Chapter 2

Dairy Cooperatives

Objective: *To acquaint with the cooperative movement in the dairy sector and functioning of dairy cooperatives in the country.*

Introduction

Dairy cooperatives played a significant role in the dairy development aspect of the country. These cooperatives ensured dairy farmers the remunerative price and consumer the reasonable price for milk and milk products. Reliable marketing channel has been established by these cooperatives which ensured the successful marketing of perishable commodity like milk. The dairy cooperatives in India follow a three tier structure which includes the village level, district level, state level organization. The role of these dairy cooperatives is enormous to help India to become the number one milk producing country in India.

Cooperative Movement

The Co-operative movement in India started in the last decade of the 19th Century. The main objective of this movement was:

- To protect the farmers from the hands of the private money lenders
- To improve economic condition of the farmers.

This movement was started in Madras province, which was situated in Southern part of India. The movement started with establishment of Agricultural Co-operative Banks and slowly but surely got the momentum. The growth of Co-operative movement in India under British rule was not systematic. The British ruler formed some rules but the pace of development of Cooperatives accelerated after Independence. After the independence, the membership of primary societies had increased four times within two decades.

The first Cooperative Society Act of 1904 was enacted which enabled formation of "Agricultural Credit Cooperatives" in villages. This helped the cooperatives to get legal identity as every agricultural Cooperative was to be registered under that Act. The 1904 Cooperative Societies Act, was replaced and Cooperative Societies Act,1912 was enacted which provided formation of Cooperative societies other than credit. Later in the year 1919 Cooperatives was made a provincial subject where every province made responsible for Cooperative development in their respective province. Multi-Unit Cooperative Societies Act, 1942 was enacted by Government of India which covered societies whose operations were extended to more than one state. Later this act was repealed by Multi State Cooperative Societies Act, 1984 on the basis of the experience gained by the working of previous act. Multi State Cooperative Societies Act, 2002 which came in to existence from August 19, 2002 ensured democratic and autonomous working of the Cooperatives.

First co-operative dairy society was established at Allahabad (U.P.) in 1913 which mostly dealt with collecting & selling raw milk to local consumers. The Calcutta co-operative milk limited was established in 1919 & similar dairy co-operatives were also established in Nagpur, Madras and Bombay.

National Dairy Development Board (N.D.D.B) was set up in 1965 and in the year 1970 National Dairy Development Board took up Operation Flood Programme which helped in organising Milk Producers' Co-operative in several parts of India. With the success of The Kaira District (ANAND) Co-operative Milk Producers' Union, the model was replicated to other place like the Himalayan Cooperative Milk Producers' Union Limited (HIMUL), which was formed in West Bengal in the year 1973. Later on, this model was replicated in other states also.

Definition of Cooperative

According to the dictionary meaning cooperative is 'An enterprise or organization that is owned or managed jointly by those who use its facilities or services'. Cooperatives may include non-profit community organizations and businesses that are owned and managed by the people who use its services (a consumer cooperative) or by the people who work there (a worker cooperative).

Principles of Cooperatives

Cooperative Principles are the major guidelines by which cooperatives put their values into practice. The Cooperative principles can be enlisted as follows:

