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Wealth creation through mass capital mobilization through a cooperative enterprise model: Some lessons for transplanting the Indian experience in South Africa

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The Indian experience of mass capital mobilization through cooperative movement is well-known and laudable one. The model has been very successful in mitigating poverty across rural India. This study looks into the framework of capital mobilization and how it contributed to massive economic growth of rural India, with special focus on Gujarat and Maharashtra-two pioneering provinces in cooperative enterprise strategy. The study draws parallel lessons for South Africa providing policy insights toward building a cooperative movement.

Key words: Cooperative, India, South Africa, capital mobilization, wealth, finance.

INTRODUCTION

The cooperative movement in India is very old and was introduced during British regime. A British officer Nicholson recommended the Raiffeisen model of German agricultural credit cooperative in India at the turn of the 20th century. This recommendation was taken up by the British government who passed the first Cooperative Society Act of 1904; the Act then created agricultural credit cooperative in the country (Das et al., 2006). The scope of cooperative was later broadened by extending it to non-agricultural sectors by passing the cooperative Society Act of 1912 which superseded the 1904 Act.

Later, the cooperative enterprise was made into the provincial subject as per the Administrative Reforms Act of 1919. The Multi-Unit Cooperative Societies Act of 1942 was passed to strengthen the functioning of cooperative across various provinces of the country. The Act of 1942 was later replaced by the Multi-Unit Province Cooperative Society's Act of 1984 (Das et al., 2006).

The cooperatives have been primarily a successful method of enterprise organization in the agricultural sector in India. Some 80% of primary cooperative societies are in agriculture, of which some 60% deal with credit alone (Das et al., 2006). Credit or capital mobilization has been the primary objective of cooperative. Some salient facts about cooperative in India indicate that they are empowering institutions. Firstly, cooperatives are a big network of organizations across India. For example, some 230 million people are members of cooperative in the country (Das et al., 2006). Secondly, cooperatives control large amount of businesses nationwide. As a case in point, some 35% of fertilizer production and marketing is done by cooperative sector (Table 1). Thirdly, cooperatives are all-pervading in different sectors of economy including agriculture, manufacturing and processing, and retail sectors. The two major cooperative dominated provinces of India are Maharashtra and Gujarat. These two provinces have experienced phenomenal economic growth and a higher standard of living during the last one hundred years or more.
In South African context, the history of cooperative development is intricately linked with apartheid. The cooperative ventures that started during apartheid did not benefit majority and hence failed to develop the country as such. Moreover, most agricultural cooperatives were exclusive to white farmers and the benefits thus did not permeate to large black population. And, any attempt to boost black farmers’ cooperative in the homelands also failed as they did not enjoy the government support. Today the need for developing cooperative in the country is very high as to engender economic development in the countryside.

Poverty abounds in South Africa. Using the minimum living level (MLL) as the cutoff point, R1871 was estimated for a household of 4.7 people in 2003 by the Bureau of Marketing Research (BMR) (Landman et al., 2003). Using this as benchmark estimate and then adjusting it for inflation for 2000, Landman et al. (2003) estimated some 46% of South African living below poverty line. The official unemployment rate is now quoted to be about 25.5% in the policy circles and in actuality it may be more than this. It is also noted that the inequality has increased among black population in the post-1994 period much more rapidly (Landman et al., 2003). Under these circumstances, it is essential to develop the upliftment strategy for poorer sections of the society in general and bringing them back into the market economy. The cooperatives are considered as by the best means for this endeavor.

Cooperative Association of South Africa (NCASA) was founded in 1997 as an apex body over sighting the growth of cooperative and generate policy initiatives for their further development. The NCASA’s mission is to promote the concept and practice of cooperation and building of a cooperative sector in the country. The major challenge for them at present is to develop the cooperativization strategy for the masses (NCASA, 1997). The new cooperative is emerging from various sections of the society including workers, professionals, women, township residents, rural farmers, taxi and truck drivers, and so on. Many cooperative operate on informal basis such as stokvels, burial societies and social clubs. Many of these cooperative are not well connected nationally and have poor organizational structure and suffer from capital scarcity. The South African government has passed the cooperative Act, 2005 which aims at promoting the development of sustainable cooperative (RSA, 2005). The act promotes the seven key principles of cooperation as adopted by the International Cooperative Alliance (ICA, 2004; DTI, 2004; http://www.ica.coop.principles.html).

