

Chapter 21

Co-operatives and Regional Disparities

21.1 Significance of Co-operative System

1. The co-operative system unlike commercial banking is not confined to purveying of credit only; they can provide organizational framework for engaging in production in both agriculture, industry and services. The co-operative sector, thus, has the special advantage of easier direct involvement of the people in their organization and commands an unparalleled advantage in the matter of location of its units in each of the Villages where Primary Societies can function. This apart, co-operation offers opportunities for greater initiative by the individuals in a group and the vagaries and uncertainties of other systems of organisation and finance get eliminated due to the co-operative strength.

2. As will be noted late in this Chapter, in Karnataka the Co-operative System has functioned more effectively in North Karnataka than in Southern Karnataka. There can be various reasons for this. However, what is important is the contributions and the new initiatives which the co-operatives have taken for improving the welfare of the people in Agriculture, Industry and Housing segments in particular. In Agriculture, the Co-operatives have developed a model in setting up Agro-Industrial Complex. For example, in Gadag in North Karnatak this has materialised which does not seem to have a parallel even after considering the widespread organizations set up on the principles of co-operation. The Gadag experiment is singled out for the reason that farmers who grow commercial crops like Cotton, Groundnut etc. have benefited by receiving a higher price for their product from the Co-operative Organisation than what they can get in the Open Market, for example: In cotton for each candy, the farmer gets on an average Rs.200 more than what they can get in the Open Market. The linked Agro-Industrial Complex has also eliminated waste and instead supported the use of by-products or waste into a more profitable product. In a recent initiative a Co-operative Industrial estate has been established where 100 entrepreneurs were able to start their industrial ventures successfully within as short a period as one month.

3. Generally, in any discussion of the co-operatives, derogatory observations are made focussing on defunct societies, misuse of funds, greater losses, monopolization of the Organisation by a few family members and the like. While this is not denied, an impartial study has not been made to assess the contribution of the co-operatives to the developmental process, in particular to the generation of employment, reduction of poverty, developing of agro-based industries and more than anything else protect the interests of farmers by getting them a better price for their product.

21.2 Co-operative Credit

4. If we take the totality of the credit delivery system in our Country and also in our State, we find that the Commercial Banks with all their strength of resources and the backing of the Government of India in the case of the Nationalised Banks have hardly done justice to agriculture. In a year like 2000-2001 Commercial Banks have given about Rs. 40,000 crore to agriculture out of their total deposits which exceed Rs.9,50,000 crore and advances Rs.4,30,000 crore. Thus, the share of agriculture in the Commercial Bank Credit doesn't

exceed 8 to 9 percent of the total advances. Compared to this, the Co-operative System has provided about Rs.23,000 crore to agriculture. In other words, the Co-operative Credit forms nearly 60% of the Commercial Bank Credit to Agriculture. While one may argue that the total credit supplied by both Commercial Banks and Co-operative Banks fall far short for the needs of the agriculture, the point to note is that the Co-operative Sector has played comparatively a bigger role in financing agriculture and agro-based industries. In Karnataka too, more or less the same situation prevails with commercial banks lending Rs.1500 crores and Co-operatives Rs.1000 crore.

5. Yet another missing thread in the evaluation is that the losses incurred are more highlighted than the benefits that have accrued to the farm people in general and the members of the co-operatives. Is this not too uncharitable a remark on the Co-operative Sector? The High Power Committee for Redressal of Regional Imbalances (HPCFRRI), wanted the role of co-operatives in development and reducing disparities in different districts to be evaluated by an independent agency for the benefit of the Committee. Therefore, the Committee commissioned a study, as already indicated in the introduction with 'SAHAYOGA' a Consultancy firm with co-operative experts including specialists in co-operative training, research and practise co-operative principles.

6. This Chapter is based on a full-length study report submitted to the Committee by 'SAHAYOGA'. As we are including the entire report as an accompaniment volume to the report of HPCFRRI, we have relied on the major points of their analysis and recommendations in writing this chapter.

21.3 Co-operatives in Reducing Regional Disparities

7. There is a lot of misunderstanding and confusion about the co-operative as a micro unit and co-operative ideology at macro level. Four significant conceptual issues related to reducing regional disparities are discussed; co-operative ideology at macro level, co-operative development policies, creating favourable climate and conditions for co-operative development and co-operative and regional imbalances: role, scope and limitations.

