CHAPTER - II

Growth of Cooperative Movement
India is one of the largest countries in the world and agriculture is the main occupation of Indian people living in rural areas. Agriculture plays a predominant role in Indian economy ensuring a sound and healthy economic growth of the country. Modern technology is needed for increase of agriculture produce. But our country consists of small and marginal farmers with low profile of finance. Naturally they depend on financed institution for credit.

Here we are required to recollect the words of the father of the nation, Mahatma Gandhi "Real India Lies in Rural India". The entire country depends up on rural development. Thus the Government of India is focusing more on the development of Rural sector mainly Agriculture by allocate more funds in its budget. The total integrated approaches with collaborative, coordinative and co-operative efforts are required for better economic development.

"Without the fundamental contribution of agricultural industry all the rest of fabrics of their civilization would topple into ruins almost overnight". ¹ says a great economist, Wilson Gee.

Another great man William Nicholls said "If agriculture stagnates it will act as a brake on industrial expansion and halt rural growth". ²

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In view of it the all India rural credit review committee has stated “The agricultural sector could a loan act has catalyst in breaking the vicious circle of poverty”. 3

The great economist Gunner Myrdal has said “It is the agricultural sector that the battle for long term economic development in South-Asia will be won or lost”. 4

The former Governor of Reserve Bank of India, Ranga Rajan says “Living standards can be raised by ensuring sustained diversified agricultural development”.5

2.2. Rural Sector:

The credit is an input which increases food, work and productivity of a nation. The great economist Nicholson as also expressed “An essential input for agricultural is credit”.6

“The foundation – stone of farm revolution is built up on credit”.7 is the opinion of Sharma. Schumpeter, a Neo-classical economist, described the credit as “A Phenomenon of development” .8

3. Reserve Bank of India, report of the All India Rural Credit review committee, Bombay, 1972, P.55
7. Sharma, R.D. Agricultural Finance in India, 1980, P.P. 16-17
Cooperative banking institutions take deposits and lend money. The cooperative banks are helping a lot the agriculturists and others by giving credit for production in their activity. The banking institutions have been playing a vital role in the national economic development by financing the credit needs for trade, industries and agriculture with higher degree of contribution and responsibility. The banks are dealers in money and the leaders in economic development of country. In large the commercial banks are the hub of the Indian financial system, which are organized as the joint-stock banks both public and private sectors.

The role of banks in rural development is abundant and their support to the rural sector for prosperity of any country in laudable. In this aspect a survey conducted by Syndicate Bank has disclosed that "On an average, a five cent plot earns a net income of rupee One hundred and forty five per season". Thus the bank acts the development roll with its credit activity.

2.3. Sources of Credit:

The broad classification of credit is divided into production and investment. The production credit covers all expenses of current nature of the enterprise where as expenditure incurred on improvement of permanent assets is referred to investment credit.

Praboth Kumar Jha stated that "Bank is an instrument in conversion of static credit into dynamic credit".

The important events happened in Indian Banking are the nationalization of Imperial Bank in 1955, fourteen major commercial banks in 1969, six another commercial banks in 1980, establishing of regional rural banks in 1975 and the formation of NABARD in 1982. The cooperative banks which are brought to the nation after the changes made in the beginning of the present century, have been serving a lot the rural sectors. The national cooperative union of India has been emphatic on the role of cooperatives “The Indian socialist economic organization is impossible without a net work of co-operative organization”.11.

The institutional wise arrangements for Agriculture and Rural credit are shown in the organization chart 2.1

CHART- 2.1
THE INSTITUTIONAL ARRANGEMENTS FOR AGRICULTURE
AND RURAL CREDIT:

Source: Dossier on Cooperatives, NABARD, March-2000, P-I
2.4. Cooperative Banks

Among the banking institutions, the cooperative banks are owned by their customers and follow the cooperative principle of one person, one vote, unlike credit unions. However, cooperative banks are often regulated under both banking and cooperative legislation. The Agricultural production mainly depends upon four important components i.e. Men, Material, Machine and Money. The entire cooperative credit system is of different structures, one is short term credit and the other is long term cooperative credit structure.

2.5. Short Term and Long Term Cooperative Credit Structure:

a. Short Term\(^{12}\)

The NAFSCOB in its “General of rural co-operative credit and banking”, April – June 2011 edition, indicated there are 94,647 as on 31-3-2010 village-level Primary Agricultural Credit Societies (PACS), 372 District Central Cooperative Banks (DCCBs) with 13,181 branches and 31 State Co-operative Banks (SCBs) with 10,15 branches providing primarily short- and medium-term agricultural credit in India. The detail of short term co-operative structure is mentioned in the Chart- 2.2:
The long-term cooperative structure consists of 19 with 2609 operational units comprising 788 branches and 772 Primary Agricultural and Rural Development Banks (PA&RDBs) with 1049 branches in India. The detail of Long term cooperative credit structure is shown in Chart- 2.3:

b. Long Term

The long-term cooperative structure consists of 19 with 2609 operational units comprising 788 branches and 772 Primary Agricultural and Rural Development Banks (PA&RDBs) with 1049 branches in India. The detail of Long term cooperative credit structure is shown in Chart- 2.3:
The chart 2.3 indicates that the state level organizations which are providing long term loans (agricultural investment loans) are the State co-operative agricultural rural banks. The long term credit organizations at all levels were abolished and merged with short term credit institutions in Andhra Pradesh under single window credit delivery system. At present, there are (19) state cooperative agricultural rural development banks, (788) operational unit branches, (772) primary agricultural and rural development banks and (1049) other branches dealing with agricultural investment loaning in the country. The proposal for agricultural banks was first mooted in 1858 and again in 1881 by Mr. William Wedderburn the District Judge of Ahmednagar, in consultation with Justice M.G. Ranade, but was not accepted. In March 1892, Mr. Frederick Nicholson was placed by the Governor of Madras Presidency (for enquiring into the possibility) of introducing in this Presidency, a system of agricultural or other land banks and submitted his report in two volumes in 1895 and 1897. In 1901 the Famine Commission recommended the establishment of Rural Agricultural Banks through the establishment of Mutual Credit Associations.

2.6. Evolution of Co-operatives:

The co-operative movement in India began as a great “Man made movement” and “Man making movement”. The co-operation is hope and the co-operative is an ultimate source of credit. The co-operative structure is an old concept and which is catering the credit needs of rural mass through co-operative institutions. “The co-operative movement in India has left almost no sector of the economy untouched. More especially co-operation places a major role in supply of agricultural credit and agricultural inputs”.

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2.7. Co-operative Acts and Development:

"The passing of the co-operative societies Act in 1904 made the beginning of the Indian co-operative movement. The main task in establishing of primary co-operative credit institutions was liberating the farmers from the clutches of the money lenders"\textsuperscript{15}.

"Each for all and All for Each" it is the main principle behind the co-operative movement. The co-operative society is entirely different from other business concerns in all aspects. Accordingly the first ever co-operative societies Act came into force in 1904. The main object of this Act is to encourage thrift among rural people, self help among themselves, artisans and persons of limited sources through co-operative societies. The co-operative society Act 1912 was passed removing the defects of Co-operative Act 1904. This Act also facilitated the registration of many types of co-operatives. One committee on co-operation was set up in 1914 to conduct a study on co-operative movement, and stressed the need to tone up the administration of co-operative departments. The Andhra Pradesh Co-Operative Societies Act of 1932 widened the scope of the movement.

2.8. Concept of Co-operatives:

"A co-operative is a user owned and user-controlled business that distributes benefits on the basis of use".

The voluntary membership is the essence of Co-operation, Co-operative Society on the basis of equality for the promotion of their social and economic growth. The "\textit{Co-operation is a universal instrument of creation}".

\begin{multicols}{2}
\textsuperscript{14} Reserve Bank of India, All India Credit Rural survey, Vol-11, the Journal Report, Bombay, 1954, P-5
\textsuperscript{15} Government of India: Co-operative in India – Directorate of Advertising and Visual Publicity, Ministry of Information and Broadcasting, Ministry of Civil supplies and Co-operation, New Delhi, N.10/1/77, December 1977, P.1
\end{multicols}
2.9. Definitions of Co-operatives:

A. According to International Co-operative Alliance:

“A Co-operative is an autonomous association of persons united to meet their common, economic, social, cultural needs and aspirations through a jointly owned democratically controlled enterprise”.

B. According to Vaikunthbhai L Mehta:

“Co-operation is only one aspect of a vast moment which promotes voluntary association of individual sharing common needs to combine towards the achievement of common economic ends”.

2.10. Special Features of Co-operative Movement in India:

1. It is a voluntary organization. It is an association of persons (one person one vote)
2. It is democratic, every individual has a say in the co-operative society.
3. It is an undertaking
4. Less stress on profits because the main objective is to meet common economic ends through mutual help.
5. It is not based on exploitation
6. There is no place for middlemen
7. Common objective of people
8. Concept of equality
9. Wider interest of Community
10. No outside interference
11. Self help through mutual help is the concept
2.11. Characteristics of Co-operatives:
(a) An association of persons
(b) A business enterprise
(c) A voluntary Enterprise
(d) Democratic Enterprise
(e) The motto is to serve rather than to earn
(f) The key of co-op is mutual-help and self-help
(g) This basis is equality and equity

2.12. Messages on Co-operation:

- Co-operation is a movement of people.
- It is essentially an activity of the people for mutual help and collective progress.
- Co-operation is an activity, where a group of people having common interests come, together and work for mutual benefit.

2.13. Co-operative Principles:
The commission appointed by the International Cooperative Alliance under the chairmanship Sri D.G. Karve, enunciated the following principles of Co-operation.
1) Open and voluntary membership
2) Democratic administration
3) Self help and mutual help
4) Principles of service
5) Distribution of surplus
6) Political and religious neutrality
7) Principle of education
8) Co-operation among co-operatives.
9. Limited interest on capital (No profit motive):
10. Equitable distribution of surplus:
2.14. **History, Background and Growth of Cooperative Movement in Indian Context:**

**(A). Preamble of Cooperatives:**

"The history of cooperatives in India is more than a hundred years old. The canvas of events is far too vast to give it the space it deserves in a Report of this nature. The following is only a brief attempt to recapture the major events that led to the cooperatives as we see them today"

**(B). Background and History of Cooperative Structure:**

"Even before formal cooperative structures came into being through the passing of a law, the practice of the concept of cooperation and cooperative activities was prevalent in several parts of India. The agricultural conditions and absence of institutional arrangements to provide finance to agriculturists during the latter part of the nineteenth century led to mounting distress and discontent. The Famine Commission of 1880 and 20 years later, the Famine Commission 1901 both highlighted the deep indebtedness of the Indian farmer, resulting in many cases in his land passing into the possession of the money lending classes.