There are parallels between India and South Africa in terms of colonial legacy and underdevelopment of masses. The policy makers and planners will be immensely benefited by the cross-cultural exchange of historical and contemporary knowledge of policy-making on cooperative, in particular how Indians tackled the problem of capital mobilization through cooperative.

The major objective of this study is to study how cooperativization has helped mobilization of capital in particular in two major provinces of India, Maharashtra and Gujarat; and what lessons from this experience are transferable to South African situation. The study focuses on historical development of cooperative and their role in mobilizing capital in general vis-a-vis the role in organizing people for collective action in particular.

### CAPITAL MOBILIZATION IN MAHARASHTRA, INDIA

The story of capital mobilization in Maharashtra began long time ago during British India, between 1870 and 1903 AD. The period of 1870 - 1903 can be termed as pre- cooperative or first stage of cooperative development. The Indian artisans or peasants then experienced increasing indebtedness and extreme poverty conditions. The problem was complicated by the local money lenders who charged exorbitant interest rates. This left no escape route for the peasants to get out of debt cycle. Their perpetuation in poverty was thus guaranteed. The money lender on the other hand had surfeit of capital and did not know where else to invest money which forced them to force loans on the peasant clientele (Anstey, 1977).

Several efforts were made during the 19th century to improve the financial health of peasants or farmers by introducing a number of measures by the administrators: specifying rents of tenants, provision of state/government loans for productive purposes, funding of post-office savings banks, and so on. This, however, did not help everyone. Meanwhile two important laws were passed that paved the way for the cooperative movement in India: The Land Improvement Loans Act of 1883 and the

### Table 1. Percent Share of cooperative in different businesses, India.

<table>
<thead>
<tr>
<th>Particulars/Industry</th>
<th>Percent share of total market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fertilizers production and distribution</td>
<td>55</td>
</tr>
<tr>
<td>Sugar production</td>
<td>58</td>
</tr>
<tr>
<td>Marketing and distribution of cotton</td>
<td>60</td>
</tr>
<tr>
<td>Hand-weaving</td>
<td>55</td>
</tr>
<tr>
<td>Marketing and distribution of edible oil</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Data based on Das et al. (2006).
Agriculturalist Loans Act of 1884. The Land Improvement Loans Act allowed province funds to be used toward improving land. The Agriculturist Loans Act permitted funds to be loaned for purchasing agricultural inputs. The interest charged by the province was reasonable and not as high as charged by the local money lenders.

In early 1890’s, two men named Sir William Wedderburn and Mr. Justice Ranade prepared a scheme to establish agricultural banking which was rejected by the Secretary of State but accepted by the Government of India. A few years later Sir F. Nicholson conducted a special inquiry and suggested that the Raiffeisen model of cooperative management be promoted in the country (Nicholson, 1895, 1896). This was further researched by Sir Edward Law under the viceroyship of Lord Curzen. His recommendation served as a basis for passing the Cooperative Credit Societies Act of 1904 (Based on Anesty, 1977).

The next period of 1909 - 1911 was the second stage of cooperative development in Maharashtra. The Cooperative Credit Societies Act of 1904 paved the way for initial stage of cooperative capital mobilization in the province. It finally culminated into setting up the Bombay Central Cooperative Bank. The third stage (1912 - 1924) was an evolution stage of cooperative movement in Maharashtra. The Cooperative Societies Act of 1912 allowed formation of cooperative societies for purposes other than credit and extended principles of cooperative enterprise to educational schemes. The next two decades from 1925 - 1947 were characterized by stagnation of the movement; this can be termed as the fourth stage of cooperative development. Two new cooperative institutions, Bombay Cooperative Insurance Society and Cooperative Land Mortgage Bank, were established during this period. There was virtually no growth during this period and it was marred by stagnation.

