

CHAPTER 44

CO-OPERATIVE SOCIETIES

A co-operative society is a voluntary association of individuals having common needs who join hands for the achievement of common economic interest. Its aim is to serve the interest of the poorer sections of society through the principle of self-help and mutual help. The main objective is to provide support to the members. Nobody joins a cooperative society to earn profit. People come forward as a group, pool their individual resources, utilise them in the best possible manner, and derive some common benefit out of it.

A Co-operative Society can be formed as per the provisions of the Co-operative Societies Act, 1912. At least ten persons above of 18 years, having the capacity to enter into a contract with common economic objectives, like farming, weaving, consuming, etc. can form a Co-operative Society. Cooperative Societies Act is a Central Act. However, 'Cooperative Societies' is a State Subject (Entry 32 of List II of Seventh Schedule to Constitution, i.e. State List). Though the Act is still in force, it has been specifically repealed in almost all the States and those States have their own Cooperative Societies Act. Thus, practically, the Central Act is mainly of academic interest and as per preamble to the Act, the Act is to facilitate formation of cooperative societies for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means.

If object of the society is creation of funds to be lent to its members, all the members must be residing in the same town, village or group of villages or all members should be of same tribe, class, caste or occupation, unless Registrar otherwise directs. The provision of minimum 10 members or residing in same town/village etc. is not applicable if a registered society is member of another society. The Statement of Objects and reasons states as follows:

- (a) Cooperative Society can be established for purpose of credit, production or distribution.
- (b) Agricultural credit societies must be with unlimited liability.
- (c) Unlimited society is not best form of cooperation for agricultural commodities.
- (d) Unlimited society can distribute profits with permission of State Government.

A society which has as its object the promotion of economic interests of its members in accordance with cooperative principles can be registered as a Society. Similarly, a society established with the object of facilitating operation of such a society can also be registered under the Act. The society can be registered with limited or unlimited liability. However, unless State Government otherwise directs, (1) Liability of a society of which a member is a registered society shall be limited. (2) Liability of a society of which object is to creation of funds to be lent to members, and of which majority of members are agriculturists and of which no member is a registered society shall be unlimited. Thus, a registered society can be member of another society, but liability of such other society must be limited, unless State Government otherwise directs.

The last word in name of society should be 'Limited', if the Society is registered with limited liability. If a society has limited liability, any individual member of such society cannot have share capital more than one-fifth of total capital. An individual member cannot have interest in shares exceeding Rs 1,000. This restriction of 20% shares or Rs 1,000 shares value is not applicable to a registered society which is member of another society. Thus, if a registered society is member of another society, it can hold shares exceeding 20% or exceeding Rs 1,000 in value.

A registered cooperative society can hold property, enter into contracts, institute and defend suit and other legal proceedings and to do all things necessary for the purposes of its constitution. A registered society can give loans only to its members. However, it can give loan to another registered society with permission of Registrar. A society with unlimited liability cannot lend money on security of movable property without sanction of registrar. State Government, by issuing a general or special order, can prohibit or restrict lending of money on mortgage of immovable property by any registered society or class of registered society.

Registrar, after inspection or inquiry, or on application received from 75% of members of society, may cancel the registration of society, if in his opinion, the Society should be dissolved. Any member can appeal against the order of Registrar within two months to State Government or other Revenue Authority authorised by State Government. If no appeal is filed within two months, the order of dissolution shall become effective. If appeal is filed, the order will become effective only after it is confirmed by appellate authority. Although all types of cooperative societies work on the same principle, they differ with regard to the nature of activities they perform. Followings are different types of co-operative societies that exist in our country:

Consumers' Co-operative Society: These societies are formed to protect the interest of general consumers by making consumer goods available at a reasonable price. They buy goods directly from the producers or manufacturers and thereby eliminate the middlemen in the process of distribution. Kendriya Bhandar, Apna Bazar and Sahkari Bhandar are examples of consumers' co-operative society.

