

Chapter - 1

Introduction

India is a country of diversity. This is true not only for geography, culture and religions but also for business models. Apart from capitalism and socialism, the country has a large number of business enterprises under Co-operative sector. After independence, through the successive five year plans, the Government policies towards Co-operative sector evolved in such a way that now it has carved an important place for Co-operatives in business India.

Small Co-operative in a village may be like a shop, while Co-operative like IFFCO & AMUL have big, complex & multi-location plants. Co-operatives may have difference in composition, activities and size, but one thing is common in all Co-operatives, "A Co-operative society promotes humanization".

A Co-operative business enterprise is generally established to bring together economic resources from members, to put the same for collective economic activities and share the fruits of common efforts among the stakeholders. Some of the States such as Maharashtra, Gujarat, AP, Karnataka and Tamilnadu have sizable business activities, particularly in rural areas, under Co-operatives. The areas covered include agriculture, finance, marketing and distribution, processing, banking, etc.

Meaning of Co-operative Society

A Co-operative Society is a special type of business organisation different from other forms of organisation. The term 'co-operation' is derived from the Latin word "co-operari", where the word "co" means 'with' and "perari" means 'to work'. Thus, 'co-operation' means working together. So those who want to work together with some common economic objective can form a society which is termed as "Co-operative Society". It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as mutual help. The main objective is to provide support to the members. Nobody joins a co-operative society to earn profit. People come forward as a group, pool their individual resources, utilize them in the best possible manner and derive some common benefit out of it. It is an association of persons who voluntarily pool their resources for utilizing them for the mutual welfare of members itself. Co-operative Society is formed for the promotion of thrift, self-help and mutual assistance of the members.

A co-operative society means, a society registered or deemed to be registered under any law relating to co-operative societies for the time being in force in any State or under the Central Act.

As per Section 2(19) of the Income-tax Act, 1961, 'Co-operative Society' means a co-operative society officially registered under:

- the Co-operative Societies Act, 1912; or
- any other declared law for the time being in force in any State for the registration of co-operative societies.

According to Gandhiji, co-operation was required for the formation of a socialist society and total decentralization of power. Co-operation, he believed, was one of the most crucial ways to empower people.

Section 4 of the Co-operative Societies Act, 1912 defines co-operatives as "a society which has in its objectives the promotion of economic interests of its members in accordance with co-operative principles."

Following characteristics emerge from the definition:

- (a) Open membership.
- (b) Voluntary Association.
- (c) State Control.
- (d) Source of Finance – usually from members themselves.
- (e) Democratic Management.
- (f) Limited interest in Capital.
- (g) Distribution of surplus.
- (h) Self-help through mutual co-operation.

Origins of co-operative movement in India

Co-operative technique in our country is as old human history. Kautilya's Arthashastra maintains that during the days of Mauryan Empire, a village functioned as a social co-operative unit. Works of public utility such as temples, public halls, nesting places, dams, etc. were constructed by the villagers as a common obligation. Autonomous guides of workmen and industrial units existed where work was carried on in a co-operative manner.

During the British Rule in India, Nicholson, a British Officer in India suggested 'Find Raiffersen in India', i.e., introduce Raiffersen model of German agricultural credit Co-operatives in India. As a follow-up of that recommendation, the first Co-operative Societies Act of 1904 was enacted to enable formation of "agricultural credit co-operatives" in villages in India under Government sponsorship. With the enactment of 1904 Act, Co-operatives were to get a direct legal identity as every agricultural Co-operative was to be registered under that Act only. The 1904 Co-operative Societies Act was repealed by 1912 Co-operative Societies Act which provided for formation of Co-operative Societies other than credit. Under 1919, Administrative Reforms, Co-operatives was made a provincial subject making each province responsible for Co-operative development.

In 1942, the Government of India enacted the Multi-Unit Co-operative Societies Act, 1942 with an object to cover societies whose operations are

extended to more than one State. Armed with an experience of 42 years in the working of Multi-Unit Co-operative Societies and the Multi-Unit Co-operative Societies Act, 1942, the Central Government enacted a comprehensive Act known as multi-State Co-operative Societies Act, 1984, repealing the Act of 1942.

Based on the recommendation of the Mirdha Committee and the “Model Co-operative Societies Act”, the Government of India enacted the Multi-State Co-operative Societies Act, 2002 which provided for democratic and autonomous working of the Co-operatives. The Multi-State Co-operative Societies Act, 2002 came into force with effect from 19.08.2002.