The Co-operative Movement, which has an ultimate goal of strengthening the position of economically weaker sections, can make a real contribution towards the progress of national community. Over 107 years co-operative activity has been undertaken and since, it got a legal acceptance after the co-operative credit society act was passes in 1904. The main objective was to combat indebtedness and provide credit and inputs to the agriculturalist and also agricultural inputs."
The Indian cooperative movement was initiated by the government. It spread and diversified with the encouragement and support of the government. Its present condition is also to a great extent because of the intrusive involvement of, and interference by the government. This chapter provides a brief review of the various phases of the evolution of cooperatives in general, and of credit cooperatives in particular, over the past century.

(C). Different Cooperative Credit Societies Acts:

i. **Cooperative Credit Societies Act, 1904 - The First Incorporation:**
The Cooperative Credit Societies Act was enacted on 25th March 1904 restricted to credit cooperatives and provided for constitution of societies with suitable rules and model bye laws of the cooperative societies.

ii. **Cooperative Societies Act, 1912:**
The Cooperative Societies Act of 1912 for providing non-credit services to their members. The Act also provided for Federations of cooperatives.

iii. **Maclegin Committee on Cooperation (1914):**
A Committee on Cooperation under Sir Edward Maclegin was appointed by the Government in October 1914 to study the state of and make recommendations for the future of cooperatives.

iv. **Government of India Act, 1919:**
In 1919, with the passing of the Reforms Act, Cooperation as a subject was transferred to the provinces and enacted another cooperative Act 1919.
v. **Multi-Unit Cooperative Societies Act, 1942:**
The *Multi-Unit Cooperative Societies Act* was passed in 1942, which delegated the power of the Central Registrar of Cooperatives to the State Registrars for all practical purposes.

vi. **Cooperative Planning Committee (1945):**
The Cooperative Planning Committee under the chairmanship of Shri R.G. Saraiya was set up in 1945. The Committee found cooperative societies to be the most suitable medium for democratization of economic planning and examined each area of economic development.

vii. **Pre-Independence Development:**
In 1946, inspired by Sardar Vallabh Bhai Patel and led by Shri Morarji Desai and Shri Tribhuvan Das Patel, the milk producers of Khera District of Gujarat went on a fifteen day strike. Their refusal to supply milk forced the Bombay Government to withdraw its order granting monopoly procurement rights to Polson, a private dairy. History was made when two Primary Village Milk Producer Societies were registered in October 1946. Soon after on 14th December 1946, the Khera District Cooperative Milk Producers Milk Union known as Amul was registered. The Registrars’ Conference in 1947 recommended that the Provincial Cooperative Banks be re-organized to give greater assistance to primary societies through Central Banks.

viii. **Developments in the Post-Independence Era:**
After India attained Independence in 1947, cooperative development received a boost, with cooperatives being given a vital role in the various plans formulated by the Planning Commission and also incorporated in 5 years plans.
ix. **All India Rural Credit Survey Committee (1951):**

A major watershed initiative at this time was the appointment by Government of the Gorwala Committee, popularly known as the All India Rural Credit Survey Committee. The Committee was appointed in 1951 and submitted its report in 1954. The Committee recommended introducing an integrated system of rural credit.

The Industrial Policy Resolution of 1956 emphasized the need for State assistance to enterprises, organized on a cooperative basis for industrial and agricultural purposes, and “to build up a large and growing cooperative sector”. The Committee on Cooperative Law under the chairmanship of Shri S.T.Raja in 1956 recommended a Model Bill for consideration of State Governments. Another important development, at this time, which affected the cooperative sector, was the National Development Council Resolution (1958).

x. **Some National Institutions which Came into Existence in the 1960**

The Agricultural Refinance Corporation was set up in 1962 by the Government of India to provide long-term loans to cooperatives, through Central Land Mortgage Banks. In 1963, the National Cooperative Development Corporation (NCDC) was established as a statutory corporation by an Act of Parliament. The establishment of the NCDC gave a great boost to the growth of cooperative marketing and processing societies. While on a visit to Anand in October 1964, impressed by the socio-economic transformation brought about by milk cooperatives, Shri Lal Bahadur Shastri, the then Prime Minister of India, spoke of the desirability of setting up a national level organization, the **National Dairy Development Board (NDDB)**, to replicate the Anand pattern of cooperatives in milk throughout the country. Several other significant organizational developments also
took place during this period such as the setting up of various National Cooperative Federations and re-organization of the National Cooperative Union of India (NCUI). In 1967, the Vaikunth Mehta National Institute of Cooperative Management was set up in Pune. Growth of consumer cooperatives was also an important development of this period. Simultaneously, the growth of Land Development Banks also accelerated and rural electric cooperatives and programs for dairy, poultry, fishery and labour cooperatives were set up.

