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ROLE OF THE COOPERATIVE SECTOR IN INDIA: CHALLENGES AND FUTURE PROSPECTS

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Abstract

The cooperative sector in India represents a vital socio-economic paradigm designed to balance capital efficiency with social equity. Originating as a mechanism to mitigate rural indebtedness during the colonial era, cooperatives have evolved into structurally diverse networks spanning agriculture, dairy, banking, housing, and handlooms. By leveraging collective bargaining and grassroots democratic governance, the sector has democratized economic growth, primarily empowering marginalized populations, smallholder farmers, and rural artisans. However, contemporary dynamic constraints—including structural dualism in regulatory oversight, pervasive political interference, financial instability, and slow adoption of modern technology stifle the sector's operational efficiency.

This paper critically explores the legal, institutional, and functional architecture of Indian cooperatives. By examining the transformative impact of the Constitution (Ninety-Seventh Amendment) Act, 2011, and evaluating landmark jurisprudence such as *Union of India v. Rajendra N. Shah* (2021) and *The Bengal Secretariat Cooperative Land Mortgage Bank and Housing Society Ltd. v. Sri Alope Kumar* (2022), this study highlights the evolving boundaries between state control and cooperative autonomy. Ultimately, the paper outlines a forward-looking roadmap emphasizing digitalization, professionalized management, and strategic public-private-cooperative partnerships (PPCPs) to foster a resilient, transparent, and globally competitive cooperative landscape ("Sahakar-se-Samridhi").

Keywords: Cooperative Governance, 97th Constitutional Amendment, Autonomy, Agricultural Credit, Financial Malfeasance, Digitization, Public-Private-Cooperative Partnerships (PPCPs).

1. Introduction

The cooperative movement in India acts as an institutional bridge between individual vulnerability and systemic market forces. Framed around principles of voluntary membership, democratic control, and mutual self-help, cooperatives are unique socio-legal entities that prioritize community welfare over capital accumulation. Within India's developing economy, where wealth disparities and rural-urban divides present persistent challenges, the cooperative framework functions as an instrument of economic democracy.

Historically established to liberate agrarian communities from the exploitative cycles of local moneylenders, the modern cooperative layout spans the entire Indian economy. It extends from Primary Agricultural Credit Societies (PACS) at the grassroots level to multi-state networks like the Indian Farmers Fertiliser Cooperative (IFFCO) and the Gujarat Cooperative Milk Marketing Federation (AMUL).¹

Despite their massive socio-economic footprint, cooperatives operate within a complex legal framework. Striking a functional balance between external state regulation and internal organizational autonomy remains a persistent challenge. While the Constitution (Ninety-Seventh Amendment) Act, 2011, sought to institutionalize democratic professionalism, it triggered complex federal disputes regarding the legislative domains of the Union and State governments.

This research paper examines the structural role of India's cooperative sector, identifies its deep-seated challenges, reviews foundational and contemporary judicial precedents, and assesses strategic mechanisms required to navigate an increasingly globalized and digital marketplace.

2. Historical Evolution and Constitutional Framework

2.1 Colonial Genesis to Post-Independence Expansion

The formal institutionalization of cooperatives in India began with the enactment of the **Cooperative Credit Societies Act, 1904**, following recommendations by the Indian Famine Commission of 1901. This initial legislation focused exclusively on credit societies to alleviate rural debt. Recognizing functional limitations, the colonial government passed the

¹ G.R. Madan, *Co-operative Movement in India* 109 (Mittal Publications, New Delhi, 2007).

Cooperative Societies Act, 1912, which expanded the legal scope to non-credit societies, central banking unions, and provincial federations. Under the **Government of India Act, 1919**, "Cooperatives" were transferred to the provinces, establishing the historical precedent for treating the sector primarily as a state subject.

Post-independence, Indian planners integrated cooperatives directly into national development strategies. The First Five-Year Plan recognized cooperatives as indispensable vehicles for community development and land reform. Later, the **All-India Rural Credit Survey Committee (1954)** recommended formal state partnerships, including state equity participation in cooperative networks to scale up rural credit distribution. This led to a substantial network expansion, though it inadvertently opened the door to increased state administrative interference.²

2.2 The 97th Constitutional Amendment and the Federal Imperative

To protect cooperatives from political interference and administrative stagnation, Parliament enacted the **Constitution (Ninety-Seventh Amendment) Act, 2011**, which introduced significant changes to the constitutional status of cooperatives:

- **Article 19(1)(c)**: Elevated the right to form cooperative societies to a Fundamental Right.
- **Article 43B**: Inserted into the Directive Principles of State Policy, mandating that the State endeavor to promote voluntary formation, autonomous functioning, democratic control, and professional management of cooperative societies.
- **Part IXB (Articles 243ZH to 243ZT)**: Introduced a strict constitutional code specifying structural parameters, including fixed tenures for elected boards, reservation policies for women and marginalized communities, mandatory independent audits, and limits on the suspension of elected governing committees.