Objectives of Co-operative Societies

The main objective of a Co-operative is to serve members’ needs, and not profit maximization. For example, A housing Co-operative is neither a public nor a profit seeking organisation. Its principal objective is to eliminate economic exploitation as it is controlled by members only. The maintenance of the estate is also in the hands of members, which leads to maintenance at lesser expenses and in a better way. Co-operative is more responsive to user’s needs than those supplied through any other sub-system.

The following are the primary objectives of a co-operative society:

- (a) Promotion of co-operative movement.
- (b) Object was to encourage and promote the growth of co-operative societies.
- (c) Render service, not for profit.
- (d) Mutual help, not competition.
- (e) Self-help, not dependence.

Advantages of Co-operatives Society

The Co-operative legislation and other legislation have been enacted to promote and support Co-operatives and its members. The legal framework has been advantageous, directly & indirectly for the Co-operative societies’ activities, economic benefits to the Co-operative & members of the Co-operative and brings social justice to the members of Co-operatives. Industrial policy till 1991, protected Co-operatives by offering them the list of items only reserved for Co-operatives. Following are the advantages:

(i) It is easy to form a co-operative society

Formation of a Co-operative society is very easy compared to a joint stock company. Any ten or more adults can voluntarily form an association and get it registered with the Registrar of Co-operative Societies.

(ii) Democratic Management

Co-operatives promote equality, the Co-operative Societies Act provides equal voting irrespective of disproportionate share held by

members. However, a member cannot hold the shares more than the prescribed limits.

(iii) Government supports such societies

Both Central and State Governments provide all kinds of help to the Co-operative societies. Such help may be provided in the form of capital contribution, loans at low rates of interest, exemption in tax, subsidies in repayment of loans, etc. There are several schemes framed to help Co-operatives, while Co-operatives are used as vehicle to implement government schemes.

(iv) It discourages monopoly and increases social welfare

Co-operatives, as economic enterprises and as self-help organizations, play a meaningful role in uplifting the socio-economic conditions of their members and their local communities. With their concern for their members and communities, they represent a model of economic enterprise that places high regard for democratic and human values and respect for the environment.

(v) It can reduce the defects of capitalism by removing middlemen

Through Co-operatives the members or consumers control their own supplies and thus, middlemen's profit is eliminated.

(vi) It has perpetual succession and is not affected by death, lunacy, or insolvency of any member

A Co-operative society has a fairly stable life and it continues to exist for a long period of time. Its existence is not affected by the death, insolvency, lunacy or resignation of any of its members. Co-operative society is juristic person and as life separate than its members.

(vii) Usually, co-operative societies follow the principle of 'cash and carry'. Hence, they have no bad debts.

(viii) The members can also join and leave anytime they want.

(ix) Further, the liability of the members is limited to the extent of the capital contributed.

(x) Also, the primary principle of such a society is being mutually helpful.

(xi) Provides an effective means of pooling resources. Further, the co-operative can use it for constructive purposes.

(xii) No discrimination based on caste, creed, religion, income, age, sex, etc. A person competent to contract can become member irrespective of any caste or creed.

(xiii) Protects individual members from exploitations. Credit Co-operatives were born out of prevention of exploitation of poor farmers from money lenders.

- (xiv) Share or interest of Co-operative is not liable to court attachment. Subject to the provisions of the Act, the share or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a Court.
- (xv) Relief in the income-tax payable in respect of the profits of the Co-operative society, or of the dividends or other payments received by the members of the society on account of profits.
- (xvi) Relief in the payment of stamp duty or such fees under any law for the time being in force, instruments executed by or on behalf of a registered Co-operative society or by an officer or member and relating to the business of such Co-operative society.
- (xvii) Restrictions on loan and borrowing protect Co-operatives from unnecessary exposure of bankruptcy; a Co-operative society cannot lend money beyond certain limit to a single member. Society is prohibited to lend money to a person who is not member of the Co-operative society; however, the Registrar can permit society to lend a non-member.
- (xviii) As per provisions of the Co-operative Societies Act, no part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members, unless at least one-fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made among the members to such extent and under such conditions as may be prescribed by the rules or by-laws.
- (xix) Co-operatives have political and religious neutrality. The Rochdale Society added this principle in response to the experience of some politically motivated Co-operatives which were frequently boycotted by consumer groups protesting their controversial stances.
- (xx) Co-operative enterprises are promoting education. As per provision of Co-operative Law, the Registrar may allow Co-operatives to set aside monies for education, Co-operatives are promoting education.

Disadvantages of a Co-operative Society

- (i) Usually, weaker sections of the society launch co-operatives. Hence, the resources of co-operatives are relatively limited.
- (ii) Due to the limited resources, most societies cannot hire efficient managers.
- (iii) In many co-operative societies, the members come from different sections of the society. Hence, there is a chance of a lack of harmony among them.