(1) Voluntary and open membership

(2) Democratic member Control

(3) Member economic participation

(4) Autonomy and Independence

(5) Education, Training and Information

(6) Cooperation among Cooperatives

(7) Concern for community

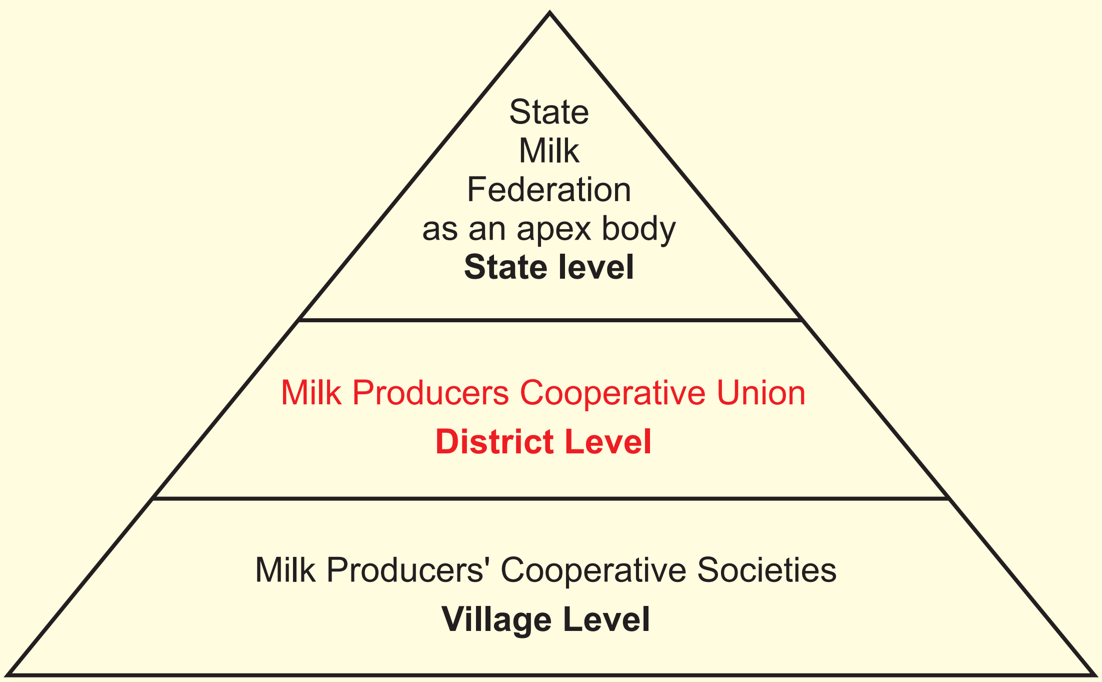
Advantages of Cooperatives

- **Easy to form:** The formation procedure of a cooperative society is very simple.
- **No obstruction for membership:** There is no obstruction for becoming the member of cooperative society. Anybody can join the society irrespective of their religion, caste, creed or sex.
- **Democratic management process:** The society is managed by the members of cooperative society members. Members elect the governing body and all of them is having equal rights.
- **Liability is less:** Limited liability is associated with members of the cooperatives.
- **Easy accessibility of services:** Farmers who are the members of the cooperative society get different services provided by the society. Such as, different dairy cooperatives provide veterinary facilities to the members of the society.

- **Stability and continuity:** A cooperative society is stable in nature. New members can join the society and old members can quit the society but society continues its function.
- **Better financial management:** The functioning of the cooperatives is economical in nature. The scope of middle man is nullified by the system and producers' share in consumers' rupee increases. That ensures remunerative price for the producer and reasonable price for the consumer.
- **State patronage:** Government provides special incentives to the cooperative to encourage those societies to function properly.

Cooperative Structure for Dairy Sector

Dairy cooperative deals in the field of dairy industry and cooperative banks are responsible for financial support to these cooperatives. Dairy Cooperatives fnctions for providing the benefits to the dairy farmers and ensures remunerative price for their produce. Thousands of dairy farmers got benefit from the dairy cooperatives.



Three tier structure of Dairy Cooperative System

(Source: www.vitaindia.com)

A Dairy Cooperative system includes Village Dairy Cooperative Societies (VDCS) or the Primary Cooperative Society at the village level, District Cooperative Milk Producers'

Unions at the District level and Milk Federation at the State level. The main objective of this three-tier structure is to delegate the various functions i.e. milk collection by Village Dairy Society at village level, Milk Procurement & Processing by the District Milk Union at the district level and Milk & Milk Products Marketing by the State Milk Federation at the state level. This three tier structure of dairy cooperative is also known as 'Anand Pattern'.

National Milk Grid

The National Milk grid established under Operation Flood programme, which was comprising of four regional milk grids. Transportation of milk to metropolitan cities and major consumption centres is done by a huge fleet of road and rail tankers. National Milk Grid has huge number of milk tankers for transportation of milk by road or rail and NMG is also having storage facilities of butter and milk powder for smooth functioning of NMG. Milk was supplied through National Milk Grid to 148 cities and towns which was having a population of around 1.5 crore under Operation Flood-II. NMG established link between the consuming cities/towns and rural milksheds. Later on under Operation Flood-III rural milk marketing infrastructure was further strengthened through NMG to ensure regular milk supply through- out the year. Lastly, it can be said that, National Milk Grid played very important role in ensuring supply of milk to end consumers and a remunerative price to milk producers/dairy farmers.

Primary Cooperative Society

The milk producers of a village, who are having surplus milk after own consumption, come together and form a Primary Cooperative Society or Village Dairy Cooperative Society (VDCS). This type of society has membership of milk producers of the village and is governed by an elected Management Committee consisting of 9 to 12 elected representatives of the milk producers. The Village Dairy Cooperative Society (VDCS) further appoints a Secretary for management of the day-to-day functions

The main functions of the primary cooperative society can be described as follows:

1. Collection of liquid milk from the milk producers of the village & payment based on quality & quantity.

2. Providing support services to the members of the society like Veterinary First Aid,

Artificial Insemination services, cattle-feed sales, mineral mixture sales, fodder & fodder seed sales, conducting training on Animal Husbandry & Dairying, etc

3. Selling liquid milk for local consumers of the village at a reasonable price.
4. Supplying milk to the District Milk Union.

