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COOPERATIVE INSTITUTIONS IN INDIA: CAUSES OF FAILURE AND REFORM IMPERATIVES

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Abstract
This paper synthesizes empirical and case-based evidence to explain why many Indian cooperatives fail and why a minority endure or prosper. It integrates institutional economics and governance frameworks with multi-sector empirical findings to identify recurring failure pathways—governance capture, contractual inefficiencies, insufficient equity and working capital, weak managerial capacity, and adverse regulation—while contrasting them with the institutional design of successful dairy cooperatives. Using studies on sugar, dairy, primary agricultural credit societies (PACS), farmer producer organizations (FPOs), producer companies and multipurpose marketing cooperatives, the analysis shows that: (a) poor board and management incentives systematically undermine recovery and operational discipline; (b) ownership and contracting structures create monopsony or free-rider distortions that reduce producer supply and cooperative viability; and (c) size, membership commitment and access to capital determine the capacity to invest in markets and technology. The paper offers prioritized, actionable policy and design recommendations—strengthened member equity and patronage rules, transparent board selection and performance metrics, targeted professionalization and capacity building, calibrated fiscal support, and streamlined regulatory oversight—for restoring cooperative viability. The contribution lies in assembling cross-sector empirical regularities across recent Indian literature, linking them to governance and institutional theory, and proposing operational reforms tailored to the Indian policy environment.
Keywords: Co-operative society, PACS, FPO, marketing co-operative, India.

1. Introduction

Cooperatives are member-owned, democratically governed organizations that pool resources to provide services, finance, and market access to their members. They coexist with both informal mutual support systems and formal market institutions in rural and urban economies (Sick et al., 2014). In India, the cooperative model has been central to development across credit, dairy, sugar, marketing, and artisanal sectors. From pre-colonial mutual aid groups to post-Independence state-sponsored cooperatives and more recent experiments with producer companies, the cooperative idea has evolved with changing policy and market contexts (Bharti & Malik, 2023).

The Indian dairy sector provides a striking contrast within this trajectory. The three-tier Anand Pattern, pioneered by Amul, successfully integrated millions of smallholders into industrial value chains and triggered the White Revolution. In doing so, it demonstrated how carefully designed institutions can deliver both efficiency and inclusion (Dervillé et al., 2023). Yet, alongside this success story stand thousands of struggling or defunct cooperatives—especially in credit and sugar—whose collapse reveals deep governance and incentive failures.

Understanding why some cooperatives thrive while others falter remains central to India's rural transformation agenda. The issue is not only institutional design but also the broader ecosystem of finance, markets, and political incentives within which cooperatives operate. This paper, therefore, compares successful and failing cooperatives to identify which institutional, managerial, and policy features enable long-term sustainability.

This study is organized into eight sections to develop a comprehensive understanding of cooperative performance in India. Following this introduction, the next section reviews major theoretical and empirical contributions that explain why cooperatives succeed or fail, drawing on perspectives from institutional economics, governance theory, and social capital frameworks. The third section outlines the methodological approach and sources of evidence used to synthesize sectoral experiences. Section four constructs a conceptual framework linking governance, finance, and collective action as interdependent determinants of performance. The fifth section examines the structural and proximate causes of cooperative failure, while section six presents comparative case analyses—focusing on Maharashtra's sugar cooperatives and the Anand Pattern dairy model—to illustrate divergent institutional trajectories. Section seven discusses the policy and institutional implications of these findings, and the final section concludes by summarizing key insights and identifying avenues for future research.

1.1 What Have We Known?

Scholars have developed several theoretical perspectives to explain cooperative performance. Institutional economics stresses property rights and residual claims: when members or leaders lack clear stakes in outcomes, incentives to invest, monitor, or innovate weaken (Das & Mookherjee, 2004). Governance and organizational theory emphasize the role of boards, leadership quality, and transparency as key to ensuring accountability and performance (Jamaluddin et al., 2023). Social capital and evolutionary approaches highlight norms of trust, reciprocity, and adaptive learning as foundations for cooperative endurance (Iliopoulos & Valentinov, 2018).

Empirical studies in India converge on several proximate causes of failure—political interference, elite dominance, weak management, and limited working capital—while successful cases show features like active membership, professional management, and transparent operations (Tripathy, 2021; Polat, 2022; Nijdam, 2023). Research on sugar cooperatives, for instance, finds that politicized governance structures often lead to monopsony pricing and rent-seeking, eroding farmer trust and financial discipline (Das & Mookherjee, 2004). In contrast, dairy cooperatives demonstrate how clear patronage rules and federated governance can align incentives and sustain member confidence.

Recent studies on *Farmer-Producer Organizations (FPOs)* and *producer companies* extend these insights to newer institutional forms. Field evidence shows that managerial skills, financial literacy, and market orientation are decisive for their survival and profitability (Prabhavathi et al., 2023; Singh, 2023). Ownership structure alone does not guarantee success; what matters is the interaction between institutional design, managerial capacity, and policy support.

From a systems perspective, studies using fuzzy-ISM and other modelling techniques identify interdependent success factors such as management quality, loan recovery, and governance discipline (Panda et al., 2023). Yet reviews of governance–performance linkages show mixed results, suggesting that even well-designed governance reforms must be complemented by better access to finance, infrastructure, and markets (Jamaluddin et al., 2023).