- (iv) Usually, everybody's responsibility is nobody's responsibility. Therefore, members of a co-operative society lack the motivation to work more.
- (v) Since co-operative societies avoid credit-based transactions, they miss out on consumers from down-trodden societies who need credit facilities.
- (vi) Since the government regulates a co-operative society, it is governed more on political considerations rather than on the lines of business.
- (vii) It is difficult to maintain business secrecy.

Where Co-operative Societies can be registered

Co-operative Societies can be registered under any of the following three laws:

- (i) Co-operative Societies Acts of the respective States.
- (ii) Liberal Co-operative Acts, enacted in certain States (in addition to the Co-operative Societies Acts).
- (iii) Multi-State Co-operative Societies Act, 2002 - enacted by Central Government to serve the interests of co-operative societies working in more than one State.

Co-operative society is not a constitutional body

A Co-operative Society is not a constitutional body. It is a voluntary association of individuals having common needs who join hands for the achievement of common economic interests.

Legal Status

- Co-operative Society is assessed in the status of AOP.
- Normally, rate of tax on taxable income for co-operative societies are specified in Finance Act, which are different from AOP.
- The Income Tax leviable in the case of Co-operative Societies had been specified under Paragraph B of Part III of the First Schedule to the Finance Act of the relevant Assessment Year.

Difference between society with limited liabilities and unlimited liabilities

"Society with limited liability" means a society having the liability of its members limited by its bye-laws. In this type of society the liability of a member does not exceed the amount (if any) unpaid on shares for which he or his estate is liable. "Society with unlimited liability" means a society, the members of which are, in the event of its being wound up, jointly and severally liable for and in respect of its obligations and to contribute to any deficiency in the assets of the society.

Difference between a Co-operative Society and a Society registered under Societies Registration Act

A society is essentially an association of seven or more people registered under the Societies Registration Act, 1860 - which is an all India Act (however, many States, have variants on the Act) and which has as a stated purpose

some charitable or benevolent purpose either in regards to the public at-large or in regards to the common interest of the members and which operates as nearly as possible at cost. A registered society is a legal entity with certain limitations. However, members of a Co-operative society get together to promote the economic interest of their members. They have to submit viable business plan of the Co-operative before registration. These two prerequisites are not present in a society.

Institutions working for the development of co-operative movement in India

Following are the important agencies working for promotion of co-operative movement in India:

- (i) National Co-operative Development Corporation (N.C.D.C.),
- (ii) National Co-operative Union of India (N.C.U.I.),
- (iii) National Agricultural Co-operative Marketing Federation of India (N.A.F.E.D.),
- (iv) Tribal Co-operative marketing development federation of India Limited,
- (v) Indian Farmers Fertiliser Co-operative Limited (I.F.F.C.O.),
- (vi) Krishak Bharati Co-operative Limited (K.R.I.B.H.C.O.), National Bank for Agriculture and Rural Development (NABARD),
- (vii) National Federation of State Co-operative Banks Limited (N.A.F.S.C.O.B.),
- (viii) Gujarat Co-operatives Milk Marketing Federation Limited (A.M.U.L.),
- (ix) National Dairy Development Board (N.D.D.B.) and
- (x) Vaikunth Mehta National Institute of Co-operative Management..

List of National Co-operative Societies [The Second Schedule of The Multi-State Co-operative Societies Act, 2002]

The Second Schedule [See sections 3(r) and 116]

1. National Co-operative Land Development Banks Federation Limited, Mumbai
2. National Federation of State Co-operative Banks Limited, Mumbai
3. National Co-operative Union of India Limited, New Delhi
4. National Agricultural Co-operative Marketing Federation of India Limited, New Delhi
5. National Co-operative Consumers' Federation of India Limited, New Delhi
6. National Federation of Co-operative Sugar Factories Limited, New Delhi
7. National Federation of Industrial Co-operative Limited, New Delhi
8. National Co-operative Housing Federation Limited, New Delhi

9. Indian Farmers' Fertiliser Co-operative Limited, New Delhi
10. All India Federation of Co-operative Spinning Mills Limited, Mumbai
11. All India Industrial Co-operative Banks' Federation Limited, Bangalore
12. National Co-operative Dairy Federation of India Limited, Anand
13. Petrofils Co-operative Limited, Vadodara
14. National Heavy Engineering Co-operative Limited, Pune
15. All India Handloom Fabrics Marketing Co-operative Society Limited, New Delhi
16. National Federation of Urban Co-operative Banks and Credit Societies Limited, New Delhi
17. Krishak Bharati Co-operative Limited, New Delhi
18. National Federation of Fishermen's Co-operative Limited, New Delhi
19. National Federation of Labour Co-operative Limited, New Delhi
20. National Co-operative Tobacco Growers' Federation, Anand
21. Tribal Co-operative Marketing Development Federation of India Limited, New Delhi