8. Three main ideologies of co-operation in developing countries are fostering economic development, promoting social justice and strengthening political democracy. A survey of co-operative policies of Asian region reveals that different countries have adopted different policies. They include long term economic objectives like, developing a distinct sector of economy, ensure equitable distribution of national income, develop a decentralized economic system, establishing economic democracy and social justice and co-operative commonwealth etc. The policies also include the short-term economic objectives which include to increase agriculture production, promote rural development, generates self-employment, develop members resources etc.

9. Never in the past the Karnataka had any defined co-operative policy of its own. It is only in 1997, the Government of Karnataka announced for the first time its co-operative policy. This policy document listed the objectives of co-operative development, the role and approach of government towards the co-operatives. However, its implementation has suffered.

10. When we examine the co-operative development in the different countries in Asian region we find that the co-operative development is influenced by general and specific environmental factors and other factors like legislation, human resource development arrangements, financial support and the government policies etc. Government's main role in co-operative development process is to create favourable climate and conditions. Favourable climate for co-operative development includes macro environments, role of state, access to technology and capital markets, agrarian reforms and legal support. Favourable conditions include member participation, organisational structure, effective linkage systems etc.

11. The Government of India and the state governments involved the co-operatives in the economic development to implement their economic policies without properly assessing the capacity of co-operatives. Therefore many times governments did the mistake of over estimating the capacity of co-operatives before entrusting the tasks to them. Since the governments took the initiative in organising co-operatives, they became government creatures and co-operatives started becoming welfare measures losing their economic and commercial aspects.

12. Co-operatives come wherever there is imbalance; they emerge wherever there are social and economic imbalances. They have a positive role in reducing economic inequalities by helping the poor and weaker sections, by providing an opportunity for women in income generating activities, decentralising the power and authority, empowering the weaker sections and reducing the gap between urban and rural areas. All types of co-operatives particularly agro-processing units have contributed a lot in developing the rural sector. However, co-operatives seem to have a limited role in reducing the regional inequalities as they have in-built limitations and weaknesses. But given the proper support system, co-operatives can be very effective institutions in reducing the regional imbalances.

13. The co-operative sector has made its existence felt in the economy of Karnataka. The co-operatives in Karnataka have shown remarkable flexibility, diversity, innovation and achievements during their long history. The success of co-operatives in the context of the present study is viewed in terms of their contribution to the social and economic development of the community which they serve. Thus, the measures of success of co-operative are macro in nature. But their capacity to contribute at macro level depends upon their performance at micro level. No co-operative can contribute to the social and economic development unless it is a successful economic enterprise and operationally efficient. Hence, the focus on micro aspects like operational results and efficiency figures at the unit level, the market share, membership, area coverage, cost effectiveness, resource position and return on investment etc. Capacity of co-operatives at micro level in Karnataka with reference to their capacity to provide the services to members in terms of varieties, cost, quality and the delivery has been covered in the commissioned study.

21.4 Composition of Co-operatives

14. According to this study, in the matter of composition of state co-operative sector, milk co-operatives dominated with 31% share. Agricultural credit co-operative are the second largest constituents with 18% share, non-agricultural credit co-operatives have 11% share. However, traditional sectors like consumer, marketing and industrial have lost the ground with negligible share. The consumer and marketing sectors have almost lost their

existence. Therefore, the Government of Karnataka has decided to merge these two sectors by issuing a merger notice on 16th April 2001.

15. There is a continuity in the growth of co-operative sector in the state during the last four decades in terms of number of societies, membership, working capital and the business turnover. But the distressing fact of this development is the increasing number of weak co-operative units and the number of liquidated societies.

16. The study of districtwise spread of co-operatives in the state reveals that the northern Karnataka is better developed in terms of number of societies, membership, business and resources. It is also observed that northern region has large number of different type of co-operatives. Many innovative co-operatives are also found in the northern region. Even the performance level of co-operatives in this region is found far better compared to southern region. The southern region is co-operatively backward in terms of the performance of the co-operatives at micro level and their contribution to social and economic development at macro level.