1.2 The Analytical Gap

Despite abundant case studies, comparative analyses remain limited. We still lack a clear mapping of how specific combinations of governance practices, financing mechanisms, and market linkages produce resilience across cooperative types. Existing literature tends to isolate either governance or economic factors rather than exploring their interaction. Moreover, political economy perspectives—especially regarding patronage, subsidies, and loan waivers—remain under-integrated in cooperative studies.

This paper seeks to bridge these gaps by synthesizing theoretical and empirical insights across multiple cooperative forms—credit, dairy, sugar, marketing, and worker cooperatives—and newer entities like FPOs. It aims to identify recurrent institutional configurations that explain both failure and durability. In doing so, the study highlights broader lessons for policy:

sustainable cooperatives require not only democratic structures but also professional management, financial autonomy, and stable market linkages.

2. Methodology and data sources

This study undertakes a structured evidence synthesis and comparative analysis of recent empirical and case-based literature on Indian cooperatives. The approach triangulates: (a) sectoral empirical studies and panels (sugar ownership comparisons, dairy sector institutional analysis), (b) survey-based field studies of FPOs, PACS, and producer companies, and (c) case studies and systematic reviews of governance and cooperative longevity. The aim is explanatory synthesis rather than new primary data collection.

Specific sources and analytic uses were: (1) panel and ownership-structure analysis in the sugar sector to illustrate contractual incentive mechanisms and monopsony effects (Das & Mookherjee, 2004); (2) multi-case governance and management studies of milk producer companies and NDDB-promoted models to identify institutional innovations that supported performance (Polat, 2022)(Nijdam, 2023); (3) surveys and logistic regression analysis of FPO operational status and failure drivers in Punjab to quantify closure rates and proximate causes (Chopra et al., 2024); (4) PACS survival analysis using interpretive structural modelling to rank critical success factors (management quality, loan recovery) (Panda et al.,, 2023); (5) comparative studies of producer companies and cooperatives in milk value chains and PACS governance case studies to ground policy recommendations (Kaur & Singla, 2022)(Tripathy, 2021); and (6) sectoral case studies (CAMPCO, multipurpose marketing societies, liquidated weaver cooperatives) to illustrate failure pathways and social impacts (Jyotishi & Deepika, 2022)(Shah, 2016)(Kandasamy & Ramar, 2013).

The study's synthesis involved tracing common causal factors across different cooperative sectors and interpreting them through the lens of governance and institutional theory. To strengthen comparison, a summary table was prepared to distinguish factors contributing to failure from those supporting resilience. Wherever the literature provided quantitative indicators—such as survival rates of Farmer-Producer Organizations or employment data for specific cooperative sectors—these were incorporated directly and cited to maintain accuracy. Policy recommendations were developed by cross-referencing proposed interventions across multiple studies, with priority given to measures that appeared consistently across sectors, such as improving professional management, linking equity with patronage, and ensuring adequate working capital.

This approach, however, carries some limitations. It depends largely on published sources, which may overrepresent well-documented successes or notable failures. The evidence base is also heterogeneous, reflecting the varied methodologies of the underlying studies. In addition, counterfactual comparisons are scarce; in areas where the data are mixed or incomplete, the paper highlights this uncertainty rather than drawing firm conclusions.

3. Conceptual Framework

The performance of cooperatives can be understood through three overlapping perspectives — institutional economics, governance and organizational theory, and the collective action or social capital approach. Each of these viewpoints highlights different reasons behind how cooperatives function. When looked at together, they offer a fuller picture of why many Indian cooperatives struggle while a few manage to survive and succeed.

Institutional economics highlights the importance of property rights, residual claims, and contract enforcement. When cooperative members or leaders are not effective residual claimants, the link between individual effort and collective outcomes weakens. Das and