Producers' Co-operative Society: These societies are formed to protect the interest of small producers by making available items of their need for production like raw materials, tools and equipments, machinery, etc. Handloom societies like APPCO, Bayanika, Haryana Handloom, etc., are examples of producers' co-operative society.

Co-operative Marketing Society: These societies are formed by small producers and manufacturers who find it difficult to sell their products individually. The society collects the products from the individual members and takes the responsibility of selling those products in the market. Gujarat Co-operative Milk Marketing Federation that sells AMUL milk products is an example of marketing co-operative society.

Co-operative Credit Society: These societies are formed to provide financial support to the members. The society accepts deposits from members and grants them loans at reasonable rates of interest in times of need. Village Service Co-operative Society and Urban Cooperative Banks are examples of co-operative credit society.

Co-operative Farming Society: These societies are formed by small farmers to work jointly and thereby enjoy the benefits of large-scale farming. Lift-irrigation cooperative societies and pani-panchayats are some of the examples of co-operative farming society.

Housing Co-operative Society: These societies are formed to provide residential houses to members. They purchase land, develop it and construct houses or flats and allot the same to members. Some societies also provide loans at low rate of interest to members to construct their own houses. The Employees' Housing Societies and Metropolitan Housing Co-operative Society are examples of housing co-operative society.

A co-operative society is a special type of business organisation, its characteristics are as under:

Open membership: The membership of a Co-operative Society is open to all those who have a common interest. A minimum of ten members are required to form a cooperative society. The Co operative societies Act do not specify the maximum number of members for any co-operative society. However, after the formation of the society, the member may specify the maximum number of members.

Voluntary Association: Members join the co-operative society voluntarily, that is, by choice. A member can join the society as and when he likes, continue for as long as he likes, and leave the society at will.

State control: To protect the interest of members, co-operative societies are placed under state control through registration. While getting registered, a society has to submit details about the members and the business it is to undertake. It has to maintain books of accounts, which are to be audited by government auditors.

Sources of Finance: In a co-operative society capital is contributed by all the members. However, it can easily raise loans and secure grants from government after its registration.

Democratic Management: Co-operative societies are managed on democratic lines. The society is managed by a group known as "Board of Directors". The members of the board of directors are the elected representatives of the society. Each member has a single vote, irrespective of the number of shares held. For example, in a village credit society the small farmer having one share has equal voting right as that of a landlord having 20 shares.

Service motive: Co-operatives are not formed to maximise profit like other forms of business organisation. The main purpose of a Co-operative Society is to provide service to its members. For example, in a Consumer Co-operative Store, goods are sold to its members at a reasonable price by retaining a small margin of profit. It also provides better quality goods to its members and the general public.

Separate Legal Entity: A Co-operative Society is registered under the Co-operative Societies Act. After registration a society becomes a separate legal entity, with limited liability of its members. Death, insolvency or lunacy of a member does not affect the existence of a society. It can enter into agreements with others and can purchase or sell properties in its own name.

Distribution of Surplus: Every co-operative society in addition to providing services to its members also generates some profit while conducting business. Profits are not earned at the cost of its members. Profit generated is distributed to its members not on the basis of the shares held by the members (like the company

form of business), but on the basis of members' participation in the business of the society. For example, in a consumer co-operative store only a small part of the profit is distributed to members as dividend on their shares; a major part of the profit is paid as purchase bonus to members on the basis of goods purchased by each member from the society.

Self-help through mutual cooperation: Co-operative Societies thrive on the principle of mutual help. They are the organisations of financially weaker sections of society. Co-operative Societies convert the weakness of members into strength by adopting the principle of self-help through mutual co-operation. It is only by working jointly on the principle of "Each for all and all for each", the members can fight exploitation and secure a place in society.