xi. **NABARD Act, 1981:**
The National Bank for Agriculture and Rural Development (NABARD) Act was passed in 1981 and NABARD was set up to provide re-finance support to Cooperative Banks and to supplement the resources of Commercial Banks and Regional Rural Banks to enhance credit flow to the agriculture and rural sector.

xii. **Multi-State Cooperative Societies Act, 1984:**
With the objective of introducing a comprehensive central legislation to facilitate the organization and functioning of genuine multi-state societies and to bring uniformity in their administration and management, the MSCS Act of 1984 was enacted.

xiii. **Model Cooperatives Act, 1990:**
In 1990, an Expert Committee, under the chairmanship of Choudhary Brahmesh Perkash, was appointed by the Planning Commission to make a rapid review of the broad status of the cooperative movement, suggest future directions and finalize a Model Cooperatives Act. The Committee submitted its report in 1991. Since cooperation is a State subject and each State has its own cooperative legislation covering

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cooperatives whose membership is confined to the State, the report of the Committee, along with a draft Model Cooperative Law, was circulated to all State Governments for their consideration and adoption at State level.

xiv. **Multi-State Cooperative Societies Act, 2002:**
The Multi-State Cooperative Societies (MSCS) Act, enacted in 1984, was modified in 2002, in keeping with the spirit of the Model Cooperatives Act. Unlike the State Laws, which remained as a parallel legislation to co-exist with the earlier laws, the MSCS Act, 2002 replaced the earlier Act of 1984.

In 2002, the Government of India enunciated a National Cooperative Policy. The objective of the Policy is to facilitate an all round development of cooperatives in the country.

xvi. **NCDC Amendment Act, 2002**
Recognizing the need to improve its scope of lending and to bring about changes in its funding, the NCDC Act was amended in 2002, which has enabled it to cover notified services, livestock and industrial activities and more importantly to directly fund cooperatives against suitable security.

xvii. **Task Force on Revival of Cooperative Credit Institutions**
To nurse the rural cooperative credit system back to health, to ensure that the rural credit doubled over three years and that the coverage of small and marginal farmers by institutional lending was expanded substantially, the Government of India in August 2004 set up a Task Force to suggest an action plan for reviving rural
cooperative credit institutions and legal measures necessary for facilitating this process. The Task Force, chaired by Prof. A. Vaidyanathan, recommended that any financial restructuring which did not address the root causes of the weaknesses of the system would not result in its sustained revival and would require legal measures. The recommendations of the Task Force in accordance with its Terms of Reference are basically confined to revival of credit cooperatives for which it suggests a financial package. The Vaidyanathan Committee has also suggested a model cooperative law that can be enacted by the State Governments. Recommendations of the Task Force are being currently implemented. The Vaidyanathan Committee has also given its report on the long-term cooperative credit structure.

xviii. **Cooperative Movement at a Glance**

Cooperatives, in all spheres, today cover approximately 99% of Indian villages and 71% of total rural households in the country. Their contribution to the national economy may be seen from the following table:

<table>
<thead>
<tr>
<th>Cooperative share in the economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
</tr>
<tr>
<td>Agricultural Credit Disbursed 18%</td>
</tr>
<tr>
<td>Fertilizer Distributed 36%</td>
</tr>
<tr>
<td>Production of Fertilizer 25%</td>
</tr>
<tr>
<td>Sugar Produced 50%</td>
</tr>
<tr>
<td>Spindle age 10%</td>
</tr>
<tr>
<td>Milk Procurement to total Production 8%</td>
</tr>
<tr>
<td>Yarn Production 22%</td>
</tr>
<tr>
<td>Handlooms 54%</td>
</tr>
<tr>
<td>Wheat Procurement 33%</td>
</tr>
<tr>
<td>Fishermen Cooperatives 21%</td>
</tr>
<tr>
<td>Storage facility (Village Level PACS) 64%16.</td>
</tr>
</tbody>
</table>

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a) **The First Phase: 1900-1930:**

By the beginning of the 20th Century, officials of the colonial government perceived the Indian farmers' dependence on usurious moneylenders to be a major cause of their indebtedness and poverty. At that time the cooperative movement had become well established in Europe and achieved remarkable success there. Convinced that the cooperative movement offered the best means of liberating Indian farmers from the crushing burden of debt and the tyranny of moneylenders, Indian officials began to take active interest in promoting credit cooperatives in the country. Societies were organized for the first time in the closing years of the 19th Century.

The passage of the Cooperative Credit Societies Act in 1904, and the enactment of a more comprehensive Cooperative Societies Act in 1912 marked the beginning of a government policy of active encouragement and promotion of cooperatives. This thinking gained wide acceptance and was adopted as a policy by provincial governments and thereafter, "cooperation" became a provincial subject in 1919. The persistence of government interest in cooperatives and the importance attached to them was reflected in the appointment of three different Committees to review their growth and functioning.

The classic study by Frederic Nicholson, followed by the Edward Law Committee on Cooperative Legislation, confirmed and reiterated the need for the State to actively promote cooperatives.