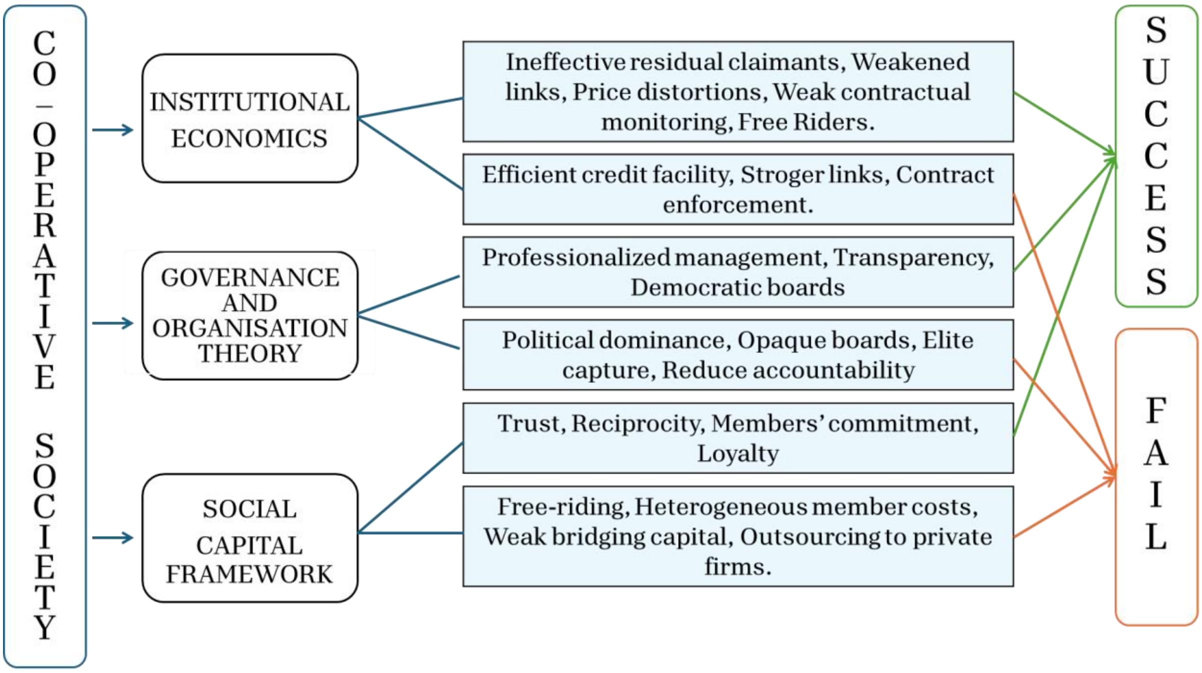
Mookherjee (2004) show how ownership structures in the Indian sugar sector produced systematic price distortions, as weak contractual enforcement allowed free-riding and opportunism. Similarly, Misra (2010) finds that inadequate capitalization in credit cooperatives created chronic incentive problems, because members had little "skin in the game" and monitoring collapsed when loan defaults mounted.

Governance theory emphasizes organizational structure, transparency, and accountability. Research shows that cooperatives with professionalized management and transparent, democratic boards perform better than those dominated by political or elite capture (Jamaluddin et al., 2023; Nijdam, 2023; Tripathy, 2021). Panda et al. (2023) use fuzzy-ISM analysis to demonstrate that "management quality" is the central driver of cooperative survival, influencing loan recovery and operational discipline. Conversely, opaque boards and political appointments reduce accountability, allowing mismanagement and corruption to flourish (Polat, 2022; Shah, 2016).

Collective action and social capital approaches add a socio-cultural dimension. They stress that cooperatives require trust, reciprocity, and member commitment to patronage. Iliopoulos and Valentinov (2018) argue that free-riding, heterogeneous member costs, and weak bridging capital erode cooperative longevity. In the Indian context, empirical work on producer companies and farmer-producer organizations shows that member participation and loyalty to patronage contracts are decisive for success (Nijdam, 2023; Singh, 2023). Where these bonds are fragile, members often divert produce to private traders, undermining collective bargaining power (Shah, 2016).

Bringing these strands together, the framework conceptualizes cooperative failure as the outcome of interacting institutional, governance, and social mechanisms. Weak governance (elite capture, mismanagement) exacerbates financial fragility (low equity, poor recovery), which in turn undermines member trust and participation. This negative feedback loop leads to collapse. Conversely, cooperatives that combine transparent governance, adequate capitalization, and strong patronage rules create reinforcing positive feedback: financial credibility builds member trust, which enhances participation and further strengthens cooperative viability (Dervillé et al., 2023; Polat, 2022).

Figure 1: Conceptual Framework



Source: Author's observation

This integrated framework guides the analysis in subsequent sections. It provides a lens to interpret sectoral evidence on cooperative performance in India, linking proximate causes of failure (e.g., working capital shortages, political interference) to broader institutional and governance dynamics.

4. Key factors contributing to cooperative failures

This section synthesizes the dominant proximate and structural causes of cooperative failure in India, linking empirical findings to governance and institutional theory. Opening evidence shows that failures cluster around governance capture and incentive distortions, financial fragility and capital gaps, political interference, member disengagement, and regulatory and market constraints (Polat, 2022; Das & Mookherjee, 2004; Panda et al., 2023).

4.1 Governance capture and weak internal incentives

One major reason for cooperative failure in India is governance capture, where political elites or local power groups dominate boards and divert resources for private or partisan goals. Although cooperatives are built on the "one member, one vote" principle, this ideal often collapses under political competition. Once in control, leaders use cooperatives as tools of patronage or rent-seeking (Polat, 2022; Shah, 2016).

Field evidence supports this: Shah (2016) describes cooperatives in Maharashtra where leaders favored certain traders and ignored politically backed defaulters, while Polat (2022) shows that partisan appointments weakened transparency and excluded members. As governance theory suggests, without accountability, leaders pursue private rents over collective welfare (Jamaluddin et al., 2023).

Poor management worsens these weaknesses. Panda et al. (2023) identify "management quality and motivation" as the main driver of PACS survival—strong leadership and transparent audits improve recovery and trust, while politically dependent managers hasten decline.

Equally crucial are internal incentives. Cooperatives thrive when members' participation directly links to their benefits; when this link breaks, members disengage and free-riding rises (Iliopoulos & Valentinov, 2018). Nijdam (2023) finds that milk producer companies with clear patronage rules outperform others, while elite-controlled cooperatives lose members to private traders (Singh, 2023).

Governance capture and weak incentives reinforce each other in a vicious cycle: opaque control erodes trust, lowers participation, and invites more capture. Many PACS thus remain fragile (Misra, 2010). In contrast, examples like Amul show that transparent governance and strong member incentives create a self-sustaining, trust-based model.