The fifth stage is delineated from 1948 - 1961, the period when the cooperative movement spread far and wide in the province. The movement grew in rural areas, in particular amongst sugarcane farmers. Farmers/peasants made the best use of credit facilities offered by the cooperative banks. The successful cooperative society of Pravaranagar inspired many to establish sugar cooperative societies in different parts of the province. The Apex Cooperative Bank in the province began strengthening secondary level financing agencies during this period. In fact, this was a period of cooperative renaissance in the province; the new upbeat rural leadership emerged and claimed the fair share in the national wealth. The sixth stage began from 1962 onwards and is in fact characterized by diversification, an all-round development of cooperative movement in the province. The salient features of this stage are summarized as follows:

i) An extensive horizontal and vertical diversification of cooperativization utilization took place; the size of growth varied from 2 - 6 times of the initial output.

ii) The apex provincial cooperative bank provided support to the government programs of intensive production and procurement of food grains, financing of sugar factories and other sectors of the economy.

iii) By now the cooperative education had spread to the deep inside the villages and it had nurtured a good size of vibrant rural leadership who were seeking change in their income and over-all social well-being.

The cooperative movement in the province by then had founded itself nicely and set some shining models of cooperative which people could look for. Three important examples which are well known and are frequently cited are:

i) The Pravaranagar Rural Industrial Complex;

ii) Warana Nagar Cooperative;

iii) The Maharashtra Province Cooperative Bank.

A brief description of each is provided so as how they coped with capital mobilization initiative. The Pravaranagar Sugar Cooperative Society (PSCs) was established in 1951 and collectively owned by sugarcane farmers in Ahmednagar region. The leadership role was played by Vithalrao Vileh Patil and Dhananjayrao Gadgil, the two eminent cooperative leaders of the region. This was a unique story of success which sparked off a number of sugars cooperative in the province. These cooperative became very successful in generating incomes to its members and also enabling them to become proactive and asserting their role in the business world. The numbers of sugar cooperative proliferated very rapidly; and, today in the early 21st century there are roughly 175 sugar cooperative in the province and they process about one-third of the total sugarcane processed in the country. The cooperative have flourished and entered into other economic activities such as watershed management, processing of agricultural products, and so on. The cooperative societies have also gone into financing education of children in the rural areas.

The Warana Nagar cooperative is another shining example of success. The cooperative was established in 1956. The cooperative members created an area development fund, which was then used to develop infrastructure in the village. The organization later diversified into poultry farming and dairy or milk processing. The third well-known example is the Maharashtra State Cooperative Bank, the Apex Cooperative Bank in the province since 1954. It provided refinancing facility to about 30 District Central Cooperative Banks which supplied credit to agricultural sector.

**Financing agriculture at the grassroots**

The network of cooperative that grew in the province over a period of hundred or more years did a wonderful job of
mobilizing capital in the villages of Maharashtra. The three-tier structure of cooperative banks mobilized capital so as to cater to the needs of rural entrepreneurial farmers. At the province level, the Maharashtra State Cooperative Bank (MSCB) operated as the apex bank of cooperative structure. The apex bank established branches at district level and sub-branches at taluka/county level. The second tier included the District Central Cooperative Banks (DCCB) which provided finances to Primary Agricultural Cooperative Societies (PACS). The PACS directly lent to farmers/rural entrepreneurs.

The three-tier structure of cooperative mobilized capital into rural agricultural economy. The cooperative banks provided short-term (12-15 months), medium term (from one year to five year period), and long-term loans (more than five years) to farmers, artisans, and workers (Table 2 and Figure 1). These loans were disbursed at a reasonable interest rate which was much lower than that was traditionally charged by the moneylenders. In the old environment, farmers relied heavily on moneylenders cum traders who provided timely help to their clients but at an exorbitant interest rate. As a result, farmers got trapped into the endless cycle of indebtedness. In addition to providing loans at reasonable interest rates, the cooperative banks locally supplied the necessary agricultural inputs such as fertilizers, seeds and other fixed inputs at a reasonable price. This created a conducive environment for farmers to repay the loan on time and helped break the cycle of bonded indebtedness. At the same time, the banks provided an outlet for the moneylenders to invest with the banks and they were unable to enforce loans on to peasants and farmers. The moneylenders were thus converted into savers with the banks and peasants and farmers became borrowers with the banks (Figure 2).

