

The impact of government policies on the growth and development of agricultural cooperatives in Bihar

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Abstract

Agricultural cooperatives play an important role in improving farmers' access to inputs, credit, markets, storage, processing, and technical services. In Bihar, where agriculture remains a major source of employment and rural income, government policy has substantially influenced the formation, operation, and performance of cooperative institutions. This paper examines the impact of government policies on the growth and development of agricultural cooperatives in Bihar. It focuses on cooperative legislation, credit policies, procurement initiatives, rural infrastructure, digitization, farmer-producer organizations, and the integration of Primary Agricultural Credit Societies with broader agricultural services. The analysis indicates that government interventions have expanded the institutional reach of cooperatives and improved access to formal finance, agricultural inputs, public procurement, and storage facilities. However, the impact remains uneven because of weak governance, limited professional management, inadequate infrastructure, delayed payments, political interference, small operational scale, and regional disparities. The study argues that policy effectiveness depends not only on financial support but also on institutional autonomy, transparency, market integration, capacity building, and reliable data systems. It concludes with policy recommendations for strengthening democratic governance, improving cooperative business models, promoting value addition, and integrating cooperatives with digital agricultural markets.

Keywords: Agricultural cooperatives, government policy, infrastructure, rural development, pacs, and agricultural finance

Introduction

Agriculture is central to the socioeconomic structure of Bihar. A large proportion of the state's population depends directly or indirectly on agriculture and allied activities for livelihood. However, Bihar's agricultural sector is characterized by small and fragmented holdings, limited irrigation in several regions, weak post-harvest infrastructure, inadequate access to institutional credit, and high exposure to floods, droughts, and market fluctuations. These conditions reduce the bargaining power of individual farmers and constrain their ability to obtain remunerative prices.

Agricultural cooperatives provide a collective institutional mechanism through which farmers can pool resources, obtain inputs, access credit, market produce, and undertake processing activities. Cooperatives can reduce transaction costs and increase the bargaining power of producers by aggregating demand and supply. In Bihar, cooperative institutions include Primary Agricultural Credit Societies (PACS), district central cooperative banks, state cooperative banks, marketing cooperatives, dairy cooperatives, sugar cooperatives, and other producer-oriented organizations.

Government policy has played a decisive role in shaping the development of these institutions. Legislative provisions determine their structure and autonomy, while credit, procurement, infrastructure, subsidy, and digitization policies influence their operational performance. More recently, policy initiatives associated with PACS computerization, Farmer Producer Organizations (FPOs), agricultural infrastructure, dairy development, and digital

markets have broadened the possible role of cooperatives beyond traditional credit distribution.

Despite these interventions, the performance of agricultural cooperatives in Bihar remains mixed. Some institutions have contributed to financial inclusion, input distribution, procurement, dairy development, and rural employment. Others continue to face poor capitalization, low member participation, weak accountability, and inadequate business diversification.

Objectives of the Study

The objectives of this paper are:

- To examine the evolution of government policies affecting agricultural cooperatives in Bihar.
- To analyze the contribution of cooperative policies to agricultural finance, input supply, procurement, storage, and marketing.
- To identify institutional, financial, and operational constraints limiting cooperative performance.
- To propose policy measures for improving the effectiveness and sustainability of agricultural cooperatives.

Research Questions

This study examines the following research questions:

- How have government policies influenced the growth of agricultural cooperatives in Bihar?
- What are the principal benefits and limitations of these policies?
- Which institutional and policy reforms are necessary for sustainable cooperative development?

Research Methodology

This study adopts a qualitative and analytical research design based on secondary data. The analysis draws upon government reports, policy documents, legislation, institutional publications, academic studies, and reports of national-level organizations concerned with agriculture and cooperation. The major sources include publications of the Government of India, the Government of Bihar, the Reserve Bank of India, the National Bank for Agriculture and Rural Development (NABARD), the National Cooperative Development Corporation (NCDC), the Ministry of Cooperation, and relevant academic literature. The study does not present a primary household survey or econometric estimation. Therefore, its conclusions are interpretive rather than causal. The impact of policies is assessed through the institutional functions they support and the implementation challenges reported in official and academic sources.

