

## RURAL COOPERATIVES AND THEIR ROLE IN INDIA'S DEVELOPMENT

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### INTERDUCTION

The failure of global markets and neoliberal trade systems to reliably and predictably stimulate local economic growth and development, or improve quality of life has led to a renewed interest in cooperatives as a possible solution, particularly within in rural economies and among marginalized populations. Interest from academic, state, and development organizations has revealed a wide range of application globally across various sectors each with its own mandate and associated success rate. The ability of cooperatives to bend to different contexts and scales— from grassroots organizations to a state imposed system to privately managed professional system— makes them a curious development tool. Their reputation often comes across as a little too polished, pointing towards a history of significant social, economic, and cultural contributions, yet the importance of context is regularly understated and cooperatives in rural settings continue to be understudied. As such their implementation and endurance warrant closer attention in order to determine the effectiveness in stimulating development.

This paper seeks to investigate first, how the term cooperative is used and the conditions in which it thrives, as well as the barriers and structural limitations that impede cooperatives and its members from succeeding in their development goals. Given the enormous scope, this paper will primarily focus on the rural and agricultural context. Thanks in part to the support of state and international development organizations, India plays host to numerous cooperative organizations across a range of sectors, though most notably finance and agriculture, boasting upwards of 239 million individual members across the country. It is this immense uptake in combination with the country's high levels of poverty, particularly within rural spaces, that makes India an opportune case study to explore this subject. Cases within the dairy and micro-finance sector will be used to demonstrate the benefits and barriers to employing the cooperative organizational structure in rural settings in the pursuit of poverty alleviation and community economic development.

## THE COOPERATIVE AS AN ORGANIZATIONAL STRUCTURE

A cooperative is an organizational structure, related to that of a social enterprise, where members collectively meet their economic, social, political, and/or cultural needs. Cooperative organizational structures have a long history within traditional economies and collective action, and as such the definition and use of the term cooperative varies by context, including country, type, size, and sector. Even so, cooperatives are most often framed in a positive light, generally presented as community-oriented and -owned structures, although they are just as likely to be managed by an external body or superimposed onto sectors or communities by states. Indeed, it has been the opinion of many government and development organizations that installing cooperative, membership-based organizations is a fundamental part of enabling development as they are able to resolve market failures while leveraging community capital, particularly within hard to reach rural or marginalized populations.

This logic follows the 2008 global economic crisis which “reinforced the confidence that cooperatives could play an important role in reconfiguring the world economy” after revealing their tendency towards resiliency and amenability to decentralized government systems. It is the organizational structure itself that is heralded as a silver bullet with the potential to effectively mobilize local resources and capital. Cooperatives are assumed to balance the needs of a given community with the global economy at large, weaving together the threads between supply, demand, and capital investment jointly needed to spur on economic development and reduce poverty.

Cooperatives are for this reason widely considered to be inclusive and moderate organizations, able to administer and adapt policy via rooted community actors. State, academic, and international development organizations played a major role in the ubiquity of this organizational type, each promoting its uptake most notably in the 1960s and again during resurgence in the 2000s. Thanks to these efforts, cooperatives can be found in nearly all countries and sectors of the economy, though evidence shows that cooperatives “imposed from above by the state are less likely to succeed than cooperatives that grow from below through local initiative.

The cooperative organizational type claims numerous benefits for their members and beneficiaries, which often extends to the surrounding community or region, owing to the embedded coordinated and democratic decision-making and shared access to resource. While the incentive for membership is noted to be primarily economic, social and political benefits are also well recognized. As platforms for joint decision-making, they are credited with creating the conditions for a democratic and egalitarian environment. Through general assembly, producers are able to advocate for themselves, have access to information, and contribute to policy at local, regional and national levels, and the interests of minority groups can be heard.

Membership structure and strength, particularly within informal and rural cooperatives, generally relies upon pre-existing relationships within communities, the dynamics of which may be recreated or else challenged within the enterprise. The role and social relationships, which can include familial relationships, provide the platform of trust and support that allow for income and resource pooling. This foundation is thought to contribute to managing the tension between social and business mandates; as is formalizing a plan of shared vision and mission, or taking steps to secure external management with expertise supply chains and marketing, or opting for a board of directors. Membership should operate on a basis of common principles, informal information

exchanges, knowledge of rights, acceptance of responsibilities, opportunities to voice opinions and concerns, and any supplementary formalized components must function as a bridge between the members and the association.

There exists a need to reaffirm these qualities in order to manage changing social and economic relationships by breaking down hierarchies that may exist culturally outside of the cooperative so that it functions as democratically as possible. This includes balancing the needs and perspectives of and between members, the board, staff, representatives, any governing body, as well as with internal and external stakeholders. Cooperatives are more likely to be effective and resilient if the demands made on individual members are limited and the discrepancies between members, such as differing access to technology, encourage cooperation over privatization, competition, or monopolization.