In doing so, the government played a very important institutional protection provider role in bringing the farmers out of continuous cyclical debt with moneylenders. The cooperative banks thus killed two birds with one stone. On one hand, they accepted deposits from money lenders; and, on the other hand, they loaned funds to needy farmers at reasonable interest rates and provided agricultural inputs locally at reasonable prices.

In addition to providing credit to needy farmers, the government also looked into revamping the agricultural technology. The new agricultural technology, popularly known as seed-water fertilizer technology which harbingered the green revolution in the country in 1970s paved the way for agricultural growth. The continuous efforts thus made by Indian agricultural scientists paved the way for farmers to produce more and feed the nation.

As the agricultural growth perked-up, the financing became easier as farmers could pay their loans on time. This sparked off the further expansion of cooperative banks. For example there were 30 District Central Cooperative Banks in the province and experienced large increases in the capital investment. The progress of the District Central Cooperative Banks since 1961 is given in Table 2. Although there is not a tremendous increase in terms of numbers of branches and numbers of district central banks, the phenomenal increases can be seen in deposits, working capital, loan outstanding and profit (Table 3). A similar pattern of growth can be seen in the Apex Bank- the Province Cooperative bank (Table 4).

The growth of PACS is also impressive. For example, the number of PACS increased from 18596 in 1982/83 to 20412 in 1999/2000—an increase of 9.8 percent (Shah, 2007).

Indeed, the period from 1960 - 1980 has been termed as golden age of cooperation in Maharashtra (Baviskar, 2007). The cooperative sector experienced a decline thereafter due to rising corruption introduced by higher level politicians in particular Antulay and his men in the Congress Party (Baviskar, 2007). The other reason for downfall was the imposing of law ceiling on sugar prices compared to high prices of sugar in the market. This created an unaccounted cash flow to sugar cooperative which they tried to hide. This in turn created a good climate for breeding corruption which some selfish politicians used to their advantage. In brief, government was finally responsible for regression of the sugar cooperative in the province.

### Table 2. Types of loans disbursed and loan conditions by Cooperative Banks in Maharashtra, India.

<table>
<thead>
<tr>
<th>Type of loan</th>
<th>Loan period</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term</td>
<td>12-15 months</td>
<td>For meeting costs of expenditure during agricultural season</td>
</tr>
<tr>
<td>Medium-term</td>
<td>Up to 5 years</td>
<td>For purchase of bullocks, carts, repairs to old mills</td>
</tr>
<tr>
<td>Long-term</td>
<td>Exceeding 5 years</td>
<td>For digging of wells, permanent fencing, purchase of land and heavy machinery like tractors, lift irrigation</td>
</tr>
</tbody>
</table>

Source: Data collected from: http://www.mah.nic.in/sahakaar/sanagri.htm.
Figure 1. The Three-tier structure of capital mobilization strategy of Cooperative Banks, Maharashtra, India.

Figure 2. A Comparison of the traditional perpetual debt cycle and the new induced saving-investment cycle.

CAPITAL MOBILIZATION IN GUJARAT, INDIA

Capital mobilization movement in Gujarat began sometimes during the pre-independence days in 1930’s. Instead of sugarcane as in Maharashtra, the commodity of interest was milk and dairy farming. During the 1930s, there was a company called Polson which collected milk from villages and sold in Bombay. The Polson captured
Table 3. Growth of District Central Cooperative Banks (DCCB) in Maharashtra, India, selected years, Rupees in millions.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>No. of banks</td>
<td>35</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Branches</td>
<td>-</td>
<td>3147</td>
<td>3516</td>
<td>3804</td>
</tr>
<tr>
<td>Members</td>
<td>57000</td>
<td>84000</td>
<td>94000</td>
<td>119000</td>
</tr>
<tr>
<td>Share capital</td>
<td>65.3</td>
<td>1889.6</td>
<td>2963.7</td>
<td>7863.2</td>
</tr>
<tr>
<td>Deposits</td>
<td>264.7</td>
<td>31994.0</td>
<td>63987.4</td>
<td>195734.7</td>
</tr>
<tr>
<td>Working capital</td>
<td>609.3</td>
<td>48349.2</td>
<td>89069.7</td>
<td>274986.5</td>
</tr>
<tr>
<td>Outstanding loans</td>
<td>436.1</td>
<td>30783.6</td>
<td>52208.8</td>
<td>155756.3</td>
</tr>
<tr>
<td>Profit</td>
<td>5.0</td>
<td>171.4</td>
<td>363.3</td>
<td>1604</td>
</tr>
</tbody>
</table>

Source: Data collected from: www.mah.nic.in/sahakaar/sanagri.htm.