Agricultural Cooperative Structure in Bihar

The cooperative structure in Bihar consists of several interconnected institutions.

■ Primary Agricultural Credit Societies

PACS operate at the village or local level and are intended to provide short-term agricultural credit, distribute farm inputs, support procurement, and provide other services to members. They are the most accessible cooperative institutions for many rural households. Traditionally, the principal function of PACS was the distribution of crop loans. However, policy initiatives increasingly encourage PACS to operate as multipurpose service centers. Their potential activities include:

- Agricultural input distribution.
- Custom hiring of farm machinery.
- Procurement and storage of agricultural produce.
- Rural logistics and transportation.
- Common service centers.
- Dairy and fisheries activities.
- Processing and value addition.
- Marketing of agricultural commodities.

■ Cooperative Banking Institutions

District central cooperative banks and the Bihar State Cooperative Bank form the financial structure through which cooperative credit is mobilized and distributed. These institutions connect PACS with the formal financial system and provide credit to agricultural households, rural enterprises, and cooperative societies.

■ Marketing and Procurement Cooperatives

Marketing cooperatives facilitate the aggregation, storage, transportation, and sale of agricultural commodities. Their performance is particularly important for small farmers, who often sell immediately after harvest because of inadequate storage and limited access to markets.

■ Dairy and Allied-Sector Cooperatives

Dairy cooperatives have significant potential in Bihar because livestock activities provide supplementary income and can support women-led rural enterprises. Cooperative dairy models can connect producers with collection centers,

veterinary services, feed supplies, chilling facilities, processing units, and organized markets.

■ Emerging Farmer-Producer Organizations

Although FPOs are legally distinct from traditional cooperatives in many cases, they perform similar aggregation and market-linkage functions. Government support for FPO formation has created opportunities for cooperation between FPOs, PACS, agricultural departments, financial institutions, and private markets.

Major Government Policies Affecting Agricultural Cooperatives

a. Cooperative Legislation and Institutional Governance

Cooperative societies in Bihar operate within the framework of state cooperative legislation and related rules. Cooperative laws establish registration procedures, membership structures, election mechanisms, audit requirements, supervision systems, and procedures for dispute settlement. The legal framework can promote accountability by requiring elections, audits, record maintenance, and reporting. However, excessive administrative control can reduce institutional autonomy. Frequent intervention in elections, management, and operational decisions may weaken member ownership and reduce incentives for professional management.

The effectiveness of cooperative legislation therefore depends on the balance between

- Democratic member control.
- Financial and regulatory supervision.
- Managerial autonomy.
- Transparency and accountability.
- Protection from political interference.

A cooperative cannot function effectively if it is treated only as an administrative extension of the state. At the same time, weak regulation may lead to financial mismanagement and loss of member confidence.

b. Agricultural Credit Policies

Credit policy has been one of the most important mechanisms through which the government has supported cooperatives. Short-term crop loans, interest subvention, refinancing, and institutional credit programs have strengthened the relationship between farmers and PACS.

Cooperative credit policies can generate several benefits

- They reduce farmers' dependence on informal moneylenders.
- They provide timely finance for seeds, fertilizers, labor, and machinery.
- They support the adoption of improved production technologies.
- They increase the formal financial inclusion of rural households.
- They create a base for broader cooperative services.

However, access to credit is not always equivalent to productive investment. Problems arise because of delayed loan disbursement, inadequate credit limits, cumbersome documentation, weak recovery systems, and the exclusion of tenant farmers and landless cultivators. In Bihar, the impact

of cooperative credit policies is also affected by land fragmentation and informal tenancy arrangements. Farmers who cultivate land without formal ownership documents may face difficulty obtaining institutional loans, even though they are active agricultural producers.

c. PACS Computerization and Digitization

The computerization of PACS is intended to improve operational efficiency, transparency, accounting, and integration with cooperative banks. Digital records can improve the monitoring of loans, membership, procurement, inventory, and repayments.