District Cooperative Milk Producers' Union (District Union):

The Primary Cooperative Societies of a District having surplus milk after local sales form a District Milk Union to sale their surplus produce. The District Milk Union is the second tier under the three-tier structure. It has membership of Village Dairy Cooperative Societies of the District and is governed by a Board of Directors consisting of 9 to 18 elected representatives of the Village Dairy Cooperative Societies. The Milk Union further appoints a professional Managing Director (MD) for management of the day-to-day activities.

The main functions of the District Unions are as follows:

1. Procurement of liquid milk from the Primary Cooperative Societies of the District.
2. Arranging transportation of liquid milk from the VDCS to the District Milk Union.
3. Providing essential services to the famers who are the members of the society, like Veterinary Care, Artificial Insemination services, cattle-feed sales, mineral mixture sales, fodder & fodder seed sales, etc.
4. Conducting training on Dairy Cooperative Development, Animal Husbandry & Dairying for milk producers.
5. Providing management support to the Primary Cooperative Society along-with regular supervision of its activities.
6. Establishment and maintaining chilling centers & Dairy Plants for processing the milk received from the villages.
7. Sale of liquid milk & milk products produced at the district level.
8. Processing milk into various milk and milk products as per the requirement and demand from the consumers.

9. Making decision and fixing prices of milk to be paid to the member milk producers and prices of support services provided to members.

State Cooperative Milk Federation (Cooperative Federation):

The state cooperative milk federation is the uppermost tier under the three-tier structure. It has membership of all the cooperative Milk Unions of the State and is governed by a Board of Directors consisting of one elected representative of each Milk Union of the districts. The State Federation further appoints a Managing Director (MD) for management of the day-to-day activities.

The main functions of the Federation are as follows:

1. Marketing of milk & milk products processed or manufactured by Milk Unions of districts.
2. Establishment of distribution mechanism for marketing of milk & milk products.
3. Arranging transportation of milk and milk products from the Milk Unions to the market.
4. Creating and maintaining a brand for marketing of milk & milk products.
5. Providing support services to the Milk Unions & members in the form of technical inputs, management support & advisory services.
6. Collecting surplus milk from the Milk Unions and distributing it to deficit Milk Unions.
7. Arrangement of common purchase of raw materials used in manufacture or packaging of milk and milk products.
8. Deciding on the prices of milk & milk products.
9. Making decision on which products should be manufactured by which Milk Unions.
10. Conducting long-term planning related to milk production, procurement, processing and marketing.
11. Financial arrangement for the Milk Unions and providing them technical information.

12. Designing & Providing training

13. Conflict management for smooth functioning of the system.

Functions of Milk Cooperative Secretary

- Arrangement of all the meetings of the society
- Record keeping, conducting correspondence on behalf of the society
- To prepare the annual statement of accounts and balance sheet
- In charge of the documents, books and vouchers for payments and receipts.
- Collection of applications for loans from the members of the society.
- To manage day to day activity of the society.

Maintenance of Registers and Records

Dairy plants have to maintain all registrars & records of financial transactions in the course of their business. The information will be processed further to draw meaningful conclusions so that it can be utilized effectively by the users. From this lecture, students shall learn how financial transactions are channelized and the information thus generated is used to prepare various accounts in dairying.

Accounting

Accounting is also called as language of business because it is an effective method of communicating business information process to various users who might be interested in seeking detailed information about the operations of business and its financial status.

Accounting is the 'art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character and interpreting the result thereof'.

Accounting performs the vital functions of keeping systematic records & registrars of the transactions that take place during the course of running the business. It protects the business properties and also enhances the management in the task of planning, organising, directing, control and co-ordination of the business activities.

To bring in consistency in the preparation of accounting information and also that it conveys the same meaning to all the users, a number of rules or guidelines variously and set of assumptions, concepts and principles thus developed are called '**Generally Accepted Accounting Principles (GAAPs).**

Book Keeping

The systematic recording of the financial transactions of an enterprise is known as **book keeping** or **accounts keeping.**

Book keeping is concerned with the systematic recording of the financial transactions of an enterprise. There are basically two approaches to book keeping namely single entry systems and double entry accounting systems. Double entry book keeping recognizes the fact that each entry affects at least two accounts. It has many advantages and is widely used as a standard accounting practice. *Source Document* is the basis for recording a transaction in the books of accounts. The Rules of Debits and Credits are then applied which are based on the type of account and whether the balance of the account will increase or decrease.

Accounts – its Terminologies

Account

An Account is a systematic record of the financial transactions pertaining to a particular asset, a particular liability, an owner's equity item, a revenue item or an expense item.

Ledger

A ledger is a set of accounts of an enterprise. It may be kept in bound or Loose Leaf form. All these accounts, each on a separate page or card are the source of information for preparation of the various financial statements.

