

Cooperatives – Clean Up the Mess First; Help Later

The call of the prime minister to depoliticise, debureaucratise, democratise and professionalise the cooperatives has come not a day too soon. From Gorwale committee (1950's) to Khusro committee (80's) and now the Task Force on cooperatives led by Jagdish Capoor, there is no dearth of expert bodies and reports on the role and health of cooperatives. As usual, what is lacking is resolute action. The state of cooperatives is a classic illustration of bad governance affecting economic institutions.

Article 19(1) (c) of the constitution confers the right on citizens 'to form associations or unions', and the state can impose only reasonable restrictions on such right by a law in the interests of 'the sovereignty and integrity of India or public order or morality' (Art 19(4)). Cooperatives are different from other societies only to the extent that they are formed to further the collective economic interests of members; therefore cooperatives get the same constitutional protection, and are also bound by additional regulation which might be imposed on all similar businesses depending on the activity of the organization (thrift and credit, banking, trading, dairy manufacturing etc.). And yet this simple constitutional principle eluded the nimble minds of our politicians and bureaucrats over the past 50 years of our republic's existence.

Extremely restrictive and regressive laws have been enacted and enforced for partisan advantage over the years. The central laws of 1904 and 1912, the provincial laws before 1947, and the laws enacted in States since then have all conformed to this pattern of state control, rigid uniformity, and stultification of members' initiative. Even courts have failed to apply the constitutional principles under the mistaken notion that cooperatives are 'creatures of the state'. The results of this are there for all to see.

We claim that there are over 300,000 cooperatives with over 100 million members! In reality, only about 10% of the societies are viable, and 20% of the members are served by them. Cooperatives have been relegated to a departmental status, and their control became a matter of normal political activity. Elections to cooperatives are fought almost like a general election, with the same level of politicization, ignorance of stakes involved, and malpractices. In AP for

instance, the membership was suddenly expanded in the 80's, and the rural credit coops claim a membership of over 10 million in the state! For all practical purposes coops are run as government bodies.

In tiered cooperatives following the federal structure, the control by the apex bodies has been as oppressive and debilitating as that of the government. 'Common cadres' of centrally controlled managers, fattening federal organisations at the cost of primary units, arbitrary fixation of exorbitant wages, overstaffing at federal level, and mismanagement and corruption weakened the member-based primary organizations.

And yet, we cannot ignore the importance of cooperatives in mobilizing resources and promoting growth. Rural credit cooperatives alone have a deposit base of Rs.77,000 crore, and their total resources are nearly Rs.150,000 crore. The 2000 urban cooperative banks have a deposit base of over Rs.70,000 crore. Dairy cooperatives influence the lives of tens of millions in rural India. Sugar factories and other processing units in cooperative sector have a dominant role in these sectors. The gross capital formation in agriculture is stagnant at 1.5% of GDP, and public capital is actually declining at fixed prices. Obviously we need more capital infusion in villages if we have to promote productivity, growth, value addition and employment. Cooperatives are the answer. But a thorough overhauling of the structure is needed if we are to replicate the success of a few good cooperatives.

First, government should keep its hands off the cooperatives. Except registration and a few minimal functions, the bureaucrats should have no role. Member-control should be enforced. But that means only legitimate stake-holders should have a role. The large spurious membership should be disenfranchised. Only those who avail services above a threshold, and those who deposit a minimum amount should have voting rights. Defaulters should be disenfranchised. Byelaws, elections, policies and management should all be decided by the cooperative. Elections should be ideally staggered, so that a third or half the members retire every year or two. The 1995 cooperative law in AP, which is emulated by Bihar, J&K, MP, Chattisgarh, Jarkhand and Karnataka since then, should serve as a model. Equally, the federal control in credit cooperatives must give way to member control.

But credit institutions are on a different footing, and require to be firmly regulated by RBI /NABARD. Right now the central bank control is very tenuous. Knee-jerk responses when scams take place or after banks fail is no substitute to effective regulation. Credit societies should primarily depend on thrift from members, and lending should not exceed 3 or 4 times the thrift of a member. Also in credit cooperatives, the members should elect only half the members of the board, and the other half should be experts and depositors' representatives. A few members with minimal stakes cannot be allowed to control huge deposits of others.

One-time financial package to rehabilitate weak cooperative banks should be implemented, subject to specific milestones including a liberal cooperative law, better recovery, and improved management. Where such conditions are not met, swift liquidation is the answer. New, genuine cooperatives will spring up in no time if only an enabling law is in place. Finally, at least a few corrupt managers who swindled funds and cheated depositors should be jailed for long terms. Nick Leeson, whose mischief caused the collapse of Bearings Bank, was swiftly arrested, tried, and sentenced to 8 years, and has been released only recently. Is it too much to ask for exemplary prison terms to a few rogues who misappropriated from thousands of people?

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