A decade later, the Maclagan Committee (1915) advocated that "there should be one cooperative for every village and every village should be covered by a cooperative". The Royal Commission on Agriculture in India, which submitted its report in 1928, suggested among other things, that the cooperative movement should continue to focus on expanding rural credit and that the state should patronize cooperatives and protect the sector.

It was the Royal Commission which made the observation "if cooperation fails, there will fail the best hope of rural India". By this time, the State was already deeply involved in promoting agricultural credit cooperatives. The number of societies reached impressive proportions and diversified their activities well beyond agricultural credit. Debates centered on whether or not each village should have a cooperative and whether there should be a single purpose or a multipurpose cooperative at the village level.

During the period of 1900-1930 the co-operative movement made rapid strides in different fields. To boost the development process the government of India appointed a committee under the chairmanship of Sir E.D. Mac lagan to observe and suggested the following recommendations.

1. There should be one co-operative society for one village
2. The size of co-operative society should not be very large
3. There should be unlimited liability of a co-operative society
4. Society should give importance to recovery of loans
5. Society should increase the reserve funds
b) The Second Phase: 1930 – 1950:

The major development during this phase was the role played by the Reserve Bank of India (RBI). The Reserve Bank's concern and involvement in the sphere of rural credit stemmed from its very statute of incorporation. Specific provisions were made in the Reserve Bank of India Act, 1934 both for the establishment of an Agricultural Credit Department (ACD) in the bank and for extending refinance facilities to the cooperative credit system. Emphasis was laid on setting up, strengthening and promoting financially viable provincial cooperative banks, central cooperative banks, marketing societies and primary agricultural credit societies in each province. The RBI, since 1942, also started extending credit facilities to provincial cooperative banks for seasonal agricultural operations and marketing of crops.

The Government policy during this phase was not as pro-active on promoting cooperatives as before. There seemed to be a policy lull until 1945, when the Agricultural Finance Sub-committee and the Cooperative Planning Committee were set up by the Government of India (GoI). By then, there already were signs of sickness in the Indian rural cooperative movement. A large number of cooperatives were found to be saddled with the problem of frozen assets, because of heavy over dues in repayment. The Sub-committee's recommendation that the frozen assets of the members of such cooperatives be liquidated, by adjusting the claims of the society to the repaying capacity of the members, marked the beginning of State interference in the management of cooperatives and the consequent erosion in the credit discipline of the members. The Cooperative Planning Committee identified the small size of the primary cooperative as the principal cause of failure. It also advocated State protection to the cooperative sector from competition.
c) **The Third Phase: 1950 – 1990:**

After Independence, rapid and equitable economic development became the central focus of State policy. Cooperatives in general and rural financial cooperatives in particular, were once again on centre stage. Taking cognizance of the weakness of the cooperative system, the All India Rural Credit Survey (AIRCS) not only recommended State partnership in terms of equity, but also partnership in terms of governance and management. Other recommendations included linking credit and marketing cooperatives and enlarging their area of operation. The recommendations of the AIRCS stopped just short of the Government running the cooperatives, and paved the way for its direct intrusion in the governance and management of cooperatives.

To recommend the developmental majors for co-operative sector in Rural India, the Government of India appointed a committee under the chairmanship of A.D. Gorewalla in 1951. This committee submitted its recommendations as follows in 1954.

(a) There should be mergers of primary co-operatives to make them financially sound

(b) The purpose of the loan should be taken into account while sanctioning the loan

(c) No money lender/Commission Agent should be provided credit. Care should be given to give credit only to the weaker sections of the society

(d) Primary co-operative society should be provided with more finances by the National Credit Institutions
(e) Members who don't pay arrears in time should be dismissed from the society on legal grounds

(f) There should be a link between Agricultural Credit Societies and Marketing Societies

In May 1960 the committee under the chairmanship of Dr. Vaikunthbhai Mehta gave its report with suggestions and made the following recommendations on strengthening the co-operative credit structure.

1. Service co-operative should be organized on the basis of the village community as the primary unit. Number of villages within a radius of 3-4 miles should be grouped to gather.

2. The society should have sound management to enhance the deposition confidence.

3. RBI should liberalize its Credit limits for the central co-operative banks

4. The credit limit of a member should be fixed keeping in mind his repaying capacity.

5. Care should be taken to see that the loan given is applied to agricultural productive purpose only

State policy came to be premised on the view that the government should ensure adequate supply of cheap institutional credit to rural areas through cooperatives. The thinking then was that if the institutions that were meant to deliver such cheap institutional credit failed, there either had to be reorganization of existing institutions, or creation of new types of institutions. The Hazari Committee recommended integration of short term and long term structures. The Bawa Committee (1971) recommended setting up Large Multi-purpose Cooperatives in tribal areas. The National
Commission on Agriculture (1976) recommended setting up Farmers Service Cooperative Societies with the active collaboration of the nationalized banks. NABARD was created on the recommendation of the CRAFICARD (Sivaraman Committee 1981). The State's heightened interest in and concern for the performance of cooperatives in the country was obvious. The focus, however, was on expanding and reorganizing the State supported structures, without addressing the tasks of restoring and strengthening autonomy, mutual help and self governance that are the cornerstones of genuine cooperatives.