A joint application along with the bye-laws of the society containing the details about the society and its members has to be submitted to the Registrar of Co-operative Societies of the concerned state. After scrutiny of the application and the bye-laws, the registrar issues a Certificate of Registration. Requirements for Registration are (1) application with the signature of all members and (2) Bye-laws of the society containing the information on (a) Name, address and aims and objectives of the society; (b) Names, addresses and occupations of members; (c) Mode of admitting new members; (d) Share capital and its division.

A Co-operative form of business organisation has the following advantages:

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

Open Membership: Persons having common interest can form a co-operative society. Any competent person can become a member at any time he/she likes and can leave the society at will.

Democratic Control: A co-operative society is controlled in a democratic manner. The members cast their vote to elect their representatives to form a committee that looks after the day-to-day administration. This committee is accountable to all the members of the society.

Limited Liability: The liability of members of a co-operative society is limited to the extent of capital contributed by them. Unlike sole proprietors and partners the personal properties of members of the co-operative societies are free from any kind of risk because of business liabilities.

Elimination of Middlemen's Profit: Through co-operatives the members or consumers control their own supplies and thus, middlemen's profit is eliminated.

State Assistance: Both Central and State governments provide all kinds of help to the 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.

Stable Life: 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.

Highlights:

- The number of credit society decreased from 1.43 lakh in 2000-01 to 1.21 lakh in 2003-04, and its membership decreased from 15.29 crore in 2000-01 to 13.95 crore in 2003-04. On the other side, the number of non-credit society decreased from 4.08 lakh in 2000-01 to 2.67 lakh in 2003-04, whereas, its membership decreased from 6.61 crore in 2000-01 to 5.14 crore in 2003-04.
- The membership of Societies and individuals of State Co-operative Banks increased from 0.17 lakh and 0.65 lakh in 2000-01 to 0.19 lakh and 1.02 lakh respectively in 2003-04. The total working capital of these Banks increased from ₹ 494.10 billion in 2000-01 to ₹ 608.72 billion in 2003-04, whereas, the loans issued decreased from ₹ 304.16 billion in 2000-01 to ₹ 289.62 billion in 2003-04.
- The membership of Societies and individuals of Central Co-operative Banks increased from 2.77 lakh and 13.26 lakh in 2000-01 to 2.88 lakh and 14.62 lakh respectively in 2003-04. The total working capital of these Banks increased from ₹ 911.78 billion in 2000-01 to ₹ 1169.31 billion in 2003-04, whereas, the loans issued increased from ₹ 609.21 billion in 2000-01 to ₹ 624.01 billion in 2003-04.
- The number and membership of Primary Agricultural Credit Societies (excluding Grain Banks) decreased from 0.94 lakh and 993.83 lakh in 2000-01 to 0.77 lakh and 943.84 lakh respectively in 2003-04. The total working capital of these societies increased from ₹ 419.13 billion in 2000-01 to ₹ 561.11 billion in 2003-04, whereas, the loans issued increased from ₹ 230.82 billion in 2000-01 to ₹ 322.89 billion in 2003-04.