4.2 Financial constraints and working capital shortages

A second major weakness behind the failure of many Indian cooperatives is chronic financial fragility. Unlike corporate firms that can raise capital through markets, cooperatives rely mainly on small member shares and government aid, leaving them undercapitalized from the start. With little working capital, they often struggle to buy produce or pay members on time, pushing farmers and artisans toward private traders who offer faster payments (Shah, 2016; Jyotishi & Deepika, 2022).

Studies consistently highlight this constraint. Singh (2023) finds that producer companies in West Bengal with low member equity could not expand procurement or invest in processing, keeping them dependent on external funds. Similarly, PACS suffer from weak share capital and poor loan recovery, which erode their financial base and credibility (Misra, 2006, 2010). Poor capitalization leads to rising NPAs and insolvency, often forcing bailouts. Panda et al. (2023) note that loan recovery and management quality are key predictors of PACS survival.

A deeper problem lies in the mismatch between cooperatives' short-term credit functions and their long-term investment needs. Many multipurpose societies delay member payments due to liquidity shortages, causing distrust and attrition (Shah, 2016). In contrast, well-capitalized dairy cooperatives like those under the Anand Pattern maintain steady payments through federation-level pooling, which builds loyalty (Dervillé et al., 2023).

Overall, financial fragility feeds a vicious cycle—low equity limits services, discourages participation, and further weakens capital. Successful cases such as CAMPCO show that strong member contributions, product diversification, and reinvestment can break this cycle (Jyotishi & Deepika, 2022). While policy support helps, lasting resilience depends on sound internal capitalization and disciplined financial management.

4.3 Contractual inefficiencies and monopsony pricing

A third major factor behind cooperative failure in India lies in weak ownership and contracting arrangements. Cooperatives are meant to unite small producers to gain better prices and reduce dependence on middlemen, but in practice, many reproduce the same market distortions they were created to fix. Poorly enforced contracts, unclear patronage rules, and intermediary dominance often mean that members receive prices below market levels (Shah, 2016).

The sugar sector illustrates this clearly. Das and Mookherjee (2004) found that cooperative sugar factories frequently paid lower cane prices than private mills, as elite-controlled boards exercised monopsony power and farmers lacked mechanisms to enforce fair pricing. Ownership design, rather than technology or geography, explained much of the performance gap.

Similar issues appear in marketing cooperatives where liquidity shortages and weak contracts lead members to sell to private traders for quicker payment, undermining loyalty and trust (Shah, 2016). In contrast, dairy cooperatives under the Anand Pattern solved this by linking membership to mandatory supply, ensuring guaranteed procurement, regular payments, and patronage-based dividends (Dervillé et al., 2023).

Recent studies on producer companies show similar patterns. Nijdam (2023) and Singh (2023) observe that entities tying member equity and dividends directly to produce supplied perform far better than those without such rules. These mechanisms reduce free-riding and strengthen supply commitments.

In short, contractual inefficiencies lie at the heart of cooperative fragility. When contracts fail to ensure credible payments and member participation, cooperatives mirror private monopolies instead of countering them. Where patronage, equity, and payment rules are clearly defined and enforceable, as in successful dairy or producer cooperatives, they create trust, discipline, and long-term resilience.

4.4 Political interference and regulatory fragmentation

Political interference has long defined India's cooperative movement and remains a core cause of institutional fragility. Though cooperatives are legally autonomous, their financial dependence and leadership structures make them easy targets for political capture. Local elites and party operatives often contest cooperative elections to gain control over patronage networks rather than to strengthen member welfare (Polat, 2022; Shah, 2016).

Maharashtra's sugar cooperatives illustrate this trend. Control over mills historically served as a route to political power, offering influence over cane procurement, credit, and employment. Shah (2016) shows how such entanglement fostered rent-seeking, loan defaults, and inefficiency, turning cooperatives into electoral tools rather than producer institutions.

Similar dynamics plague credit cooperatives. Misra (2010) notes that recurring state-directed loan waivers weaken repayment discipline, while politically appointed managers lack autonomy to enforce credit recovery (Panda et al., 2023).

Political pressures are reinforced by a fragmented regulatory framework. Cooperative laws vary widely across states, and overlapping authority—especially between the RBI and state registrars—has led to weak supervision. The Punjab and Maharashtra Cooperative Bank collapse in 2019 exposed how this dual control enabled prolonged mismanagement (Yadav & Tanwar, 2024).

Newer entities like Farmer Producer Organizations (FPOs) face bureaucratic hurdles of their own. Complex licensing, compliance, and delayed funding raise transaction costs and discourage growth (Tripathy, 2021; Chopra et al., 2024).

Together, political capture and regulatory fragmentation form a vicious cycle: poor governance invites state interference, while fragmented oversight blocks accountability. Successful cases like NDDB-promoted dairy cooperatives avoided this trap by maintaining autonomy, clear regulation, and professional management (Dervillé et al., 2023; Polat, 2022).

Ultimately, restoring cooperative health requires insulating them from excessive political control, harmonizing laws across jurisdictions, and ensuring independent audits and dispute resolution. Only then can cooperatives function as genuine member-driven institutions.