The State gave primacy to cooperatives as the sole means of delivering institutional credit to rural areas and injected large and increasing amounts of funds directly. Upper tier cooperative banks were encouraged to accept public deposits and borrow from other financial institutions. However, the system was soon found to be burdened by growing over dues. In keeping with the national priority of financing the rural sector adequately, the involvement of commercial banks was first suggested as a social control measure. The involvement of commercial banks was thereafter institutionalized through the nationalization of major commercial banks in 1969.

During the post-nationalization period, there was an unprecedented penetration of commercial banks in the rural sector. This trend, however, was accompanied by rigid policy directives right down to the micro level on cost of credit, purposes, categories of borrowers, geographical areas, etc. As the financial involvement of the government in cooperatives increased, its interference in all aspects of the functioning of cooperatives also increased.
The consequent interference with the functioning of the co-operative institutions, often compelling them to compromise on the usual norms for credit worthiness, ultimately began to affect the quality of the portfolio of the cooperatives. Instead of tackling the root cause of their weaknesses, the State took responsibility for strengthening the institutions, by infusing additional capital and “professional” workforce. Both the State and the workforce then began to behave like “patrons”, rather than as providers of financial services. Whenever any professional organization is in trouble, it usually finds its own solution by re-negotiating the terms with its financiers and re-visiting its operating strategies.

However, in the case of the rural financial institutions, the State has always provided a “solution”, irrespective of the need of the recipient organization, thereby donning the role of a “patron”. In due course, political expediency also led to laxity in ensuring quality of credit and its repayment.

The Government of India’s 1989 scheme for writing off loans of farmers greatly aggravated the already weak credit discipline in the cooperative system and led to the erosion of its financial health. It also set up an unhealthy precedent and spawned a series of schemes by the State Governments, announcing waivers of various magnitudes, ranging from interest write off to partial loan write-offs. The competitive populism adopted by the political class has severely impaired the credibility and health of the cooperative credit structure. The State has used co-operatives to channel its development schemes, particularly subsidy-based programs for the poor. As these institutions have a wide reach in the rural areas and also deal with finances, the choice was natural. The trend, however, also made cooperatives a conduit for distributing political patronage.
This and the sheer magnitude of resources and benefits channeled through the societies, makes control of decision-making and management attractive to parties in power, for accommodating their members, to influence decisions through directives, and for individual politicians to be on the management boards of the cooperatives. Concerns about these trends and the need to overcome them began to be voiced around this time. The Agriculture Credit Review Committee (Khusro Committee, 1989) for the first time talked of the importance of encouraging members' thrift and savings for the cooperatives.

It also emphasized the need for better business planning at the local level and for strategies to enable cooperatives to be self sustaining. To this end, the Committee was also in favour of serving non-members, if it made business sense. In a sense, there were larger macroeconomic changes on the anvil in the economy. The 1990s witnessed more concerted attempts both by the government and by non-official organizations and cooperators, to explore ways to revitalize the cooperatives.

d) The Fourth Phase: 1990s and onwards:

During the last fifteen years, there has been an increasing realization of the destructive effects of intrusive State patronage, politicization, and the consequent impairment of the role of cooperatives in general, and of credit cooperatives in particular, leading to a quest for reviving and revitalizing the cooperative movement. Several Committees (notably those headed by Chaudhry Brahm Perkash, Jagdish Capoor, Vikhe Patil and V S Vyas) were set up to suggest cooperative sector reforms during this period.
The Brahm Perkash Committee emphasized the need to make cooperatives self-reliant, autonomous and fully democratic institutions and proposed a Model Law. Subsequent Committees have all endorsed this recommendation and strongly supported replacing existing laws with the proposed Model Law. They have also recommended revamping and streamlining the regulation and supervision mechanism, introducing prudential norms and bringing cooperative banks fully under the ambit of the Banking Regulation Act, 1949. To facilitate the implementation of these reforms, they proposed that governments provide viable cooperative credit institutions with financial assistance for recapitalization. Progress in implementing these suggestions has been very tardy because of the States' unwillingness to share in costs and their reluctance to dilute their powers and to cede regulatory powers to the Reserve Bank of India (RBI).

The passage of the Mutually Aided Cooperative Societies Act by the Andhra Pradesh government in 1995, however, marked a significant step towards reform. Following the example of Andhra Pradesh, eight other States (viz., Bihar, Chhattisgarh, Jammu and Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Orissa and Uttarakhand) have passed similar legislation to govern and regulate mutually aided cooperatives. In all cases these new laws provide for cooperatives to be democratic, self-reliant and member-centric, without any State involvement or financial support. They provide for cooperatives registered under the old law to migrate to the new Act. The old Acts were not repealed, nor was there any serious effort to encourage and facilitate the conversion of old cooperatives to come within the purview of the new Act.
Most existing cooperatives, therefore, continued to adhere to the old law. The new law, however, did lead to the emergence of a "new generation autonomous financial cooperatives", albeit slowly and unevenly across the country. While the number of cooperatives registered under the new liberal Act is slowly picking up, the conversion from the old law to the new Act has largely been in the arena of commodity cooperatives.