If successful, members may independently or collectively experience higher efficiency and productivity manifested in economic boosts such as higher prices and demand for their goods, reduced risk, and lower purchasing, production, and transaction costs. These benefits most often take place in relation to the improved entry to and participation within lucrative markets, access to credit and pooled resources, increased bargaining power and political representation, higher quality goods, incentivized innovation and/or upgrading of systems, as well as an overall improved flow of information. Even when there is no evidence of economic profitability, competitiveness, or improved social cohesion, the presence of cooperatives have demonstrably contributed to “food security, inclusive finance and poverty reduction” as recognized by United Nations.

Though the literature is not specific to rural settings, the range of necessary characteristics presented points to the numerous areas of tension and fragility inherent within the cooperative structure. Characteristics, such as size and scale, are further shown to impact the success of cooperatives through internal cohesion, information exchange, and ability to grow (Bijman et al, 2016). However, the nature of cooperatives and their foundation on membership characteristics means they are vulnerable not only to functioning at a suboptimal level, but also to “elite-capture, corruption, authoritarian practices, segregation, conflicts and other undesirable social practices”, highly influenced by their political and cultural context including educational levels. In many rural and remote regions, innumeracy and illiteracy remain serious barriers to participation and productivity, as does knowledge of product and market cycles.

Continuity of inclusivity within membership is similarly revealed as another point of vulnerability as it relates to the structure and process of internal governance and commitment levels. Gender can be a considerable concern as it relates to decision-making, recognition, and participation as labour preformed by women may be undervalued or unobserved, and she may be unable to participate fully in decision-making. Democratic decision-making itself may be disregarded as well if it is found to inhibit growth or efficiency (Lim et al, 2015).

Further, if profitability is the bottom line, cooperatives may be selective in their membership and may increasingly opt to restrict the movement of benefits extending to the wider community or region. Further, if a cooperative proves profitable and scales up past the initial targeted market, the new geographic context may weaken links to the local community as cooperatives are pushed “to pursue maximum economic gain at the expense of non-economic considerations, thus eroding the ‘cooperative differen. Being overly commercially

oriented may pose additional challenges, as standards such as quantity and quality might be impractical for small-scale producers to regularly comply with.

It has been documented that cooperatives may thus unintentionally invite conflict into rural communities by representing or reinforcing negative, harmful, and even exclusionary conditions, particularly in circumstances of state enforcement or if external management is overly restrictive. Falling victim to any combination of these potential threats, as many cooperatives have before, has resulted in many failed enterprises, instances of diminished sectors, and reduced social capital, to the extent some countries no longer promoting the cooperative organizational structure.

## **COOPERATIVES IN THE AGRICULTURAL SECTOR**

In spite of the precarity involved with the cooperative structure, over the last decade, agricultural producers and organizations have attracted a lot of attention within the international development sphere as one of the most common sectors where cooperatives thrive. Indeed, the World Bank's 2013 estimates suggest that 20% of the world's farms are organized through formal cooperative structures, with a much higher estimate if membership of informal organizations is included. This translates to one billion individual cooperative members in 94 countries, employing 100 million people globally for all producer organizations. In many instances, cooperatives remain "significant for rural livelihoods" in spite of a changing, global economy and access to non-agricultural employment. Traditionally, their function was to connect farmers with credit, resources, and technical assistance, but in many cases have scaled upwards in order to strengthen their market position and act competitively within output markets often coordinating at a regional level that provides farmers and producers "greater control over marketing channels and retain more added values.

Agricultural cooperatives face similar challenges in cohesion, longevity, and growth as in other sectors. Often in rural and agricultural regions, social capital is thought of to be high—which may not be the case and if so, may be more difficult to develop—but this context provides its own barriers. Sometimes these barriers present as behavioural in nature, namely cultural conservatism, opportunism, independence, with possible economic naiveté and inexperience with global markets in which case there is "difficulty in attracting managers to peripheral locations and the absence of marketing expertise and skills. When these characteristics shape the social foundations within cooperatives, while relationships may be strengthened, their economic opportunities may diminish due to the potential of self-isolation, lack of innovation or connection with external markets. Product has also been noted to impact the success of an agricultural cooperative, with profitability and importance to the local economy as significant variables in determining a cooperatives ability to overcome organizational problems and external pressures.