17. Ranking of the districts in the state on the basis of co-operative development reveals the following picture.

Table – 21.1

Ranking of districts co-operative development-wise

Rank	High
1	Dharwad
2	Belgaum
3	Bijapur
Rank	Above Average
4	Chitradurga
5	Gulbarga
Rank	Below Average
6	Mysore
7	Uttar Kannada
8	Bangalore-II
9	Kolar
10	Dakshina Kannada
11	Raichur
12	Tumkur
13	Bellary
14	Hassan
15	Mandya
16	Shimoga
Rank	Low
17	Bidar
18	Bangalore Rural
19	Chickmagalur
20	Bangalore-I
21	Kodagu

18. As can be seen from the above, Belgaum division is most progressive region in the state. Dharwad, Belgaum and Bijapur districts are leading in the co-operative development as they have shown the highest level of co-operative development in the state. Chitradurga and Gulbarga districts are placed above the average. The districts of southern region and also Raichur and Bidar districts of Hyderabad-Karnataka are co-operatively backward areas. This shows the glaring regional imbalances in the co-operative development in the state.

21.5 Locational Impact on Imbalances

19. A very striking feature noted is all the state level co-operative federations are located only in Bangalore. This is not a very healthy phenomenon. There is a wide scope for many federations to move nearer to their constituents. Oil seed grower co-operative societies in the state are concentrated in Gulbarga division. Hence, Karnataka co-operative oil seed growers' federation should move to this region. There is every justification for shifting state co-operative sugar federation to Belgaum division as most of the co-operative sugar factories are located in this area. State co-operative spinning mill federation should move to northern region where most of the co-operative spinning mills are located. There is heavy concentration of urban co-operative banks in northern Karnataka, hence state co-operative urban bank federation should be in the northern region.

20. It is also observed that in neighbouring states, many state co-operative organisations are outside the capital city. In Maharashtra, the office of the registrar of co-operative societies and the state co-operative union are located in Pune. In Kerala, state co-operative marketing federation and state co-operative consumer federation are located in Cochin. Hence, a policy level decision needs to be taken to move some of these state level federations from Bangalore to the places where they are required to be.

21. The rural credit co-operatives are the backbone of state co-operative sector in Karnataka. The short-term credit requirements of the farmers are met by three-tier credit co-operative structure. At the base level there are primary credit co-operative societies which are federated to district central co-operative banks at district level. And at the state level there is the state co-operative bank. Investment credit needs of the farmers in the state are met by two-tier co-operative credit structure. There are primary agriculture and rural development banks working at taluka level and at the apex level there is State Co-operative Agriculture and Rural Development Bank. This co-operative institutional credit arrangement in the state has covered nearly 40% of the agricultural needs of the farmers in the state. This institutional structure has tried to help the farmer in improving his income level.

22. The regional disparities are found in the working of agriculture credit co-operatives in the state. The performance of agricultural credit co-operatives at micro level and their contribution to rural and agriculture development in the northern region is far better compared to the districts in southern region of the state. The glaring regional differences are also found in terms of the number of societies, membership, financial resources, business performance and service to the farming community in the northern districts of the state are found much better than in the southern districts.

21.6 Farm Credit, 1999-2000

23. The ground level co-operative agricultural credit disbursement in 1999-2000, would give an understanding of the contribution of co-operative credits institutions to the total agricultural credit disbursement in the state. During the year, the total crop loans advanced by the financial institutions as crop loans, was Rs. 2346 crores, for the state as a whole. Of these co-operatives accounted for Rs. 885 crores, constituting about 38% of the total short-term loans disbursed. The total quantum of long-term loans, advanced was Rs. 687.42 crores, of which the co-operative institutions advanced a mere Rs. 177 crores as term credit to agriculture and this constituted only, 25 percent of the total long-term credit advanced to the agriculture sector.

24. The total credit advanced to the agriculture sector both short term and long term was to the tune of Rs. 3033 crores during 1999-2000. The share of the co-operative sector in this was Rs. 1062 crores, which accounted for 35% of the total credit to the agriculture sector.

25. Among the components of credit, plantation and Horticulture crops accounted for 25.37%, followed by 16.26% for Minor irrigation. Farm mechanization appropriated 23.76%. The disbursement of term co-operative credit reveals that minor irrigation appropriated 25.47% of the co-operative term credit, and farm machinery 28.29%. Plantation and horticulture crops also appropriated a substantial share of the co-operative term credit.

26. The co-operative credit structure has given a considerable support to weaker sections of farming community in the state. The study reveals that among the beneficiaries of different holdings, about 38% are small and marginal farmers whose holdings are less than 2 hectares. About 16% are the agricultural labourers and 5% are the rural artisans. Scheduled castes received 12.52% weightage in coverage and 12% were women beneficiaries as shown in the following table.