The reason for the slow pace at which both credit cooperatives and the primary agricultural credit societies (PACS) are adopting the new law is largely because they are not eligible for refinance under the existing legal and structural arrangements. As will be evident from the next chapter, these developments have not made much of an impact on the way cooperatives function. The movement has continued to deteriorate and reached the point that necessitated the appointment of the present Task Force, which has been entrusted with the task of coming up with an implementable action plan for carrying the reforms forward.

2.15. Main Cooperators in the World:

(1) Raiffeisen:

Herr, F.W. Raiffeisen (1818 – 1888) was an official, holding the position of a mayor in Germany. He saw the sufferings of the poor and set up a "poor people's committee" to make bread for the poor.

With a view to promote relief to Agricultural workers in 1862 Raiffeisen started agricultural society in the country based on the principle of "EACH FOR ALL – ALL FOR EACH". The members of this society known as HEDDESDROF CREDIT UNION were the needy persons who required were given its services.
Principles
1. Organization should follow principle of self-help
2. Area of operation should be limited
3. Surplus should be used for community services
4. All should be accepted as members
5. Assistance should be given to members
6. Liability should be limited
7. Board members should be on voluntary services

(2) Schulze – Delitzsch:

This model is named Schulze – Delitzsch model because the first co-operative society founded by Schulze was in the city of Delitzsch. Heer Fran. W. Schulze (1809 – 1883) was a judge by profession. As a chairman of the Famine Commission, he moved by their bitter struggle for survival. He attempted to relieve suffering. In 1849 in association with his friend, Dr Bernhard, he started a friendly society for relief sickness and to fulfill of the following main objects.

1. To cater to the credit requirements of traders, artisans and middle class people residing in urban areas.
2. To run the bank as a business organization. When Schulze died in 1883, there were 1926 co-operative credit banks of this type in Germany. Till his death, he tried hard to serve the under-privileged sections of the societies in Germany.

2.16. Growth of Cooperative Structure:-

A. Organizational Structure of Co-operative Institutes:

With 70% of the population engaged in agriculture and majority of them being poor, the co-operative movement in India was more or less confined to agricultural credit thus forming the oldest and the most important forms of co-operative movement. The credit co-operatives can be classified as
1. Agricultural credit co-operative and
2. Non-agricultural credit co-operative

**B. Agricultural Credit Co-operative:**

The first co-operative legislation in respect to credit was the Co-Operative Credit Society Act 1904. The society was then known as Agricultural Co-operative Credit Society, which engage themselves mainly in the disbursement of credit to their members, following the Raiffeisen pattern of organization.

**C. Agricultural Credit Co-Operative Structure:**

1. Short term and medium term: It is basically a 3-tire system with primary credit society at village level, central co-operative banks at district level and also the state co-operative banks at the state level.

2. The long-term agricultural co-operative structure it is of 2-tires. The primary co-operative land development bank at sub-divisional level and the state co-operative land development bank at state level from part of this structure.

3. Short term and medium term co-operative credit: It's a 2-tire system with primary co-operative credit society at the village level affiliated to the district central co-operative bank which is also APEX co-operative bank.

**2.17. Influence of Co-Operative Movement on the Political life in India:**

**Examples:**

1. Sri. Sharat Pawar – Defense minister of India, CM of Maharashtra for 12 years, Deputy Chairman of National disaster management committee of India.

3. Dr. Jayant Patil – Finance Minister of Maharashtra, controls co-operative sugar factory in Islampur.

4. Dr. Patangrao Kadam – Founder of Bharti Vidyapeeth, a dean university, Minister at State Cabinet, controls education lobby.

5. Sri. Kotla Vija Bhasker Reddy Ex Chief Minister of Andhra Pradesh and Ex Co-operative Minister. Ex central Minister.


7. Sri. P. V Chowdary, Ex endowment Minister, Andhra Pradesh was the Ex President of District Co-operative Central Bank, Anantapur.

8. Sri. Nallari Amarnath Reddy, Father of present Chief Minister of Andhra Pradesh was the Ex president of District Co-operative Central Bank, Chittoor and Ex Co-operative Minister, Andhra Pradesh.

Still cooperatives are facing so many problems due to the following causes: Recent changes in economic policies and decentralization of Rate of Interests, support extended by Government bodies in holding deposits exclusively with commercial banks is one of the major problems being faced by cooperatives.

1. Lack of professionalism in cooperatives banks. Adopting of poor financial / man power resources is driving clients away from cooperative institutions.

2. Lengthy file proceedings and improper credit to the needy resulted in the clients approaching other financial institutions instead of cooperatives.
3. As the cooperatives are unable to generate their own funds they are mainly depended on higher financial agency and as such the quantum of loan and rate of interest are not attractive to general clients.

4. Support from other financial institutions / commercial banks to cooperatives is not as per direction of RBIs directives in transit transfer of funds and cash, SBI / commercial private banks are not accepting liquid cash through counters and at all accepted only for cost.

5. Dedicated leadership is not found in cooperatives which affect a lot.

6. Political interference is the problem which plagues cooperative banks is the involvement of politicians in their functioning.