The expected benefits include

- Standardized accounting systems.
- Faster preparation of financial statements.
- Better access to information.
- Reduction in manual errors.
- Improved audit and supervision.
- Greater transparency in member transactions.
- Integration with digital financial and agricultural platforms.

The success of computerization depends on reliable electricity, internet access, trained personnel, cybersecurity, local-language interfaces, and regular maintenance. Digitization without institutional capacity may create additional administrative burdens rather than improving service delivery.

d. Procurement and Minimum Support Price Policies

Government procurement policies influence cooperatives by creating organized channels for the purchase of agricultural commodities. In principle, procurement through cooperative institutions can provide farmers with an alternative to distress sales and improve price realization.

PACS and marketing cooperatives may support procurement by

- Aggregating produce.
- Operating collection centers.
- Maintaining quality records.
- Providing temporary storage.
- Facilitating transportation.
- Linking farmers with government procurement agencies.

The effectiveness of procurement policies depends on procurement coverage, quality standards, payment speed, storage capacity, and the transparency of weighing and grading systems. If procurement is geographically limited or payments are delayed, farmers may continue to rely on local traders.

e. Rural Storage and Agricultural Infrastructure

Government support for warehouses, cold storage, rural roads, irrigation, and agricultural processing has a direct impact on cooperative development. Cooperatives require physical infrastructure to transform collective ownership into commercially viable operations. Storage infrastructure can enable farmers to postpone sales until market conditions improve. Processing facilities can allow cooperatives to sell higher-value products rather than raw commodities. Better

roads reduce transportation costs and facilitate access to wholesale markets.

f. Farmer Producer Organization Policies

Government programs supporting FPOs encourage farmers to organize around commodity clusters, production systems, and value chains. These policies are relevant to Bihar because they can help overcome the limitations of very small and fragmented holdings.

FPOs and cooperatives can jointly support

- Collective purchase of inputs.
- Bulk sale of produce.
- Contractual market linkages.
- Grading and packaging.
- Branding and processing.
- Access to financial institutions.
- Technical and extension services.

However, institutional overlap can cause confusion if the roles of PACS, cooperatives, FPOs, self-help groups, and private aggregators are not clearly defined. Coordination is necessary to prevent duplication and competition for the same members and resources.

g. Dairy, Fisheries, and Allied Agricultural Policies

Policies supporting dairy, fisheries, poultry, horticulture, and livestock cooperatives can diversify rural income and reduce dependence on seasonal crop production. This is particularly important in flood-prone areas and regions where agricultural landholdings are small.

Allied-sector cooperatives can create year-round income through

- Milk collection and processing.
- Fish production and marketing.
- Poultry input and output services.
- Goat-rearing programs.
- Veterinary and breeding services.
- Feed and fodder distribution.
- Cold-chain development.

These sectors also offer opportunities for women's participation, provided that membership, ownership, training, and income distribution are designed inclusively.

Impact of Government Policies

▪ Expansion of Institutional Access

Government support has expanded the institutional presence of cooperatives in rural areas. PACS and cooperative banks provide a local interface for farmers who may have limited access to commercial banks or digital financial services.

This local presence is particularly valuable for smallholders because cooperatives can reduce travel costs, simplify transactions, and provide services in familiar social environments.

▪ Improvement in Agricultural Credit Access

Credit policies have strengthened the role of cooperatives in seasonal agricultural finance. Crop loans and related services can support the purchase of seeds, fertilizers, pesticides, and labor.

However, the benefits are uneven. Farmers with clear land records and established cooperative membership generally

have better access than tenant farmers, sharecroppers, women farmers, and landless producers involved in livestock or fisheries.

▪ **Strengthening of Collective Marketing**

Cooperatives can improve farmer bargaining power by aggregating produce. Collective marketing may reduce dependence on commission agents and local traders and may improve access to institutional buyers.