Table 4. Growth of Maharashtra State Cooperative Bank (MSCB) selected years, Rupees in millions.

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>No. of branches</td>
<td>20</td>
<td>43</td>
<td>45</td>
<td>46</td>
</tr>
<tr>
<td>Members</td>
<td>11,000</td>
<td>26,000</td>
<td>29,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Share capital</td>
<td>32.6</td>
<td>281.6</td>
<td>455.5</td>
<td>1,869.1</td>
</tr>
<tr>
<td>Deposits</td>
<td>215.3</td>
<td>20,936.2</td>
<td>36,085.2</td>
<td>101,974.7</td>
</tr>
<tr>
<td>Loans outstanding</td>
<td>374.2</td>
<td>21,731.4</td>
<td>31,189.4</td>
<td>88,303</td>
</tr>
<tr>
<td>Profit</td>
<td>2</td>
<td>68.6</td>
<td>101.5</td>
<td>106.8</td>
</tr>
</tbody>
</table>

Source: Data collected from: http://www.mah.nic.in/sahakaar/sanagri.htm.

the large marketing margins and paid very little to farmers. Villagers noticed these wide margins between market prices and what they received from the company. This activated collective action/effort of villagers to better their incomes and they met Sardar Ballabh Bhai Patel, the iron man of Indian freedom movement, who suggested farmers to resort to cooperative institutions. As a result, the Kaira Milk Cooperative Society (KMCS) was founded in 1946 under the dynamic leadership of Tribhuvan Das Patel. Patel established a cooperative institution, collecting some 247 liters of milk from two villages and selling it in Bombay. This initial seed of cooperativism later grew into a giant system of cooperative, one of its own kinds in the world in the 1960s.

For almost a decade after independence in 1947, cooperative barely survived and farmers learned that they need a larger organization to tackle larger macro issues. It required a big investment and a political will too. During 1960’s, the Government of India came up with a grand plan, popularly known as Operation Flood. The Operation Flood was headed by Mr. Kurian, a man of remarkable potential of organization skills. From this experiment came the Anand Pattern cooperative (APC), developed under the auspices of National Dairy Development Board (NDDB). The Gujarat cooperative experiment was based on two important premises. One, the organizers of operation realized that there exists a huge demand for milk in Mumbai and in the country as a whole. The missing link is a good marketing system. Two, farmers or milk producers were not getting a fair price under the current system and large marketing margins were being pocketed by the middlemen. It was essential to have a good collective management cum marketing system in order it to be successful. To combat the problem, a three-tier model of cooperative organization was operationalized, popularly known as APC or Anand Pattern Cooperative management model (Anand is a place in Gujarat where NDBD offices are located).

The three-tier model consists of cooperative organizations at three levels. The first or primary level is at the village or block level. These were known as Primary Milk-Cooperative Societies (PMCS). At the primary level, the milk cooperative societies were engaged in weighing, grading, and collection of milk. The second level cooperative organizations were created at the district level; the District Milk-Cooperative Union (DMCU) focused on planning, processing and packaging activities related to milk collected from the primary societies. On a similar pattern, the third provincial level cooperative was created to look after the marketing and distribution of milk or milk products produced by cooperative in the entire province.