Table – 21.2

Primary Agricultural credit societies coverage of cultivators by land holdings as on 31.3.1999

(Rs. in Lakhs)

SI No.	Particulars	PACS	FSS	LAMPS	TOTAL
1	Upto 1 Hectare	844	122	9	975
2	1 to 2 Hectare	822	95	7	924
3	2 – 4 Hectare	628	50	4	682
4	4 to 8 Hectare	390	37	3	430
5	Above 8 Hectares	243	17	-	260
6	Agricultural Labourers	681	51	18	750
7	Rural Artisans	46	13	2	261
8	Others	525	59	11	595
9	Total (Col. 1 to 8)	4379	444	54	4877
10	Of Col. 9 Scheduled Castes	592	61	-	653
11	Of Col. Schedules tribes	214	24	53	291
12	Women Members	440	73	18	531

27. The primary agricultural credit societies in the state have given loans to 9.26 percent of schedule caste and schedule tribe members as can be seen in the following table.

Table – 21.3
Primary Agricultural Credit Societies coverage of Schedule Castes/Scheduled Tribes Members as on 31.3.1999.

(Amount of Rs. in lakhs)

(Membership in 000's)

SI No.	Particulars	1998-1999	Percentage to Total
1	Total No. of Societies	437	
	a) Total Membership (000's)	5081	
	b) Of which SC/ST (000's)	943	18.56
2	Total Borrowing Members	940	
	a) Of which SC/ST (000's)	87	9.26
3	No. of Members Indebted at the end of the year	980	
	a) of which SC/ST (000/s)	104	10.61
4	No. of Member Defaulters at the end of the year	413	
	a) Of which SC/ST	60	14.53
5	Total loans advanced	116575.91	
	a) Of which SC/ST	6286.08	5.39
6	Total loans outstanding	116738.57	
	a) Of which SC/ST	7150.66	6.13
7	Total loans Recovered	88641.00	
	a) Of which SC/ST	5030	5.67
8	Total Loans Overdue	35459.22	
	a) Of which SC/ST	2886.75	8.14

28. Co-operative credit to SC/STs is not commensurate with their proportion in the total population. Rs.629 crores advanced in a year like 1998-99 when loans overdue were Rs.29 corres tell a sad story. This needs proper monitoring along with dovetailing of the supply of other inputs to the weaker sections if society.

29. The sanctions of loans to the DCCBs by the NABARD has been studied and the results are presented in this Chapter. The allocations were higher to Bangalore division during 2000-01 with Rs. 9100 lakhs of which Rs. 8624.34 lakhs were utilized. Among the divisions, Shimoga received of Rs. 3700 lakhs, which was fully utilized. An allocation of

Rs. 21425 lakhs was made to Belgaum division which was the highest allocation among all the divisions. The entire amount was utilized. Belgaum, Dharwad and Bijapur districts received allocation of Rs. 8660, Rs. 6300 and Rs. 6000 lakhs, which were fully utilized. The allocation to Uttara Kannada was low at Rs. 525 lakhs.

30. One disturbing feature about agricultural credit co-operative structure in Karnataka as in most other states is existence of two different channels; one for short-term credit and another for long-term credit. Since long it has been felt that in the interest of farming community, HPCFRRI feels that these two structures should be merged and all the credit facility should be provided to the farmer under one umbrella, a Single Window Agricultural policy announced by Government of Karnataka in 1995 expressed that the government is very keen to integrate both these structures to provide integrated credit services to the farmers at the lower cost. However, till today no action has been taken so far. Hence, our Committee urges immediate action by the government in the interest of the farming community of the state in general and of the backward taluks in particular.

21.7 Imbalances in Co-operative Banks

31. There are glaring regional imbalances in the development of urban co-operative banks in the state. They are concentrated in north Karnataka. Bangalore division has 56 banks with 200 branches, Mysore division has 29 banks with 42 branches, Belgaum division has 130 banks with 254 branches. However, Gulbarga division has 36 banks with only 8 branches. The districtwise spread of these banks is shown in the following table.