4.5 Member participation, free-riding, and patronage problems

A core pillar of the cooperative model is active member participation. Unlike investor-owned firms, cooperatives depend on members' commitment to supply produce, invest capital, and oversee leadership. When this engagement weakens, bargaining power declines, finances deteriorate, and free-riding spreads—one of the most persistent causes of cooperative fragility in India.

The central problem is free-riding. Since benefits are shared collectively, some members may sell to private traders for quick returns while still expecting dividends or subsidies. Iliopoulos and Valentinov (2018) note that such inefficiencies arise when costs and benefits are unevenly distributed—larger farmers gain more, while smallholders bear greater risks. Without strong patronage–equity links, incentives for loyalty erode.

Empirical studies confirm this. Nijdam (2023) finds that milk producer companies with dividends tied directly to members' supply performed far better than those without clear rules. Where enforcement was weak, side-selling to traders increased and cooperatives collapsed (Shah, 2016). Disengagement also weakens governance—absent members stop monitoring boards, paving the way for elite capture (Polat, 2022).

Successful cooperatives address this through institutionalized participation. The Anand dairy model required members to sell all milk to the village cooperative, which ensured daily procurement and prompt payments, building trust and loyalty (Dervillé et al., 2023). Similarly, producer companies in West Bengal with clear patronage–equity systems expanded and modernized, while others faltered (Singh, 2023).

In essence, participation must be designed, not assumed. When equity, patronage, and benefits are transparently linked and payment commitments are met, members remain engaged. Without these safeguards, opportunism thrives, leading to financial and organizational decline.

4.6 Market linkages, professionalization, and managerial competencies

Even when cooperatives have active members and sufficient equity, their long-term survival depends on how effectively they connect to markets and whether they possess the managerial skills to operate within complex value chains. In India, many cooperatives fail not from lack of demand but from weak market linkages and poor professional management, leading to low bargaining power, thin margins, and loss of member confidence.

Studies on Farmer-Producer Organizations (FPOs) highlight this clearly. Prabhavathi et al. (2023) show that FPOs led by educated managers with business experience achieved higher turnover and member income. Market-oriented FPOs—those building buyer networks, branding, and processing capacity—performed far better than input-focused ones. Chopra et al. (2024) report that one-third of FPOs in Punjab closed within a few years, largely due to weak managerial capacity and poor marketing. Surviving FPOs succeeded by partnering with buyers, improving storage and processing, and professionalizing accounts.

Similar findings emerge for producer companies. Singh (2023) and Kaur and Singla (2022) note that those adopting retail models, investing in processing, and hiring skilled managers delivered higher farmer incomes and stronger member loyalty. Lacking professional leadership, others stagnated at subsistence levels.

Professionalization also depends on supportive institutions. Tripathy (2021) argues that cooperatives with access to training, governance standards, and transparent metrics show greater competitiveness. Yet most PACS and small societies continue to operate with limited staff and ad hoc decisions (Shah, 2016), leading to inefficiency and high transaction costs.

The Anand dairy model shows what is possible when professionalism meets grassroots participation. NDDB's training, technical deployment, and integrated marketing systems enabled dairy cooperatives to scale nationally (Dervillé et al., 2023).

In sum, market access and managerial quality are decisive structural factors. Cooperatives that fail to professionalize remain confined to low-value markets, while those that build managerial and marketing capacity achieve growth and stability. Policy efforts must therefore move beyond funding to strengthen leadership, training, and market facilitation.

4.7 Sectoral and operational bottlenecks: marketing, transport, and staff

Beyond governance and finance, many Indian cooperatives falter because of everyday operational hurdles that chip away at their efficiency. These problems—lack of trained staff, poor storage, weak transport networks—might seem routine, but together create deep structural disadvantages. In marketing and procurement sectors, such weaknesses directly affect a cooperative's ability to deliver on time, retain members, and compete with private players.

Shah (2016) documents these issues in Maharashtra's multipurpose societies, where poor logistics and staffing repeatedly disrupted procurement. Scattered villages and unreliable transport forced farmers to sell to private traders offering doorstep collection. Even when cooperatives managed to buy produce, weak financial systems led to delayed payments, further discouraging members. As inefficiencies piled up, revenues fell and managerial capacity weakened, creating a cycle of decline.

Human resources form another key bottleneck. Many cooperatives depend on untrained or part-time personnel unfamiliar with modern accounting, logistics, or planning (Tripathy, 2021). Leadership often rests with volunteer directors or politically appointed managers, resulting in ad hoc decisions and poor records. Panda et al. (2023) find that low staff competence and motivation directly reduce loan recovery and credibility, especially in PACS.

Operational barriers vary by sector. Dairy cooperatives often lack chilling facilities or reliable transport, causing milk spoilage and quality loss (Sankhala, 2014). Handloom cooperatives in Tamil Nadu suffered similar setbacks—weak procurement and marketing systems left artisans dependent on middlemen, leading to mass closures (Kandasamy & Ramar, 2013). These examples show that operational constraints are specific to each value chain.

Yet successful cooperatives prove such challenges can be overcome. CAMPCO survived by diversifying into arecanut and cocoa, building processing plants, and professionalizing logistics (Jyotishi & Deepika, 2022). NDDB's dairy model combined investment in chilling centres and veterinary services with efficient procurement-to-marketing systems (Dervillé et al., 2023). These strategic improvements built reliability and member trust.