Journal

A journal is a chronological record of transactions. The Journal is the original book in which the transactions are recorded in the order in which they happen.

Assets

Assets are items of value owned by a enterprise. It includes tangible and intangible items or rights. Tangible items may be in the form of money, buildings, machinery etc. Intangible items include claims on tangible assets, claims on services and also items such as goodwill, patents, copyrights and franchises. Assets can further be classified into current assets and long term assets.

Equities

These are claims against the enterprise. Claims are of two types

i) **Liabilities:** Amount due to outsiders. Liabilities are debts or obligations of the enterprise to pay money or other assets at some future date. Liabilities can be further classified into current liabilities and long term liabilities

ii) **Capital:** Claims of owners or proprietors.

The sum of the claims of outsiders (creditors) and that of the owners is always equal to the total value of all assets owned by the enterprise. It is known as the Fundamental Accounting Equation

Assets = Equities → Creditors (Liabilities)
(Total Claims) → Owners' equity (Capital)

Or

Assets = Liabilities + Capital

There is a variety of forms for accounts but the most common is the 'T' account because each account form resembles a capital letter 'T'.

Accounts Title

(Debit Side)	(Credit Side)

The rules of debits and credits and the account

How to determine whether an entry is to be made in debit or credit side of any account and what are the rules that guide us so that the proper entries are made in the book of accounts? The following shall help us in this process.

(1) Determine the type of account (asset, liability, revenue, or expense account) the transactions affect.

(2) Determine if the transaction increases or decreases the account's balance.

(3) Apply the debit and credit rules based on the type of account and whether the balance of the account will increase or decrease after the transaction.

Single and Double Entry System

Single Entry Systems

The term 'Single Entry Book Keeping' is generally applied to any system which is not a complete double entry system. Single entry systems of keeping books differ in the amount of detail and information concerning the business but all such systems have one common feature, viz. incompleteness of double entry.

The original records such as the cash book, the purchase book, the sale book and returns book, and the bill book are sometimes maintained but postings are only made to the personal accounts concerned. It fails to give information of the impersonal side of a transaction and lays more emphasis in recording the personal side.

The disadvantages of single entry system as compared to double entry are many. Single Entry system of record keeping fails to supply details regarding expenses, purchases and sale of goods as well as cost of assets such as plant and machinery, fixture and fittings and other real and nominal accounts. Thus at any stage when data are required in different aspects single entry system can only furnish a list of Debtors and Creditors along with amount outstanding. In the Single Entry System only final statements (not final accounts) can be drawn up; The arithmetic accuracy of the books cannot be proved, assets and liabilities may be wrongly shown, and the final statement of affairs cannot be relied upon.

Double Entry Book Keeping

Double-entry book-keeping is the standard accounting practice for recording financial transactions. It is a system of accounts keeping wherein all the financial transactions of an enterprise are recorded to show the effect of each on the assets, the liabilities, the owner's equity, the revenue items and the expense items:

Double-entry book-keeping is governed by the accounting equation. At any point of time, the following equation must be true:

Assets = Liabilities + Equity

For a particular time period, the equation becomes:

Assets = Liabilities + Equity + (Revenue - Expenses)

Finally, this equation may be rearranged algebraically as follows:

Assets + Expenses = Liabilities + Equity + Revenue

Dairy Farm - Record Keeping

Dairy farm record keeping is an important activity which has to take the decisions on feeding, breeding, calving, Culling and long range planning of dairy firm. Subsequently, this is essential for scientific dairy farming and it gives information on individual cows as well as on entire herd for making day to day decisions. Commonly the following parameters/contents will be used for preparation and maintenance of records.

1. Individual animal record/History sheet of animal
2. Growth record
3. Health record
4. Records on productive & reproductive parameters
5. Calf mortality record
6. Breeding and calving record
7. Recording of daily milk yield
8. Recording of concentrate& roughage feed use

9. Labour maintenance record

10. Water requirement record

11. Recording of culling animal

12. Recording of buying & selling animal.

New Generation Cooperatives (NGC)

A New Generation Cooperative is more restrictive in terms of marketing and finance. The NGC's members or users are:

(1) Customers who have a contractual right and obligation to deliver a particular amount and quality of product as specified in a marketing agreement

(2) Owners who are required to purchase shares of equity stock, as specified in the stock subscription agreement. That subscription agreement conveys the right to deliver a certain amount of product in accordance with the marketing agreement.

This type of transfers must be approved by the cooperative's board of directors.

Activity

Visit a dairy cooperative society and note down different activities performed by the society.

REVIEW QUESTIONS

1. Describe the concept of Cooperatives with suitable example. What are the benefits one can get by the formulation of cooperatives?
2. Describe the dairy cooperative structure followed in India.
3. What are the major roles performed by the Milk cooperative secretary?
4. Explain the concept of record keeping. Why it is important?