At village level, the primary milk cooperative societies were formed by the primary milk producers who paid an entrance fee and were allowed to buy one share of the society. All decisions in the society were made
democratically and through voting in the absence of consensus. In order to have voting rights, members were required to supply at least 700L of milk per annum for at least 180 days in a year. One person-one vote policy was adopted and no seats were reserved for any group of society. The participation was purely voluntary and based on cooperative principles. Members then were allowed to elect a managing committee which in turn appointed a chairperson. The task of primary milk-cooperative society was streamlined and managed on a day to day basis. The routine tasks included: (1) Collecting milk from members and making payment the very next day; (2) providing cattle feed and cattle care services including artificial insemination; (3) paying bonuses at the year end on pro-rata basis; (4) managing the overall functioning of the society; (5) liaising and interacting with district and province level cooperative organization. All members were paid as per fat content of the milk and payments were given the next day. This incentivized the milk producers which contributed to building a good business ethical environment.

At the district level, the cooperative union was represented by primary cooperative societies and it was governed by a Board of Directors (BOD) which consisted of representatives from primary cooperative societies, banks, province cooperative department, dairy experts and government nominees. The BOD appointed a chairman, vice chairman and managing director. The managing director was responsible for operational management of the district level cooperative union. The major task of BOD was to formulate a sound policy for running the business. The BOD followed the one society and one vote principle. The chair and vice-chair were appointed for a year only. The major functional roles that DMCUs played were as follows: (I) They designed the milk routes and bulk cooling and chilling centers along the routes. The purpose was to find shortest possible routes and coverage of all villages in shortest possible time, (II) they made payments to village cooperative societies every 10 days and (III) they made all marketing and advertising decisions. In brief, the key function of district level cooperative unions was to handle centralized branding, centralized quality control, centralized purchasing, and centralized policy of milks. The farmers still have control on professionals and their performance was audited from time to time.

Until 1974 the district cooperative unions sold milk in the province and outside but acted independently. Very soon they realized that acting alone does not benefit much and they decided to federate. All the district level cooperative unions federated and formed the Gujarat Cooperative Milk Marketing Federation (GCMMF) in 1974. It is now the largest food products marketing organization in India. It is the apex body of milk cooperative in the Gujarat province. The major objective of the federation was to provide remunerative returns to the farmers and provide quality products to consumers.

The GCMMF is a 13 district cooperative milk producers’ union, consisting of some 2.7 million members across 13141 villages in Gujarat (http://www.amul.com/organisation.html). It collects some 7.4 million liters per day, amounting to 2.69 billion liters per annum. In 2007/8, the turnover of GCMMF was US$ 1.325 billion. The GCMMF thus represents the grand exercise in collective action of farmers through cooperative (based on the information obtained from the website: http://www.amul.com/organisation.html).

The key achievements of APC are highlighted as follows. Firstly, the impact of Operation Flood was felt countrywide, although the epicenter of this collective action was Gujarat. The APC is an institutional innovation for it has been able to cut transactional costs for itself on three fronts, these are information asymmetry, opportunism and asset specificity; by evolving governance structures which harmonize exchangeable relations access parties (Sridhar and Ballabh, 2007). Secondly, it is an exercise in collective action from the least formally educated farmers, supported by a good system of institutions and professionals. Thirdly, the Operation Flood has worked in bringing a big change in mobilizing capital in rural India and thus creating phenomenal economic growth and bringing enormous social change in the country (Alderman et al., 1987). This program was launched in 1970s with the objective to raise milk production in the country, augment rural incomes, and supply milk to consumers at reasonable prices. The Operation Flood program was executed in 3 phases. A brief phase-wise summary of progress is given in Table 5.

THE LESSONS LEARNED: RELEVANCE TO SOUTH AFRICA

Some powerful lessons emerge from the afore-discussion. The cooperative entrepreneurship is now considered a model of community growth. In South African context, the cooperative model of entrepreneurship is seen as driver of growth in rural areas in particular. The World Bank has chosen APC module for replication in African Countries including South Africa (Singh, 2006). The study has summarized five key lessons that are transferable to South African situations that can contribute to the South African cooperative movement.

It is important to note that although cooperative movement first surged in the agricultural sector in India, it has now formed up its roots in other sectors such as industry and retail services. In South African situation, the cooperativization strategy should be developed for a variety of sectors such as finance cooperatives like stokvels and village banks, consumer cooperatives such buying clubs, workers cooperative such as in manufacturing and cottage industries, housing cooperatives and
The lessons learned are thus generalizable to a larger set of conditions.