Ultimately, operational bottlenecks are not minor irritants but core determinants of survival. A cooperative's strength depends as much on trucks, storage, and skilled staff as on governance or finance. Neglecting these areas leads to inefficiency and erosion of trust, while targeted investment in infrastructure and professional capacity can transform cooperatives into resilient, competitive enterprises.

4.8 Illustrative examples and statistics

In a Punjab study of 67 FPOs, 48% were operational, 28% closed, and 24% untraceable; principal collapse drivers included loss of business, membership dissolution, funding delays, and administrative problems, with pricing and district officer effectiveness significantly influencing outcomes (Chopra et al., 2024).

PACS analysis found management quality drives survival, and loan recovery is the most sensitive variable for sustenance, highlighting operational discipline as central to longevity (Panda et al., 2023).

Sectoral SWOT work on a Jammu & Kashmir milk cooperative emphasized both the importance of regular milk payments and threats from low productivity, competition, and high credit costs, illustrating how farm-level production constraints interact with cooperative financial viability (Sankhala, 2014).

5. Failure dynamics, institutional feedback and Comparative Analysis.

Failures are rarely single-factor; rather, they arise from reinforcing feedback: weak governance reduces loan recovery and member trust, producing financial stress that enables political or private trader capture, which further weakens procurement and market access (Shah, 2016; Misra, 2006). Institutional economics explains these as broken residual-claimant and monitoring links that make cooperative membership unattractive relative to private market options (Das & Mookherjee, 2004)(Misra, 2010).

Conversely, resilient cooperatives show positive feedback: credible payment discipline, member equity, and transparent governance enable reinvestment, build market credibility, and attract member commitment (Dervillé et al., 2023)(Polat, 2022).

5.1 Sectoral heterogeneity and where the evidence differs

Not all cooperatives fail for the same reasons; worker cooperatives that emphasize continuous innovation and entrepreneurship display alternative success pathways, underscoring the role of intrinsic member incentives and product-market fit (Sapovadia, 2016)(Sapovadia, 2013). Systematic reviews note mixed and context-sensitive governance–performance relationships, warning against one-size-fits-all prescriptions (Jamaluddin et al., 2023). This heterogeneity argues for diagnostic, context-sensitive reforms rather than blanket institutional transplant.

5.2 Comparative analysis

This final section contrasts failed cooperatives with successful Indian models, presents concise case vignettes, and sets out prioritized policy recommendations and concluding directions.

Table 1: Comparative table of core differences

Dimension	Failed Cooperatives (Typical)	Successful Dairy Cooperatives / Well-Governed PCs
Board and Governance	Politically influenced, opaque, and low member monitoring	Transparent boards, patronage-linked membership rules, democratic processes (Nijdam, 2023)(Polat, 2022)

Management	Low professional capacity, ad hoc decisions	Professionalized management, NDDB-designed governance innovations in milk PCs (Polat, 2022)
Finance	Low equity, working capital shortages, donor/subsidy dependence	Strong member contributions, predictable payments, and market credit access (Derville et al., 2023)(Sankhala, 2014)
Market Linkage	Weak procurement, diverted produce to private traders	Integrated procurement-, processing-, marketing chains, and retailer partnerships (Derville et al., 2023)(Kaur & Singla, 2022)
Member Commitment	Free-riding, low patronage	High patronage, equity-linked benefits, and regular payments (Nijdam, 2023)

Source: Author’s observation

The Indian dairy three-tier cooperative model demonstrates how institutional bundling—member equity, payment discipline, tiered federations, and processing capacity—creates credible commitment devices linking smallholders to markets and industrial value chains (Dervillé et al., 2023). Studies of producer companies that succeed show similar features when they adopt retail franchises or direct procurement, improving producer prices and inclusion (Singh, 2023; Kaur & Singla, 2022).
Failed cooperatives typically combine weak governance with chronic finance shortfalls and poor market interfaces; these conditions interact multiplicatively rather than additively, producing collapse unless remedied by both institutional redesign and market access improvements (Shah, 2016; Das & Mookherjee, 2004). Evidence from sugar industry panels underscores that ownership form (and the resulting contracting relationships) can cause price distortions large enough to determine industry growth patterns (Das & Mookherjee, 2004).

6. Case Studies

6.1 Maharashtra Sugar Cooperatives – From Rural Empowerment to Political Capture

The rise and decline of Maharashtra’s sugar cooperatives capture both the promise and peril of India’s cooperative experiment. Born in the 1950s and 1960s, these mills were meant to empower small farmers, channel rural credit, and generate employment. For decades, they seemed to succeed. By the 1980s, Maharashtra had emerged as India’s top sugar-producing state, with cooperatives contributing more than half its total output (Attwood & Baviskar, 1987; Shah, 2016). But by the turn of the century, the same model was struggling under debt, political interference, and managerial decay.

Origins and Early Promise

The movement began with an ideal of collective self-reliance. Farmers pooled their savings, took concessional loans, and jointly set up mills. Each member supplied cane, received payments linked to output, and participated in governance. Early studies found that these institutions improved infrastructure, created jobs, and expanded credit access (Attwood & Baviskar, 1987). For a while, they stood as proof that rural industrialization could be both inclusive and cooperative.