The effect is strongest when cooperatives possess

- Adequate volume.
- Reliable quality control.
- Storage capacity.
- Transparent payment systems.
- Professional marketing personnel.
- Stable buyer relationships.

Without these conditions, aggregation may remain limited to administrative procurement rather than becoming a sustainable commercial activity.

▪ **Support for Rural Employment and Enterprise**

Cooperatives create employment in input distribution, transportation, storage, processing, bookkeeping, procurement, and marketing. Multipurpose PACS can also provide services such as machinery rental and digital banking assistance.

The employment impact is greater when cooperatives move beyond credit distribution and develop value-added enterprises. Processing activities can generate local employment and reduce the loss of value caused by the sale of raw agricultural products.

▪ **Promotion of Financial Inclusion**

Cooperative banking and digitization policies have contributed to rural financial inclusion. They can help farmers establish formal financial identities, access savings accounts, receive government payments, and obtain credit histories.

Financial inclusion remains incomplete, however, when low literacy, limited digital skills, insufficient banking infrastructure, or inadequate awareness prevents members from using available services effectively.

▪ **Institutional Modernization**

Policies promoting computerization, professional management, accounting reform, and business diversification have encouraged the modernization of cooperatives. These measures can improve data quality and support better decision-making. The modernization process is constrained by the shortage of trained staff. Many local cooperatives lack personnel with expertise in accounting, marketing, information technology, supply-chain management, and business planning.

Major Challenges

▪ **Weak Governance and Accountability**

Some cooperatives suffer from irregular elections, inadequate audits, poor record keeping, and limited member participation. When decision-making is concentrated in a small group, cooperative benefits may not reach the wider membership.

▪ **Political and Administrative Interference**

Political influence can affect the appointment of office bearers, allocation of credit, procurement decisions, and distribution of cooperative benefits. Excessive interference reduces institutional autonomy and may weaken trust among members.

▪ **Inadequate Capitalization**

Agricultural cooperatives require working capital for procurement, storage, input purchase, transportation, and processing. Many societies have limited owned funds and depend heavily on external support. Low capitalization restricts their ability to compete with private traders and commercial enterprises.

▪ **Limited Professional Management**

Cooperative members may possess agricultural knowledge but not necessarily the technical skills needed to manage modern supply chains. Professional management is required for accounting, inventory control, quality assurance, marketing, contract negotiation, and digital operations.

▪ **Regional Disparities**

The benefits of cooperative policies vary across districts because of differences in infrastructure, irrigation, market access, flood exposure, literacy, and institutional capacity. Areas with better roads and market connectivity generally have greater potential for successful cooperative enterprises.

▪ **Exclusion of Tenant and Marginal Farmers**

Formal credit and cooperative membership systems may favor landowners. Tenant farmers and sharecroppers can be excluded when land ownership documents are required for loans or membership-related services.

▪ **Weak Value-Chain Integration:**

Many cooperatives remain focused on credit or input distribution and have limited involvement in storage, processing, branding, and retail marketing. As a result, a substantial share of the value generated from agricultural commodities is captured outside the producer institution.

▪ **Delayed Payments and Low Member Confidence**

When procurement payments are delayed or prices are not transparently calculated, farmers may prefer private buyers offering immediate payment. Rebuilding confidence requires timely settlement, transparent weighing, quality testing, and accessible grievance mechanisms.

Policy Recommendations

a. Strengthen Cooperative Autonomy

Government supervision should focus on prudential regulation, audit, and compliance rather than routine interference in operational decisions. Cooperative members should have meaningful control over elections, management oversight, and the use of surplus.

b. Improve Governance and Transparency

The following measures should be implemented:

- Regular and credible elections.
- Timely statutory audits.
- Public disclosure of financial statements.
- Digital records of membership and transactions.
- Independent grievance-redress mechanisms.