Table – 21.4

Urban co-operative Banks: Districtwise (March 99)

Districts	No of Banks	No of Branches	Districts	No. of Banks	No. of Branches
Bangalore division			Belgaum Division		
Bangalore	56	164	Belgaum	46	82
Tumkur	13	22	Bijapur	34	54
Chitradurga	6	12	Dharwad	38	76
Kolar	1		Karwar	12	42
Shimoga	8	2			
Total	84	200	Total	130	254
Mysore division			Gulbarga Division		
Mysore	10	5	Raichur	13	6
Mandya	3		Gulbarga	11	1
Hassan	5	2	Bidar	6	1
Chickmagalore	3		Bellary	6	
Dakshina Kannada	8	35			
Total	29	42	Total	36	8

32. It is also observed that the performance of urban co-operative banks in northern region is better both in terms of quantity and quality.

33. Though they are called urban co-operative banks, they are located and spread in rural areas also. Their area of operation includes both urban and rural. Thus, to a great extent they have reduced the gap between urban and rural sector by providing support to the rural industries in the state. As can be seen in the following table out of the total banks in the state 158 are located in district headquarters, 97 in taluka headquarters and 46 in rural centres.

Table – 21.5

Urban co-operatives banks as on 20-9-2001 by Headquarters:

Name of the District	District headquarters	Taluk Headquarters	Rural Centres	Total
Bangalore division				
Bangalore (Rural & Urban)	52	4		56
Kolar		1		1
Tumkur	10	3		13
Chitradurga	3	3		3
Davanagere	10	2		12
Shimoga	3	5		8
Total	78	18		93
Mysore Division				
Mysore	9	1		10
Mandya	2	1		3
Hassan	2	3		5
Kodagu	2	2		4
Chickmagalore	2	1		3
Mangalore	7	1		8
Udupi	5		1	6
Chamarajanagar	1			1
Total	30	9	1	40
Belgaum Division				
Belgaum	13	15	18	46
Bijapur	7	4	8	19
Dharwad	3	12	1	16
Bagalkot	3	7	5	15

...Contd

Name of the District	District headquarters	Taluk Headquarters	Rural Centres	Total
Gadag	4	1	4	9
Haveri	3	7	2	12
Uttara Kannada	2	9	1	12
Total	35	55	39	129
Gulbarga Division				
Gulbarga	7	4		11
Raichur	2	2	2	6
Koppal	1	2	4	7
Bidar	3	3		6
Bellary	2	4		6
Total	15	15	6	36
Grand total	158	97	46	301

34. However, it may be noticed from the table that there are no rural centres at all in Bangalore and Mysore divisions barring the solitary bank branch in Udupi in Mysore division. There are 6 in Gulbarga division. Belgaum division has the highest number of rural centres with 39. Again, Belgaum has the highest number of urban banks (55) at taluka headquarter compared to 18 in Bangalore division, 9 in Mysore division and 15 in Gulbarga division.

21.8 Urban Co-operative Banks

35. The total deposits in urban co-operative banks in Karnataka were at Rs. 5273 crores as on 31st March 2000. Of this four districts namely, Bangalore, Belgaum, Dharwad and Uttara Kannada contributed 65% of the entire deposits. This again reveals that banks in north Karnataka have done very well in mobilising the deposits as compared to southern region in the state. There are only 22 urban co-operative banks which have mobilised deposits above Rs.50 crores. 193 urban co-operative banks are more than 10 years old and have mobilised deposits less than Rs. 50 crores. The mix of deposits indicates that the urban co-operative banks have mobilised only long term deposits at high cost at the cost of their profitability.

36. In the case of commercial banks, it is seen that highest level of deposits in Karnataka comes from household sector with 69.3%. In the case of urban co-operative banks, their entire deposits come from the household sector. In respect of per branch deposits, the performance of urban co-operative banks compares better than that of commercial banks.

37. The total credit of urban co-operative banks as on 31st March 2000 was Rs.3510 crores. Purposewise advances reveal that housing has the biggest share in the total advances, followed by trade & commerce and road transport operations in that order. Small scale and cottage industries are not attended adequately. Agribusiness & education are the least attended fields by the banks.

38. One common feature with all the urban co-operative banks in the state is that they have surplus funds. There is no adequate outlet for advances. Most of the urban co-operative banks have credit deposit ratio of about 50-75%. However, Gulbarga division is an exception to this. There is heavy demand for the advances and the existing urban co-operative banks are not able to cope up with the existing demand.