**Lesson 1: Simultaneous development of capital mobilization and markets for cooperative produce**

In both provinces of Gujarat and Maharashtra, the capital mobilization by cooperative and the exploitation of markets for the cooperative produce transpired concurrently. This was hence mutually reinforcing mechanism which ensured the survival of cooperative and their sustainability. In Maharashtra, for example, introduction of cooperative banking and agricultural development in rural areas mutually reinforced each other. Farmers could get reasonably cheap credit from cooperative. And, at the same time farmers increased their yields of crops due to improved agricultural technology and sold at reasonable prices in the market. This enhanced the farmers’ profit and they could repay their loans on time. In Gujarat, the demand or market for the milk already existed. The organization of cooperative provided a good marketing channel and an instant payment system to farmers. It thus enabled farmers to buy inputs and other needed resources on time. The large amount of capital came through the World Bank loan.

This experience is very vital in South African context. For example, since the onset of democracy in the country, the government of South Africa has got special impetus to the development of cooperative, especially in rural areas. It is imperative here to look into the country’s rural development plans and the Reconstruction and Development Plan (RDP) implemented by the democratic government after 1994 (The RDP White Paper, South Africa, 1994). The RDP aimed at dealing with 6 major bottleneck in developing the country: (1) Housing, (2) clean water, (3) electrification, (4) land reform, (5) health care and (6) public work. There has been a very slow progress in attaining the above goals, and especially with respect to land reform. The land reform had three broad thrusts: strengthening of tenure rights for rural poor, land restitution, and to distribute 30% of agricultural land to rural poor. The success in achieving these goals has been unsatisfactory. These failures have also contributed negatively to the success of cooperative in rural areas. In most cases where cooperative were established, a high failure rate is observed for various reasons including the lack of access to market for the produce of cooperative, high cost non-competitive banks who are reluctant to support the small and micro businesses. It is essential to understand that both extension of access to market/market development and cooperative development strategies should be aligned in developing a cooperative policy framework.

**Lesson 2: The endurance of a 3-tier system of Anand Pattern Cooperative (APC)**

The three-tier system of cooperative operation at village, district, and province level has worked very well in supplying the coordination of the cooperative societies and district level cooperative unions. It has thus proved to be an efficient and enduring organizational framework. The three-tier structure distributes the function in relation to their scope and importance. For example, the policy issues are dealt by the apex body, the province level federation of cooperative unions, the operational and micro-management issues is directly dealt by cooperative societies and district level unions of cooperative societies.

In South African context, the first levels cooperative were introduced by the government right after the democratic transition. However, majority of these cooperative

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**Table 5. A brief summary of achievement of Operation Flood, phase-wise.**

<table>
<thead>
<tr>
<th>Phase</th>
<th>Funding/Source</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1: 1970-80</td>
<td>Sale of skimmed milk powder and butter milk offered by European Economic Community (EEC) through World Food Programme (WFP)</td>
<td>Linked 18 milk sheds with consumers in urban metropolitans: Delhi, Mumbai, Kolkata, Chennai</td>
</tr>
<tr>
<td>Phase 2: 1981-85</td>
<td>World Bank wide area network (WAN) and EEC gift</td>
<td>Increased milk sheds from 18 to 135. By the end of 1985, it covered 43000 village cooperative covering 4-25 milk producers</td>
</tr>
<tr>
<td>Phase 3: 1985-1996</td>
<td>World Bank WAN and EEC gift</td>
<td>Strengthened infrastructure, veterinary first-aid, healthcare services, feed and artificial insemination services. The number of village cooperative under the program increased to 73000. Also, increased emphasis to research and development was given</td>
</tr>
</tbody>
</table>
have lackluster performance. In a cooperative conference
in Durban, it was decided to have an apex body of
cooperative in the KZN (Anonymous, 2009). The NCASA-
an independent institution forming policies for cooperative
sector, aims at developing a multi-layer organizational
structure (NCASA, 1977). The other significant factor is
the home of the cooperative policy in the country. Initially,
cooperative were put under the Ministry of Agriculture,
but were later moved to the Ministry of Trade and Indus-
try. Perhaps both ministries should be given the mandate
to develop cooperative movement in their respective
sectors. In the industrial sector, the Ministry of Trade and
Industry can take the role of custodian of cooperative
movement and the Ministry of Agriculture can do the
same in the agricultural sector. Both ministries thus need
to be coordinated under the Independent Communica-
tions Authority of South Africa (ICASA) framework.