- Clear conflict-of-interest rules.
- Social audits for major public programs.

c. Expand Access to Inclusive Credit

Credit policies should include tenant farmers, sharecroppers, women farmers, and producers in livestock and fisheries. Alternative mechanisms may include:

- Joint liability groups.
- Tenant cultivation certificates.
- Credit guarantees.
- Warehouse receipt financing.
- Cash-flow-based lending.
- Producer-group lending.

d. Develop Multipurpose PACS

PACS should be supported as financially sustainable rural service centers. Their activities may include input supply, machinery rental, storage, procurement, processing, digital services, and allied-sector enterprises.

Each society should prepare a business plan based on local commodities, member demand, available infrastructure, and market opportunities.

e. Invest in Professional Capacity

Training should cover:

- Cooperative accounting.
- Digital record management.
- Procurement and quality control.
- Business planning.
- Marketing and branding.
- Conflict resolution.
- Gender-inclusive participation.
- Regulatory compliance.

District-level cooperative resource centers could provide continuous technical support.

f. Improve Storage, Processing, and Logistics

Public investment should be combined with cooperative ownership and professional operation. Priority should be given to:

- Scientific warehouses.
- Cold storage.
- Primary processing units.
- Packhouses.
- Grading and sorting facilities.
- Rural transport systems.
- Renewable-energy-based storage solutions.

g. Integrate Cooperatives with Digital Markets

Digital platforms can improve price discovery and market access. Cooperatives should be linked with electronic marketplaces, digital payment systems, commodity information services, and traceability systems.

Digital systems should be designed for local-language use and supported by trained personnel at the village level.

h. Promote Women's Participation

Women should be recognized as independent cooperative members and producers. Policies should promote women's membership, leadership, access to credit, ownership of productive assets, and participation in dairy, poultry, horticulture, food processing, and fisheries cooperatives.

i. Establish Performance-Based Support

Government assistance should be linked to measurable indicators, including:

- Member participation.
- Timely audit completion.
- Loan recovery.
- Procurement volume.
- Payment performance.
- Revenue diversification.
- Employment creation.
- Inclusion of women and tenant farmers.
- Digital transaction coverage.

This approach can reduce dependence on unconditional subsidies and encourage institutional sustainability.

Discussion

Government policies have created a supportive environment for cooperative expansion in Bihar, but policy presence alone does not guarantee cooperative success. The effectiveness of an intervention depends on the institutional capabilities of the implementing organization. Credit support is useful when it is timely, inclusive, and linked to productive activity. Procurement is beneficial when it provides transparent prices and prompts payment. Computerization improves accountability when records are accurate and staffs are trained. Infrastructure generates economic value when it is connected to reliable markets. Similarly, cooperative legislation is effective when it protects democratic control without weakening professional autonomy.

The central policy challenge is therefore to shift from a predominantly administrative approach to a member-owned, market-oriented, and professionally managed cooperative model. Cooperatives should not be evaluated only by the number of registered societies or the amount of government assistance received. Their performance should be assessed by the value they create for members.

A successful agricultural cooperative in Bihar should enable farmers to obtain better prices, reduce input costs, manage production risks, access technology, and participate in value addition. The cooperative model is especially relevant for smallholders because individual farmers often lack the scale required to negotiate with large buyers or invest in modern infrastructure.

Conclusion

Government policies have significantly influenced the growth and development of agricultural cooperatives in Bihar. Cooperative credit, procurement support, rural infrastructure, digitization, FPO promotion, and allied-sector programs have expanded the potential role of cooperatives in agricultural development.

The positive impact is visible in improved institutional access, greater availability of formal credit, collective procurement opportunities, rural employment, and the possibility of diversified agricultural enterprises. Nevertheless, the benefits remain uneven because of weak governance, inadequate capital, limited professional management, political interference, regional disparities, exclusion of tenant farmers, and weak value-chain integration.

The future of agricultural cooperatives in Bihar depends on institutional reform rather than subsidy expansion alone.

Greater autonomy, transparent governance, inclusive membership, professional management, digital capability, reliable infrastructure, and market-oriented business planning are essential. If these reforms are implemented effectively, agricultural cooperatives can become important instruments for increasing farmer incomes, strengthening rural employment, reducing market vulnerability, and promoting inclusive agricultural development in Bihar.

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