39. The plan for industrial development particularly for rural industries in co-operative sector in the state was well conceived at early stage and its structure was designed with the establishment of state level industrial co-operative bank to give the boost to industrial co-operative development in co-operative sector in the state.

21.9 Sugar and Dairy Co-operatives

40. Co-operative agro-processing units in the state have played a positive role in reducing the regional imbalances in urban and rural sectors in Karnataka. Their contribution in developing rural industries and thereby improving the economic conditions of rural areas is highly impressive. The contribution of co-operative agro-processing units in improving social and economic conditions of rural community and developing villages at macro level has a historical significance. However, the scenario of co-operative agro-processing units brings a mixed picture in terms of their business performance at micro level. Except sugar and dairy co-operatives other co-operative agro-processing units have not come up to the expectation both in terms of their performance and contribution to the development in their area. Oil seed growers' co-operatives and co-operative spinning mills have become sick organisations in co-operative agro-processing sector in the state.

41. Tremendous impact of sugar and dairy co-operatives is felt in rural areas in terms of income generation, employment opportunities, infrastructure development and lifestyle of the people. Dairy co-operatives in the state have become the role models. Their performance highlights and their socio-economic impact on state rural community include the following;

- Entire state is covered by dairy co-operatives.
- 90% of milk producer co-operative societies are earning profits.
- Its membership has 17% women members and the same percentage of landless labourers. The empowerment of this weaker section has involved them in economic and social development.
- Socio-economic impact of dairy co-operatives is visibly felt in the villages.
- They have brought the benefits of technology to the doors of the farmers.
- They have created social and economic awareness among the illiterate dairy members.
- Total participation of members in their dairy co-operatives is a special feature of these organisations.

42. The sugar co-operatives are concentrated in northern Karnataka region. They have become change agents particularly in rural areas of Belgaum division in the state. They have emerged as unique rural growth centres and schools for the development of the rural

entrepreneurs and political leaders. They present a means for generating employment opportunities directly in the plants as well as in the farms and indirectly in support services like transport, banks, trade and commerce.

43. Benefits of the co-operative sugar factories to the members cover the higher price to sugarcane, dividends, financial assistance for gobar gas plants, digging bore wells, purchase of pump sets, seeds, fertilizers, tractors and consumer durables. Besides, they also provide agriculture extension services, medical and education facilities and subsidized sugar to members.

44. Sugar co-operatives have promoted education institutions, health centres, poultry, dairy and credit institutions in their area of operation. Generous donations are made by the sugar factories to the local social, cultural, educational, medical and charitable organizations. Many welfare measures are undertaken by them for their employees. Trade, commerce, transport activities, auxiliary units, small-scale industry, custom services have come up in the rural areas because of co-operative sugar factories.

21.10 Oilseeds Co-operatives

45. There are 386 primary oil seeds grower co-operative societies in the state. They are concentrated mainly in Hyderabad & Bombay Karnataka region as can be seen in the following table.

Table – 21.6

Oil seeds grower's co-operative societies in Karnataka Districtwise

Sl No.	Union	District	No. of Oil seeds growers co-op. societies	No. of farmer members	No. of villages covered
1	Hospet	Davanagere	17		
2	Hospet	Chitradurga	30		
3	Hospet	Bellary	39		
4	Hospet	Tumkur	47		
			133	50130	1275
5	Hubli	Gadag	38		
6	Hubli	Haveri	15		
7	Hubli	Dharwad	10		
8	Hubli	Belgaum	27		
9	Hubli	Bagalkot	25		
10	Hubli	Bijapur	16		
			131	42434	960
11	Raichur	Raichur	51		
12	Raichur	Koppal	35		
13	Raichur	Gulbarga	36		
			122	50498	1010
Grand Total			386	143062	3245

46. As can be seen in the above table, they cover 3275 villages with 143062 total membership. There are 3 unions located at Hospet, Hubli and Raichur, and KOF is the state federation at the apex level. There are 3 oil processing plants and one packing plant in the sector. Performance of primary oil seeds growers co-operatives is very unsatisfactory as 112 units are defunct and 44 units are liquidated. KOF is a losing organisation with heavy accumulated losses. It is under the rehabilitation plan assisted by state government, NDDDB and state co-operative bank. Entire co-operative oil seeds sector has become very weak and ineffective inspite of massive support by state government and NDDDB.