- The number of Primary Non-Agricultural Credit Societies decreased from 0.45 lakh in 2000-01 to 0.40 lakh in 2003-04, whereas, its membership increased from 184.86 lakh in 2000-01 to 193.88 lakh in 2003-04. The total working capital of these societies increased from ₹ 193.49 billion in 2000-01 to ₹ 327.68 billion in 2003-04, whereas, the loans issued increased from ₹ 120.69 billion in 2000-01 to ₹ 201.96 billion in 2003-04.
- The number of Primary Non-Agricultural Co-operative Banks increased from 1987 in 2000-01 to 2097 in 2003-04, whereas, its membership decreased from 190.02 lakh in 2000-01 to 146.99 lakh in 2003-04. The total working capital of these societies increased from ₹ 947.30 billion in 2000-01 to ₹ 1210.98 billion in 2003-04, whereas, the loans issued increased from ₹ 472.30 billion in 2000-01 to ₹ 616.02 billion in 2003-04.
- The number and membership of Grain Banks decreased from 159 and 30071 in 2000-01 to 147 and 23737 respectively in 2003-04, whereas, its total working capital increased from Rs.296.81 lakh to 390.13 lakh and the loans issued decreased from ₹ 73.52 lakh to ₹ 59.10 lakh from 2000-01 to 2003-04 respectively.
- The number and membership of State Co-operative Agricultural & Rural Development Banks declined from 4728 and 6896230 in 2000-01 to 1052 and 1663509 in 2003-04 respectively, whereas, its total working capital enhanced from ₹ 172.81 billion to ₹ 221.70 billion and the loans issued declined from ₹ 25.79 billion to ₹ 19.12 billion from 2000-01 to 2003-04 respectively.
- The number of Primary Co-operative Agricultural & Rural Development Banks declined from 754 to 729 and its membership increased from 72.69 lakhs to 73.34 lakhs from 2000-01 to 2003-04, whereas, total working capital and loans issued increased from ₹ 92.95 billion and ₹ 16.34 billion to ₹ 142.40 billion and ₹ 23.38 billion from 2000-01 to 2003-04 respectively.
- The number and membership of Primary Non-Credit Societies (excluding insurance societies) declined from 393787 and 568.70 Lakhs to 263962 and 490.89 Lakhs from 2000-01 to 2003-04 respectively, whereas, its working capital increased from ₹ 274.43 billion in 2000-01 to ₹ 511.89 billion in 2003-04. The purchases/production and sales of these societies increased from ₹ 210.09 billion and ₹ 291.24 billion to ₹ 388.39 billion and ₹ 696.66 billion from 2000-01 to 2003-04 respectively.
- In 2008, Maharashtra & Gujarat together accounted for almost 50% of credit societies and 56% of non-credit societies.

This chapter contains the following tables:

- Table 44.1:** presents year-wise number and membership of credit and non-credit societies since 2000-01 and state-wise number and membership of credit and non-credit societies during 2003-04.
- Table 44.2:** presents number, membership and financial position of State Co-operative Banks since 2000-01 and State-wise number, membership and financial position of State Co-operative Banks during 2003-04.
- Table 44.3:** presents number, membership and financial position of Central Co-operative Banks since 2000-01 and State-wise number, membership and financial position of Central Co-operative Banks during 2003-04.
- Table 44.4(A):** presents number, membership and financial position of Primary Agricultural Credit Societies (excluding Grain-Banks) since 2000-01 and State-wise number, membership and financial position of Primary Agricultural Credit Societies (excluding Grain-Banks) during 2003-04
- Table 44.4(B):** presents number, membership and financial position of Primary Non-Agricultural Credit Societies since 2000-01 and State-wise number, membership and financial position of Primary Non-Agricultural Credit Societies during 2003-04.
- Table 44.4(C):** presents number, membership and financial position of Primary Co-operative Banks since 2000-01 and State-wise number, membership and financial position of Primary Co-operative Banks during 2003-04.
- Table 44.5:** presents number, membership and financial position of Grain Banks since 2000-01 and State-wise number, membership and financial position of Grain Banks during 2003-04.
- Table 44.6:** presents number, membership and financial position of State Co-operative Agriculture & Rural Development Banks since 2000-01 and State-wise number, membership and financial position of State Co-operative Agriculture & Rural Development Banks during 2003-04.
- Table 44.7:** presents number, membership and financial position of Primary Co-operative Agriculture & Rural Development Banks since 2000-01 and State-wise number, membership and financial position of Primary Co-operative Agriculture & Rural Development Banks during 2003-04.
- Table 44.8:** presents number, membership and financial position of Primary Non-Credit Societies (excluding insurance societies) since 2000-01 and society-wise number, membership and financial position of Primary Non-Credit Societies (excluding insurance societies) during 2003-04.