Political Capture and Governance Distortions

Success, however, brought political attention. From the 1970s onward, control over sugar mills became a ticket to political influence. Leaders from the Congress and later the NCP used cooperatives to build local power networks (Shah, 2016). Managing a mill meant controlling cane procurement, jobs, and credit. Cooperative boards soon became stepping stones to state and national politics. Elections were fought on party lines, and internal democracy gave way to patronage. Das and Mookherjee (2004) note that politically connected directors often fixed cane prices to favour large growers, leaving small farmers shortchanged. Mills thus shifted from serving members to serving political interests.

Financial Fragility and Loan Waivers

Once politicized, financial discipline eroded quickly. Cooperative mills borrowed heavily under state guarantees, assuming future bailouts. Loan waivers became a regular expectation, encouraging overexpansion and delayed farmer payments (Misra, 2010). By the 1990s, debt piles grew and payment delays became routine, weakening member confidence and trust.

Managerial Weakness and Operational Inefficiency

Professional management could have checked this decline, but leadership positions were often filled through political patronage rather than competence. Many mills operated with outdated machinery and poor cost control (Shah, 2016). As private mills modernized and expanded, cooperatives struggled to remain viable in an increasingly competitive market.

Decline and Crisis

By the early 2000s, many sugar cooperatives were on the brink of collapse. Payment arrears stretched for months; several mills defaulted on bank loans, forcing repeated state bailouts. Private mills began attracting farmers with better and faster returns. The once-celebrated cooperative model had turned into a system marked by inefficiency, patronage, and member alienation.

Lessons from Failure

The Maharashtra case offers several enduring lessons:

1. Governance capture – Political control erodes the democratic base of cooperatives.
2. Weak financial discipline – Loan waivers and subsidies, though popular, destroy repayment culture.
3. Lack of professionalization – Without skilled managers, cooperatives cannot compete in open markets.
4. Contractual inefficiencies – Delayed payments and price manipulation push members toward private players.

Maharashtra's sugar cooperatives transformed rural politics and shaped India's cooperative movement. Yet their decline also reveals how easily social capital can be undermined when institutions lose autonomy and accountability. They remain a powerful reminder that cooperatives can drive rural prosperity only when insulated from political capture and governed by transparent, professional systems.

6.2 Amul and the Anand Pattern – Building Sustainable Cooperatives

If the decline of Maharashtra's sugar cooperatives shows how politics can hollow out a good idea, Amul tells the opposite story. It proves that with the right structure, clear incentives, and professional management, cooperatives can thrive—even in competitive markets. Founded in 1946 in the Kaira district of Gujarat, Amul grew from a small group of milk producers into one of India's largest food brands. It became the nucleus of the White Revolution and remains one of the world's most successful cooperative enterprises.

Historical Background and Genesis

Amul's story began when small dairy farmers in Gujarat decided they'd had enough of private middlemen dictating prices. With the encouragement of Sardar Vallabhbhai Patel and Tribhuvandas Patel, they formed the Kaira District Cooperative Milk Producers' Union in 1946. The idea was straightforward but revolutionary: producers themselves would own the cooperative, sell milk directly to their society, and cut out exploitative intermediaries (Kurien, 2007). This system later evolved into the Anand Pattern—a three-tier federation of village societies, district unions, and state-level federations.

Governance and Member Participation

Amul succeeded partly because it built participation into its rules. Only active milk suppliers could be members, and benefits were distributed according to the quantity and quality of milk delivered. This design linked rights and responsibilities, minimizing free-riding and elite control (Dervillé et al., 2023). Elections were held regularly, and accountability flowed upward from the village to the federation. While political contestation was not absent, the multi-tier structure made capture by local elites much harder. Transparency in payments and audits further strengthened trust between members and management.

Professionalization and Managerial Capacity

The arrival of Dr. Verghese Kurien was the real turning point. Kurien insisted that politics and management had to remain separate. Farmer representatives would make policy decisions, but professionals would handle operations. Under his leadership, Amul invested heavily in processing plants, quality control, R&D, and marketing (Kurien, 2007). This mix of professionalism and cooperative ownership gave Amul a clear edge. Its marketing—especially the iconic "Amul girl" campaign—turned a farmers' brand into a household name (Parmar, 2019).

Market Linkages and Scale

Another secret of Amul's success was how seamlessly it connected production and marketing. Milk was collected twice daily at village centers, and payments were made promptly—a simple act that built enormous confidence. District unions managed chilling and processing, while the state federation took care of branding and distribution. This three-tier structure achieved economies of scale without sacrificing local ownership. By the 1990s, Amul was not only powering India's milk revolution but also improving rural incomes, creating jobs for women, and enhancing nutrition (Shah, 2016; Dervillé et al., 2023).

Institutional Safeguards Against Failure

Several features explain why Amul avoided the fate of many other cooperatives:

1. Active membership – Only those who supplied milk could remain members, enforcing accountability.
2. Financial discipline – Prompt payments built liquidity and trust.
3. Professional management – Trained staff, not politicians, ran operations.
4. Federated design – The three-tier system prevented local monopolies of power.
5. Market orientation – Product diversification and branding kept Amul competitive.