21.11 Spinning Mills

47. There are 12 co-operative spinning mills in the state. They are located mainly in northern region. These units do not exist in southern region of the state. Out of the total 2 are in Belgaum district, 6 in Dharwad district, 3 in Bijapur district and 1 in Raichur district. However, the performance of these units at micro level is very poor. Except Banahatti mill all mills are incurring losses. Total accumulated losses in these mills in the state stand at Rs. 16291.76 lakh. Bagalkot and Bijapur mills are already liquidated and Belgaum mill is closed. Thus, the whole co-operative spinning mill sector has become very weak and ineffective in the state.

48. There are 949 industrial co-operative societies in the state. There is a fair distribution of these units in all the divisions as can be seen in the following table. The Belgaum division has 292 units followed by Bangalore division with 269, Mysore division with 202 and Gulbarga division with 186 units.

Table – 21.7
Industrial co-operative societies in Karnataka – Districtwise

Districts	Number	Districts	Number
<i>Belgaum division</i>		<i>Bangalore division</i>	
Belgaum	89	Bangalore urban	34
Bijapur	36	Bangalore rural	36
Bagalkot	23	Tumkur	30
Dharwad	30	Kolar	45
Gadag	48	Davanagere	57
Haveri	18	Shimoga	35
Uttara Kannada	48	Chitradurga	32
<i>Total</i>	<i>292</i>		<i>269</i>
<i>Mysore division</i>		<i>Gulbarga Division</i>	
Chickmagalore	22	Bellary	34
Udupi	22	Bidar	32
Hassan	47	Gulbarga	86
Kodagu	11	Raichur	10
Mandya	24	Koppal	24
Mysore	33		
Uttara Kannada	32		
Chamarajanagar	21		
<i>Total</i>	<i>202</i>		<i>186</i>

49. Out of the total industrial co-operatives, 624 units are incurring the losses. The total losses of these units come to Rs. 200.13 lakh as on 30th March 2001. The state industrial co-operative federation is also incurring the losses. The industrial co-operatives were never a force in the industrial development of the state. Today their presence is hardly felt in the field.

21.12 National Co-operative Development Corporation [NCDC]

50. The National Co-operative Development Corporation (NCDC) has provided a substantial support to the co-operatives in the state to industrial, agro-processing, marketing and consumer co-operatives. The NCDC has made an all time high achievement during the financial year 2000-2001 in both sanction of funds and release of funds for co-operatives in the state. During 2000-2001, against the target of Rs. 50 crore, an amount of Rs. 83.74 crore has been released for 283 co-operative project and an amount of Rs. 89.80 crore has been sanctioned by NCDC for taking up 141 co-operative projects.

51. For the first time in the country, the NCDC sanctioned during 2000-2001 financial assistance for two co-operative lift irrigation projects in Koppal district with a total cost of Rs. 518 lakh for irrigation which covers the area of 1,730 acres.

52. Karnataka Co-operative Societies Act of 1959 is a very comprehensive enactment seeking to consolidate and amend the statutory laws bearing co-operatives in the state of Karnataka (Mysore) which was formed by transferring territories which were previously in the state of Madras, Bombay, Hyderabad & Coorg states. Frequent amendments of the Act needs to be noted. The amendments seem to be more politically oriented and could not be defended on rational grounds. With every amendment, the government tried to have more and more control on the co-operatives. Amendments converted genuine co-operatives into pseudo co-operatives. Act has replaced the professional management in co-operatives by bureaucracy.

21.13 Frequent Amendments: A Hurdle

53. The co-operative act in the state is found to be the big hurdle in the development of co-operatives in the state. The act has never allowed the co-operatives to function freely. The restrictive provisions in co-operative legislation in the state has adversely affected the autonomous character of co-operatives and undermined their capabilities to perform member determined activities. The Co-operative Act is found to have the following major deficiencies.

- Co-operative law has not included co-operative principles;
- It empowers the government to supersede the elected directors and appoint its own nominees to manage co-operatives;
- It empowers the government to impose by-laws or even assume the powers of general body of the members;
- It empowers the government to issue directions to co-operatives on business, operational and technical areas of their working and to overrule decisions taken by the elected board of directors;
- It does not reflect the opinions of the co-operative leadership;

54. HPCFRRI is inclined to agree with this assessment. As a result, these restrictive provisions in the co-operative act tend to negate the democratic character of co-operatives, prevent them from becoming self-reliant and push them into bureaucratic control. Nomination and deputation systems have become killing diseases caused by the Act. The discretionary power of the government/registrar provide ample scope to them to create problems for the co-operatives. We are afraid that co-operative act has violated the basic co-operative principles, business management concepts and even certain provisions of the constitution of India. Souhardh Act has shown a ray of hope for the converting co-operatives into member driven autonomous organisations. However, one has to wait and watch the results.