7. Prompt regulatory action is further aggravated by the dual regulation i.e. prevalent in the sector which leads delays implementation of corrective policies in the bank.

8. Poor funds management resulted in the leakages of income.

In addition the following negative aspects have hampered the development of the cooperatives.

1. Government influenced:
2. Political Influence:
3. Bureaucrats on deputation:
4. Confined to Credit Co-operatives:
5. Management in wrong hands:
6. Conflict within societies:
7. Excessive over dues:
8. Unproductive loans:
9. Window Dressing:
10. Lack of funds:
11. Problem of Member Involvement:
12. Illiteracy:
13. Dual Control:
14. Problem of Diversification:
15. Dependence on external sources
16. Dependence on external sources
17. Conforming financial assistance through few rich due to favoritism
18. Unemployment
19. Poverty
20. Lack of Infrastructure
21. Lack of women empowerment
22. Population Explosion
23. Corruption

To overcome the discouraging, the following remedies are required for as healthy future growth of cooperative movement and betterment of cooperative institutions of all types.

Remedies:
1. Strengthening of human resources
2. Avoiding political influence
3. Improved recovery
4. Developing a sense of solidarity
5. Public Contribution and participation
6. Effective leadership
7. Multipurpose basis
8. Production plans
9. Marketing and processing
10. Professionalism
11. Diversification
12. Reorganizing of central and state co-operative banks
13. Tapping of local savings
14. Intensive training programs

If the above steps are taken promptly, the co-operatives will be able to overcome their problems, and the cooperatives can thus be described as tools, of economic and technical knowledge and can succeed in evolving a progressive and egalitarian society. To conclude, the following word of our first Prime Minister, Pandit Jawaharlal Nehru, can also provide an effective an shear for the problem on cooperatives are facing today.
"The idea of co-operation is something much more than merely an efficient economic way of doing things. It is economic, it is fair, it equalizes and prevents the disparities from growing. Cooperatives are the hope of rural India. If they fail, they will fail the hopes of rural India. But it is something even deeper than that. It is really a way of life which is certainly not a capitalist way of life and which is not a hundred percent socialist, though it is much nearer socialism than capitalism. Anyhow, it is a way of life. "The Co-operatives in the 21st Century must remain on vanguard in providing the required lead to the millions of our producers. This calls for well managed efficient Co-operative sector to keep them away from the fears of draconian laws and unwanted interference.

The vision for the second century is to withstand the challenges of competitive business environment where excellence, efficiency and high productivity parameters will be given priority. Emphasis will continue to be laid on an improvement with Co-operative governance through the process of restructuring and rejuvenation"17. To conclude that "today cooperative movement in India is one of the largest movements in the world. Initially it was started with a limited spectrum of activities of dispensation of Rural credit has now entered in all fields of economic activity with social content. We are proud of the movement which as covered 100 percent rural households and functions over 595 thousand cooperatives of various levels with membership coverage of 249 million and working capital of Rs. 5974 billion inclusive of credit and non credit. In the production of sugar, the cooperative share of the market is over 58 percent.

17. Dr P.C. Samatharay Principle of Institute of Cooperative Management Unit, VIII, Bhubaneswar.
Various development activities in agriculture, small industry, marketing and processing and supplies are now carried on through cooperatives. In fertilizer production and distribution IFFCO and KRIBHCO commands over 35 percent of the market. The cooperative sector accounts for 54 percent of looms in weaving sector. It has been playing a significant role in distributing agricultural credit, distribution of agricultural inputs, providing market support and processing etc. The modern cooperative movement has made tremendous progress in every walk of its activities and occupies a major place in the share of the national economy. The cooperative movement is one of the significant people's movements in the world. This is one of the oldest ones. This movement has spread throughout the world to safeguard the poor and the poorest living in the rural. It is meant to areas reduce the indebtedness of the people and save them from the cruel control of the touch. In India, the cooperative movement has a long history which envisages the credit is the main input for agriculture in rural sector. As the foundation stone of green revaluation is based on mainly credit and the source of credit is mainly the bank and other financial institutions, which convert static credit into dynamic credit. The cooperative organizations and institutions are the main centers to build a socialistic, economic country in India. The main organizations which are providing credit to the agriculture and other purposes are cooperative banks, scheduled commercial banks, Regional rural banks and other private banks. The Reserve Bank of India and NABARD are providing finance and monitoring and undertakes of the activities inspection. Of all the institutions, the cooperative banks also occupy very predominant place in rural credit in the hole of the world.

18. Dr. Chanderpal singh, Cooperative management in India, Magazine “the cooperator” Vol 48, No-3, September 2010, P.P. 79 & 80.
Summary:

This chapter reveals that the cooperative movement is one of the significant one and occupies an important place. Further, it explains that the agricultural sector is one of the biggest sectors in India and the credit is one of the essential inputs for agriculture. There are a number of financial institutions providing credit to the farming community to raise their crops. Among these, the cooperative banks are also supplying rural credit to the needy farmers, such as short term crop loans and long term investment loans.

Cooperative institutions are working as per the provisions prescribed in the cooperative act, banking regulation act and RBI / NABARD / APCOB. In this chapter the researcher explained the history background and growth of cooperative movement phase wise in India.