Lesson 3: Investing in human capital formation

Human capital was a key resource in mobilizing the
grand cooperative experiment in India over a period of
more than 20 years in Gujarat and about 100 years in
Maharashtra. The flexibility and adaptability of higher
education sector of India played a key role in meeting the
needs of cooperative revolution in the country. As the
cooperative revolution proceeded, the government made
heavy investment in preparing young youths to take jobs
with the cooperative sector. For example, a premier
institute of rural management was established in Anand,
Gujarat in 1970s. Similarly a cooperative college named
after Vaikunth Mehta Institute of Cooperation was
established in Maharashtra. Other subsidiary institutions
emerged as the demand for skilled people increased.
These two institutions pioneered in developing expertise
and manpower for the cooperative sector. Relying on
Indian experience, South Africa has not put much effort
as yet and it needs to build up institutions of cooperative
excellence to generate human capital for this sector.

In the South Africa, the role of human capital formation
in the short run is assigned to the Sector Education and
Training Authority (SETA) which is responsible for
development and implementation of skill development.
The Department for Trade and Industry (DTI) is respon-
sible for facilitating and supporting the access of the
cooperative sector to SETAs (local government and
public service) and the learnership programs. In the long
run, this role would be performed by special cooperative
colleges and training schools. However, a more ambiti-
ous investment may be intended by the government in
this sector toward developing higher education training
institutions in the country.

Lesson 4: Democratic governance

The entire cooperative movement in India was developed
on the principle of voluntary participation and one person-
one vote principle. The village cooperative societies were
allowed to choose their chair and their turn was reviewed
every year so that people have the final control on the
activities of the societies. The same principle was
followed at the district and province level organizations of
cooperative structures. The democratic decision making
at every level from village to the apex body helped
cooperative governance structures to be responsible to
people at the grassroots and their interests were taken
care of. The people's choices hence guided the bureau-
cratic managers in the organizational setup and people
themselves became watchdog of these institutions. It is
however important to mention that it would be a
challenge to establish a structure along the cooperative
principles that is apolitical and free from the control of
local elites.

Lesson 5: Cooperative linked with National Development Plan

One very reason of success of cooperative movement
was their objectives were plugged into the national plan
of poverty eradication and all round development of
economic. This offered the strong motivation to
governmental agencies to support the programs of
cooperative. The government went a long way in
supporting them as it strengthened the political
constituencies and rural leadership which played a key
role in electing people to parliament and provincial
legislatures. In South African context, it is very necessary
to link the cooperative and capital mobilization strategies
with national economic development plan and political
electoral system.

CONCLUSION AND POLICY IMPLICATIONS

The cooperativization experience of India is a very
valuable one and a unique one too as it shows that it is
possible to create wealth by making a coordinated efforts
and channeling the savings in proper way. The
experience of Maharashtra in channeling savings and
creating economic growth through cooperative banking is
a noble historical experiment and shows how a small
innovation can go a long way in creating wealth in the
countryside. The Gujarat cooperative experience is
different from the one from Maharashtra in some ways. It
was about building a great organizational structure on the
lines of a multinational company but its management was
run by the members of the cooperative, rather than by the
shareholders and appointed directors. The funds came
from outside but these were channeled through coopera-
tive societies. The lessons learned from these experi-
ments are enormously helpful for guiding the cooperative
movement in South Africa. Five important lessons were
discussed and their relevance for South Africa is explored.
These recommendations are summarized as follows:

i) The simultaneous development of capital mobilization and markets for cooperative produce should be engineered.

ii) A three tier system of cooperative institutions on the lines of APC model is to be developed.

iii) Government should make sufficient investment in the cooperative education sector so as to meet human capital needs of this growing sector.

iv) A strong democratic governance system of management of cooperative is to be upheld.

v) The cooperative should be plugged into the national development plan and become the tool for upliftment of poor.

REFERENCES