21.14 Neglect of Human Resources Development:

55. Human Resources Development [HRD] as a concept does not exist in the co-operative sector in the state. Though there is well conceived structure for member education programmes in reality, the member education programme has become nobody's business. State Co-operative Federation and the district co-operative unions which are in charge of member education programmes in the state have totally ignored their responsibility.

56. The state has a very good network of training institutions to train the employees. But unfortunately the impact of training is not felt in the field. Co-operative training institutions located at the districts lack the basic infrastructure facilities, professional trainers and training techniques.

57. There is a glaring imbalance in the location of the co-operative training institutions in the state. All the 4 training institutions meant for the managerial cadre are located only in Bangalore. The regional institute of co-operative management, training centre run by Karnataka state co-operative agricultural and rural development bank, national centre for the management of agriculture and rural development banks, staff training centre run by the state co-operative bank are located interestingly in one building in Bangalore. This is a highly undesirable development. In the interest of their clients who are spread all over the state these units need to be spread to the different regions in the state.

58. Regional imbalance is also observed in the location of 7 co-operative training centres run by Karnataka State Co-operative Federation. Mysore division has 3 centres, Bangalore division has 2 centres, Belgaum and Gulbarga divisions have 1 each. Considering the large number of co-operative institutions and their employees who require the training northern Karnataka requires more number of training centres. It is difficult to justify 3 centres in Mysore division. Hence, either new co-operative training centres should be established in north-Karnataka or some of the centres from southern region should be shifted to northern region.

59. There is a total absence of training awareness on the part of the managements of the co-operative institutions in the state. They are reluctant to share the cost of training. They do not send their employees to the training programmes conducted by the training institutions. Even after the training the employees are wrongly placed thereby nullifying the training benefits. As a result there is a considerable waste of training.

60. SWOT analysis of the state co-operative sector has revealed the following:

- ❖ Strengths includes: democratic character, service motivated, well built structure, participatory approach, political support and support to agricultural and rural development.
- ❖ Weaknesses are found in identity crisis, non-viability unit, lack of member participation, no linkages, neglect of HRD and organizational crisis.
- ❖ Opportunities are located in diversification in activities, application of marketing concept and practice of modern management concept and techniques.
- ❖ Main threats of co-operatives are refusal to change, caste hierarchy, political interference, co-operative Act, agitational demands of farmers' organisations and bureaucratic control.

61. Going is to be very tough for co-operatives in the state in the competitive market in future. Their future depends upon their capacity competence and capability to serve their customers better than their competitors. However, committed leadership, professional management and participative membership can make the co-operatives extend their area of operation successfully for contributing to balanced development.

62. In the recent Budget for 2002-2003, the Chief Minister Sri S. M. Krishna announced the reduction in co-operative interest rates by nearly 3 per cent by directing the Apex Bank to lend directly to primary societies so that short-term credit structure will have only two tiers. The HPC FRRRI appreciates this bold decision to re-structure the delivery system to benefit farmers through low interest rates which ought to have been the case all these decades. The Committee ardently hopes that the implementation of this measure will not get delayed. Further, the Committee recalls how following the Hazare Committee Report on restructuring of Co-operative Credit Institutions several years ago a few States have merged the Land Development Bank [State Co-operative Bank for Agriculture and Rural Development] with the Apex Co-operative Bank for Agriculture and Rural Development, thus, paving the way for providing both long-term and short-term credit under a Single Window Agency System [SWAS]. It is very unfortunate this has not been attempted in Karnataka. The total advantage would be that the system will have a two-tier structure which immediately reduces the costs and the interest rates. This is long overdue in the State. HPC FRRRI recommends very strongly the merging of the long-term and short-term credit institutions to provide credit under a single umbrella. Such a system has been created in the case of industries to promote easy credit flow for industries. This will be a major step and one of the measures needed for giving industry status to agriculture which has been long eluding policy making will be fulfilled. An integrated credit system will, undoubtedly accelerate the development of backward areas thereby contributing to reduction in disparities.