## **INDIA'S COOPERATIVES ROLE IN DEVELOPMENT**

India provides an interesting context to evaluate this organizational type as their cooperatives are primarily situated in rural spaces and engage in agricultural work, and thereby loosely correspond to the benefits and barriers as outlined above. The World Bank relays that 66.40% of India's population lives in rural regions, though comparatively 80% of India's poor live these areas with 25% of that population experiencing poverty (World Bank, 2018; World Bank, 2016). Cooperatives are a useful tool for implementing development policy as they are

found in 97% of Indian villages, and may be run exclusively through membership structures, or assisted by private firms or NGOs, engage in partnerships, or else may be managed by the government entirely. Cooperatives credited with being particularly well suited for poverty alleviation having already played a considerable role in developing the economy. (EDUCATION, GDP, POPULATION ETC.) Research has identified that prominent Indian cooperatives have done this by successfully embodied an emphasis on social capital, developing community assets, and enabled participation as well as leveraging legal and financial incentives provided by the state .

Cooperative organizations have extensively been used by the state as a tool for promoting rural development, starting with the Cooperative Credit Society Act enacted in 1904 that served as the groundwork for creating cooperative structures. The idea was initially taken from British example and applied by Sir Frederick Nicholson who recommended establishing a system of agricultural cooperative banks and credit, to great effect. The Government of India heavily promoted cooperatives in the 1950s after Independence, and it is this entrenched tradition that undergirds the continued provision of legislative, financial, technical, and administrative aid. This support is administered both directly and indirectly through upper and lower tier governance structures as organizing small-scale agriculture into formal cooperative structures has shown great potential in redefining rural development, social structures, and political potential (Hatti & Rundquist, 1993). State imposed or managed cooperatives have been shown to be less innovative and effective at meeting development targets.

Agricultural cooperatives in India have been most successful when they both formalized yet voluntary, providing alternatives to exploitative moneylenders—to the extent that interest rate has since fallen—through access to banks, they operate in a democratic fashion in line with decentralized decision making, and members self-impose limits to personal profits (Basu & Chakraborty, 2008). A prominent example of the success is India's cooperative dairy program which has been found to produce higher levels of efficiency and profits for its members (Bijman et al, 2016). Born out of community struggle against colonial monopoly of the dairy sector, after which the Kheda District Milk Producers Cooperative Union was formed, and then replicated as a national model for dairy development throughout India (Basu & Chakraborty, 2008). This move was supported nationally, as well as by the World Bank who provided technical and financial support up until 1996 (Candler & Kumar, 1998).

This legacy of dairy cooperatives lives on, with estimates of 12.3 million members, who produced 22% of the milk produced in India in 2005. Now, more than 50% of India's cooperatives interact with the agricultural sector through production, processing, credit societies, or marketing together meeting local economic and social development goals “by linking dairy farmers to urban markets and providing them a fair price for high-quality milk, as well as enabling the formation of collective spaces for social and political interaction through its cooperatives combines advantages of public good with private ownership.

They are also competitive within the financial sector, as one of main partners of Indian Banking systems though with a more extensive network in rural regions. These cooperatives are able to operate by providing micro-credit, which in turn has played a crucial role in rural development. Numerous cooperative credit and banking organizations have emerged in association with agricultural practices. According to the scale of production, they offer short term, production, long-term, or investment credit, which are locally handled by the

Primary Agriculture Credit Societies, Central Co-operative Banks at the district level, or State Co-operative Banks at the State level.

In spite of their numerous successes, Indian cooperatives face similar barriers to productivity and growth as previously noted. The rigid and highly stratified social structure in combination with state interference may inhibit the success of cooperatives, though thus far resistance by elite factions has been avoided perhaps due to the focus on an economic development over social mobility. Outside of dairy cooperatives, very few are noted to function at a high standard, with limited infrastructure and low interaction with external markets being inhibiting factors. Inclusivity on the basis of gender has also been found lacking. Though women make up 25% of the membership, much of their labour is ill reported, reflecting the disconnect between empowerment and development. This is particularly evident within dairy cooperatives, a sector traditionally associated with women. Cooperatives contribute little to the social, political, or cultural development, and instead represent a boost of economic development within rural spaces.

## CONCLUSION

Poverty alleviation is a steep mountain to climb, steeper still in rural communities, and it sometimes appears that we lack the tools to. Cooperatives, as they relate to rural and primarily community application, are sometimes able to effectively straddle small-scale production and community organizing with state policy, international development theory, and globalized markets. This ability to scale and contextualize paves a path for future research that may look specifically into how best to connect rural communities to self-managed economic development

As well as guide states in providing necessary support without impairing internal governance. India, with its prevalence of cooperatives, some of which have celebrated great success in pursuing their development goals, provides a wonderful backdrop to explore the use of cooperatives. The importance of state led support and guidance is evident, as is community control

Not without shortcomings, Indian cooperatives may benefit from remedying exclusionary barriers, and seek to apply cooperatives to other sectors in order to move more of the population out of poverty.

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