, brought under the Prevention of Money Laundering Act, 2002 in 2018. All urban and MSCS banks were brought under the radar of Reserve Bank of India in 2020.

These developments bring the cooperatives under multiple controls from above. Monitoring is one of the important institutional function in a collective organisation. But if monitored from much above, then the transaction cost (managerial cost) of monitoring becomes high. Further, if monitoring is difficult, then it may lead to errors in judgment. As a result, those flouting rules may remain unnoticed and those not erring may be penalised. If that happens, then it would shake the overall trust in the institutional mechanism.

While there are few success stories of cooperatives in India, the failures are one too many. Due to their ineffectiveness, co-operatives do not hold much hope to most of the poor villagers.

One of the reasons for the failure of cooperatives is that the collectives do not cater to the needs of the farmers. If co-operatives are governed by bureaucrats who may not be always aware of the local context and people's expectations, then they cannot play salient role in the lives and livelihoods of people.

The Amul pattern of cooperatives remained salient by providing quality veterinary and other dairy services along with remunerative returns to farmers. The topmost position of GCMMF is held by a farmer representative, away from bureaucratic capture.

New institutions developed with best intentions may not be trusted by people when bureaucratic interference is present. The failure of development of People's Biodiversity Register to record and protect tacit traditional knowledge under the Biodiversity Act (2004) failed as local people could not trust NGOs and bureaucrats. To make institutions trustworthy and operational, the rules should be devised by the people.

Cooperatives are sole institutional structure which can unite efficiency and equity considerations of an economic system. To do so, it needs to be people-centric and governed by people, which is clearly not the case now.

The new Ministry, one hopes, will device rules and policies to promote trust and co-operation, which can empower the poor to compete with large private capital.

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