However, because "Cooperative Societies" is explicitly listed under **Entry 32 of List II (State List)** of the Seventh Schedule, the amendment faced rapid legal challenges for allegedly encroaching upon the exclusive legislative jurisdiction of State legislatures without receiving the necessary state ratifications required under Article 368(2).

² S.K. Verma and Raman Mittal (eds.), *Intellectual Property Rights: A Global Vision* 38 (ILI, Delhi, 2004).

3. Socio-Economic Contributions of the Cooperative Sector

The cooperative model has driven structural transformations across several key sectors of the Indian economy:

3.1 Agrarian Credit and Input Distribution

The cooperative credit architecture follows a three-tier structure: **Primary Agricultural Credit Societies (PACS)** at the village level, **District Central Cooperative Banks (DCCBs)** at the district level, and **State Cooperative Banks (StCBs)** at the apex level. This network provides affordable short-term and medium-term crop loans to smallholder and marginal farmers, mitigating their reliance on unorganized, exploitative credit sources. Beyond financial credit, organizations like IFFCO and KRIBHCO dominate the manufacture and supply of chemical fertilizers and agricultural inputs, anchoring domestic food security initiatives.

3.2 The Dairy Revolution and Rural Livelihoods

The "Anand Pattern," pioneered by the Gujarat Cooperative Milk Marketing Federation (AMUL), revolutionized smallholder livestock production. By eliminating predatory intermediaries, the three-tier dairy cooperative structure—comprising village-level dairy cooperative societies, district unions, and state federations—ensures that a substantial share of consumer spend flows directly back to rural producers. This model successfully transformed India into the world's largest milk producer, providing resilient, non-agrarian income streams for millions of rural women.³

3.3 Inclusive Growth and Economic Democracy

By operating on a one-member, one-vote basis, cooperatives dilute the concentration of economic power. They provide a structural platform where small-scale producers, traditional artisans, and agricultural laborers can pool resources to achieve economies of scale, enhancing their market competitiveness against large corporate entities.

4. Operational, Financial, and Legal Challenges

4.1 Governance Deficits and Institutional Politicization

Many cooperative societies suffer from deep-seated governance deficits. Bureaucratic capture

³ All-India Rural Credit Survey Committee. (1954). Report of the committee of direction: General report (Vol. II). Reserve Bank of India.

by state-appointed registrars often overrides democratic decision-making. Elite capture also remains common, where politically influential individuals manipulate credit disbursement and membership rolls to build personal patronage networks. This dynamic frequently leads to delayed elections, partisan management, and a departure from foundational cooperative values.

4.2 Structural Dualism in Regulatory Oversight

Cooperative banks operate under a complicated dual regulatory regime. While administrative, managerial, and electoral oversight rests with the state Registrar of Cooperative Societies (RCS), core banking operations, prudential norms, and capital adequacy standards are governed by the Reserve Bank of India (RBI) under the **Banking Regulation Act, 1949**. This regulatory dualism often creates oversight loopholes, leading to systemic governance failures, insider lending, and delayed corrective interventions.

4.3 Financial Distress and Capital Inadequacy

A high volume of Non-Performing Assets (NPAs), low capital-to-risk-weighted asset ratios (CRAR), and poor deposit mobilization strain the financial viability of many rural credit cooperatives. This vulnerability is frequently worsened by political populist measures, such as systemic agricultural loan waivers, which disrupt financial discipline and compromise the recycling of cooperative institutional credit.

4.4 Technological Lag and Operational Scale

While commercial banks have rapidly adopted advanced core-banking solutions (CBS), digital wallets, and automated credit assessment tools, a significant portion of the rural PACS network continues to rely on manual ledger systems. This technological gap slows down loan processing, increases operational costs, and limits young, tech-literate demographics from actively engaging with the cooperative sector.

5. Judicial Landscape and Precedents

The Indian judiciary has repeatedly been called upon to interpret the fine balance between state regulatory sovereignty, federal distribution of powers, and the autonomous rights of cooperative societies.

Landmark Case Law Analysis: Union of India v. Rajendra N. Shah (2021)⁴

Case Citation

Supreme Court of India, Civil Appeal Nos. 9108-9109 of 2014 (Decided on July 20, 2021).

Legal Issues Monitored

1. Whether Part IXB, inserted into the Constitution of India via the Constitution (97th Amendment) Act, 2011, was unconstitutional due to non-compliance with the mandatory ratification proviso contained in Article 368(2) of the Constitution.
2. Whether the doctrine of severability could save the provisions of Part IXB relating to Multi-State Cooperative Societies (MSCS).

Ruling & Rationale

The Supreme Court, in a 2:1 majority decision, upheld the Gujarat High Court's ruling striking down Part IXB of the Constitution to the extent that it applied to cooperative societies within individual states. The Court observed that "Cooperative Societies" falls exclusively under Entry 32 of List II (State List). Consequently, any constitutional amendment seeking to regulate or restrict state legislative powers over intra-state cooperatives required ratification by at least half of the State Legislatures, as mandated by the proviso to Article 368(2). Because Parliament bypassed this ratification process, the provisions governing intra-state cooperatives were declared procedurally invalid.