Difference between Co-operative Society and Company

<i>S. No.</i>	<i>Item</i>	<i>Co-operative Society</i>	<i>Company</i>
1.	Object	Interest of members and community paramount. Basic principle of cooperation	Self-interest either of management or the share holders; profit as motive
2.	Management	Chairperson is elected by the Board of Directors from among members. The Managing Director/Chief executive is appointed by the Board of Directors	Usually, Chairperson/ Managing Director are persons with maximum number of shares in the company
3.	Number of members	In case societies are members of a Multi State Co-operative Society, two societies from different States should sign the application of registration of the society. If a Multi State Co-operative Society is a member then the multi-State Co-operative and a society should sign the application of registration. Minimum number of members should be 50 for a multi State Co-operative society from each State in case of individual membership.	In a public limited company, minimum number of members should be 7 and in a private limited company minimum number of members should be 2

4.	Share Capital	The shares of Co-operative society are not issued to general public by advertisement and can be issued any time. Shares can be withdrawn by member/society as prescribed by rules in their bye-laws.	Shares are issued to general public or by invitation. In a company shares cannot be withdrawn by a share holder.
5.	Share Types	Only equity shares are available	Equity and preferential shares may be issued
6.	Voting Rights	Member of a Co-operative society has right of only one vote, irrespective of the number of shares held of any denomination.	Voting rights depend directly on the holding of shares
7.	Control	The Central registrar of Co-operatives advises in the affairs of a multi State society	Companies are governed by the Company Registrar of the States where its registered office is located
8.	Profit Distribution	Minimum 25% of net profits should be transferred to the General reserve and the maximum dividend cannot exceed 20%	No restrictions on a company
9.	M.R.T.P. Act	Not applicable to Multi State Societies	Applicable
10.	Participation of Workers	Provision for workers' participation in the management through a representative exists	No such provision for workers
11.	Taxes	Co-operatives are exempt from few taxes in some States like stamp duty. Tax rates also vary	No exemptions provided

Phenomenon of growth of co-operatives

The impact of the tax concessions can well be judged from the popularity of the co-operative form which will be borne out from the following record of progress for a period of just over two decades :

S. No.		1950-51	1972-73
1.	Number of societies (in lakhs)	1.81	3.3
2.	Membership of primary societies (in crores)	1.37	6.78
3.	Share capital (Rs. in crores)	45.46	1,051
4.	Working capital (Rs. in crores)	275.35	8,5352

Co-operatives in India [As on 2022]

- India, an agrarian nation, is where the world's largest Co-operative movement laid the foundation.
- Dairies, sugar mills, spinning mills, and other Co-operative enterprises in agriculture are created using the combined resources of farmers who want to process their produce.
- The country has 1,94,195 Co-operative dairy societies and 330 Co-operative sugar mill operations.
- Co-operative sugar mills account for 35% of the sugar produced in the country.
- In banking and finance, Co-operative institutions are spread across rural and urban areas.
- The clearest illustration of credit flow at the local level is the primary agricultural credit societies (PACS) established by farmers associations at the village level.
- These organizations send credit requests to the district central Co-operative banks in advance of a village's need (DCCBs).
- State Co-operative banks sit at the apex of the rural Co-operative lending structure.
- PACs have significantly greater negotiating leverage than one individual farmer presenting his case to a commercial bank because they are a group of farmers.
- There are also Co-operative marketing societies in rural areas and Co-operative housing societies in urban areas.
- Customers' Co-operative societies are one of the several types of Co-operatives in India that work to safeguard the interests of all consumers by making goods affordable.
- These Co-operatives, of which Kendriya Bhandar, Apna Bazar, and Sahkari Bhandar, are prominent examples. Buy goods directly from the producers, thus removing middlemen. It will deliver items at lower costs to consumers.
- Then there are producers' Co-operative groups, which provide access to raw materials, tools, machinery, etc. This preserves the interests of small producers.
- Handloom societies like APPCO, Bayanika, Haryana Handloom, etc, are examples of producers' Co-operative societies.
- Amul is one of the most well-known Co-operative brands in the nation. This was born out of the 36 lakh milk producers in Gujarat. This controls the Gujarat Co-operative Milk Marketing Federation.
- A Co-operative marketing group was created by small producers and manufacturers that were having trouble selling their goods on their own.