Challenges and Resilience

Amul has not been without its struggles. It faces private-sector competition, internal frictions, and occasional political interference. Yet its institutional design—especially the clear division between governance and management—has given it resilience. Studies note that newer FPOs and cooperatives often fail to replicate this federated model, leaving them more fragmented and vulnerable (Polat, 2022; Singh, 2023).

Lessons from Success

Amul's experience shows that cooperatives do not fail because the model is flawed, but because its principles are poorly implemented. When member incentives, governance, and professionalism are aligned, cooperatives can match or outperform private firms. The Anand Pattern demonstrates that sustainability lies in balancing participation with scale and autonomy with accountability. For policymakers, the takeaway is simple: strong governance systems, trained managers, and federated structures are not luxuries—they are the foundation of cooperative success.

7. Policy Recommendations

Opening paragraph: Recommendations prioritize restoring incentive alignment (member equity and patronage), strengthening governance and management capacity, and addressing finance and regulatory frictions that consistently appear across sectors. The proposals below are grounded in cross-sector evidence.

a) Strengthen member equity and patronage rules

Introduce calibrated equity requirements for primary cooperatives or producer companies to increase skin-in-the-game while protecting smallholders via progressive contributions and targeted subsidies (Nijdam, 2023; Singh, 2023).

b) Professionalize management and boards

Mandate board transparency and training, with performance metrics and term limits; couple this with subsidized management internships or secondments from promotion agencies (e.g., NDDB model) (Polat, 2022)(Tripathy, 2021).

c) Targeted working capital facilities

Create time-bound working capital windows (seed loans repayable from initial sales) with strict monitoring and market-linked repayment schedules to prevent persistent subsidy dependence (Jyotishi & Deepika, 2022)(Misra, 2010).

d) Contractual clarity and price commitment mechanisms

Use patronage contracts and minimum payment guarantees where feasible to reduce monopsony effects and under-pricing that drive supply away from cooperatives (Das & Mookherjee, 2004).

e) Reduce political capture through institutional safeguards

Independent audit and dispute resolution mechanisms and prohibitions on partisan appointments at key levels can shield operations from short-term political interests (Shah, 2016).

f) Differentiated regulatory pathways for FPOs and PCs

Simplify registration, reporting, and licensing for small producer entities while requiring periodic performance certification for continued access to public support (Chopra et al., 2024)(Tripathy, 2021).

g) Capacity building and market integration programs

Scale business-centric training, digital market information, and facilitate franchise or processing partnerships to strengthen market links (market-centric FPOs outperform production-centric ones) (Prabhavathi et al., 2023)(Kaur & Singla, 2022).

h) Diagnostics and staged support

Adopt a diagnostic approach: before large public support, conduct viability diagnostics (governance, finance, market) and tie phased support to remediation milestones (Panda et al., 2023)(Misra, 2006).

8. Conclusion and future research directions

The history of India's cooperative movement reveals a paradox. Cooperatives were established to empower small producers, democratize markets, and reduce dependence on exploitative

intermediaries. Yet, in practice, many have failed due to a combination of governance capture, financial fragility, contractual inefficiencies, and political interference. As the analysis and case evidence show, these failures are not inherent to the cooperative model but stem from weak institutional design and fragmented regulatory frameworks.
The contrast between Maharashtra's sugar cooperatives and Amul's Anand Pattern illustrates this divergence. In the sugar sector, cooperatives became vehicles for patronage and electoral politics, undermining repayment discipline and alienating ordinary farmers. By contrast, Amul embedded patronage-linked membership rules, transparent governance, professional management, and federated structures that ensured both scale and accountability. These institutional safeguards allowed it to withstand market pressures and political interference, transforming it into one of the world's most successful cooperative movements.
The broader lesson is that cooperative performance depends less on ideology and more on incentive alignment and institutional discipline. Where members see clear links between participation and benefits, and where governance structures prevent elite capture, cooperatives can thrive. Conversely, when financial fragility, weak contracts, and political interference dominate, cooperatives decline into inefficiency and irrelevance.
For policymakers, this calls for a recalibration of cooperative support. Subsidies and loan waivers, while politically popular, have historically undermined repayment culture and weakened cooperative credibility. Instead, reforms should focus on strengthening governance norms, enforcing transparent audits, investing in professional management, and building federated structures that balance local participation with economies of scale. Equally important is harmonizing cooperative laws to reduce regulatory fragmentation and creating enabling environments for Farmer Producer Organizations and new-generation cooperatives to succeed.
Future research should prioritize (a) evaluative trials of specific reforms (e.g., equity-linked patronage rules, transparent board protocols) with randomized or quasi-experimental designs; (b) comparative longitudinal studies across states to isolate policy and context effects; and (c) micro-level tracing of member incentives and market responses to cooperative credibility improvements. Policymakers should adopt diagnostic, phased interventions that marry governance reform, professional capacity building, and targeted finance rather than relying on open-ended subsidies.
Ultimately, the cooperative model remains relevant in India's development landscape, especially in an era of market volatility and smallholder vulnerability. The challenge is not whether cooperatives can work, but whether institutions and policies can create the conditions for them to succeed. By learning from past failures and replicating proven successes, cooperatives can reclaim their original role as engines of rural empowerment and inclusive growth.

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