However, applying the **doctrine of severability**, the Supreme Court unanimously upheld the validity of Part IXB as applied to **Multi-State Cooperative Societies (MSCS)**. The court ruled that multi-state cooperatives, whose objects are not confined to a single state, fall cleanly within the legislative domain of the Union Parliament via Entry 44 of List I (Union List). Thus, that specific portion of the amendment was severable and constitutionally valid.

Institutional Impact

This judgment re-established the federal principle that individual states retain primary legislative control over local cooperative societies. It pushed the Union Government to focus its cooperative modernization and standardization policies through the newly created Ministry of Cooperation, using model frameworks and financial incentives rather than direct federal

⁴ Union of India v. Rajendra N. Shah, Civil Appeal Nos. 9108-9109 of 2014 (Supreme Court of India 2021).

mandates.

Supporting Jurisprudence

The judiciary has also consistently defended internal corporate autonomy and majority rule within cooperatives, provided those decisions align with democratic bylaws:

The Bengal Secretariat Cooperative Land Mortgage Bank and Housing Society Ltd. v. Sri Alope Kumar (2022 INSC 1108)

The Supreme Court ruled that a cooperative housing society's general body holds the autonomy to engage third-party private developers for redevelopment projects. The court emphasized that the democratic decisions of the general body, when passed by a clear majority, bind individual dissenting members, and state authorities should avoid undue administrative interference in commercial choices that reflect the collective will.

Vipulbhai M. Chaudhary v. Gujarat Cooperative Milk Marketing Federation Ltd. (2015) 8 SCC 1

The Supreme Court held that the democratic principles of accountability are embedded within the constitutional concept of cooperatives. It ruled that a board of directors or managing committee must enjoy the confidence of its constituents; therefore, a motion of no-confidence is an inherent democratic right of the board's members, even if the specific state cooperative statute or society bylaws lack an explicit provision for it.⁵

6. Future Prospects and Strategic Roadmap

6.1 Comprehensive Digital Transformation

To achieve operational efficiency, the entire cooperative architecture must be transitioned onto unified digital platforms. The national initiative to digitize PACS by connecting them to cloud-based Core Banking Software (CBS) must be accelerated. Integrating PACS with the National Bank for Agriculture and Rural Development (NABARD) and apex cooperative banks will establish real-time data auditing, minimize bookkeeping manipulation, lower operational overhead, and accelerate loan delivery to smallholders.⁶

6.2 Professionalization of Management Structures

Cooperatives must move away from archaic bureaucratic governance by inducting professional

⁵ Vipulbhai M. Chaudhary v. Gujarat Cooperative Milk Marketing Federation Ltd., (2015) 8 SCC 1.

⁶ Bhullar, G. J. S., & Mohan, H. (2025). Cooperative sector in India: Challenges and future prospects. *International Journal for Research Publication and Seminars*, 16(1), 71–77

management talents. While policy decisions and strategic vision must remain with the democratically elected board, day-to-day operations, asset-liability management, and risk mitigations should be handled by qualified banking and management professionals. Establishing dedicated training courses through institutions like the Vaikunth Mehta National Institute of Cooperative Management (VAMNICOM) can build a skilled pipeline of cooperative administrators.

6.3 Embracing Public-Private-Cooperative Partnerships (PPCP)

To compete with consolidated agri-business corporations, cooperatives should explore **Public-Private-Cooperative Partnerships (PPCPs)**. In this hybrid model, the cooperative retains ownership of grassroot land and collective raw biomass resources, the state provides infrastructure subsidies and policy stability, and private enterprises contribute technical expertise, cold-chain logistics, and global market linkages. This approach allows small-scale producers to climb the value-added agricultural processing ladder safely.

6.4 Diversification into Emerging Sectors

Cooperatives should look beyond traditional domains like dairy and credit to capture emerging economic sectors:

- **Renewable Energy:** Scaling up solar pump cooperatives and community-owned biowaste-to-energy generation units.
- **Labor and Service Cooperatives:** Organizing gig-economy workers, delivery professionals, and urban service providers into democratically owned platforms to prevent digital labor exploitation.
- **Rural Tourism and Wellness:** Developing community-owned eco-tourism circuits that channel consumer spending directly into local rural ecosystems.

7. Conclusion

The cooperative sector in India stands at a critical historical juncture. It remains structurally vital for driving inclusive rural development and supporting economic democracy across the subcontinent. However, it continues to face operational challenges, including financial distress, governance gaps, and shifting legal frameworks across state borders.

As affirmed by the Supreme Court in *Union of India v. Rajendra N. Shah*, the autonomy of

these societies is legally protected, and their governance must respect India's constitutional federal balance.

Realizing the vision of "Sahakar-se-Samridhi" (Prosperity through Cooperation) requires moving away from outdated bureaucratic management and transitioning toward transparent, data-driven, and highly professionalized institutional networks. By prioritizing systemic digitalization, addressing capital shortfalls through innovative partner networks, and protecting internal democratic autonomy, India's cooperative sector can reinforce its role as a resilient engine of inclusive, sustainable growth.

