CHAPTER III

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CHAPTER III

PROGRESS OF CO-OPERATIVE MOVEMENT IN INDIA

3.1 INTRODUCTION

Co-operation is not new to India. In the social form of life of our predecessors the principle of co-operation was inherent. In Joint Hindu families all are working for the common goodness of the family. Sharma compares\(^1\) the institution of joint family with that of the present day co-operatives as it "served" as an insurance against illness, incapacity and old age. An old Indian work 'The Arthasasthra' of Kaudilya provides that "whoever stays away from any kind of co-operative undertaking shall send his servants and bullocks to carry on the work, shall have a share in the expenditure but none in the profits".\(^2\) Our Vedas, the Upanishads and Bhagwat Purana have fully subscribed to co-operative existence. In the Vedas, prayers have been made to the Almighty God to give the human being power and desire to work together, to live together and to think together. In Bhagwat Purana, individual ownership is permitted only to the extent of requirements of food.

\(^1\) Sharma, V.S. Sahayaga of Indian Co-operation, 1964, p.44.
\(^2\) A.Rengaswamy, co-operation in India, Op cit
3.2 Co-operation in Ancient India

In the old times, co-operative institutions took four principal forms in India, Kula, Granma, Shreni and Jati. Kula was the first form of co-operative society in which kinsman, friends and relatives worked co-operatively to promote their economic, social and political interests. After the kula emerged as a stabilised unit, the form of Shreni and Jati developed when the gramsabha became the co-operative organisations of our ancient village. Even a close study of our present day village life in any part of the country convinces the deep rooted spirit of co-operation permeating all socio-economic activities.

3.3 Co-operative development before 1904

Different types of indigenous institutions in the form of Chit Funds, Nidhis, Grain Golas, Bhaiya Chari, Lana or Gouchi system were organised in one part of the country or the other with a view to bringing about mutual help and co-operation. But all these institutions could not make any headway in the absence of any legal sanction behind them. By the middle of the 1914 century, the equilibrium of the ancient Indian rural economy was severely disturbed. The business activities of the East India Company demoralised and wiped out the business as the Britishers sought to destroy the indigenous industries and the people had to use goods made in England. Due to this reason the people had to fall back upon agriculture that the land could economically sustain. Further the new system of law and administration promulgated by the British facilitated transfer of ownership of agricultural lands from the hands of the
peasants to the money lenders. Under the new Statute of Limitation a debt, if not paid during the period of three years from the date it was incurred, was extinguished unless enforced through a court of law. The period of limitations was 12 years, if the debt was secured by mortgage of land or other immovable property. The creditors considered it safer, therefore, to make outright purchases of land on the understanding that it should be leased to the borrowers for cultivation with the result that in the new set-up a large number of peasant properties become tenants-at-will. Usurious interest rates were the rule in the absence of any alternative agency for the provision of financial accommodation to the agriculturists other than 'Sowkars', the rapacious money lenders. This resulted in poor conditions of the general masses. The Indian scene was then characterised by the predominance of small population, persistent increase of the agricultural portion of the rural masses, starvation, famines, high mortality, back breaking family obligations, acceptance of debt in perpetuity and lenders' paradise.

These poor conditions prompted riots at certain places in 1875. The peasant on Poona and Ahmednagar (popularly known as Deccan riots) took the law in their own hands and snatched away their promissory notes and mortgage deeds from the money lenders and destroyed them and also demanded prompt legislative action.
3.4 Taccavi Loans

The Deccan riot of 1875 brought the problem of agricultural indebtedness to the forefront. A committee was appointed to make enquiries into the cause of discontent. The committee recommended that suitable measures should be adopted to provide financial relief to the Indian agriculturists. As a result, the Deccan Agriculturists' Relief Act was passed in 1879. Subsequently in 1882, Sir William Wedderburn and Justice Ranade were deputed by the Bombay government to investigate the problems of agricultural indebtedness and to suggest the ways and means of ameliorating the economic conditions of the rural class. After a detailed enquiry, they suggested the establishment of agricultural banks for advancing loan to cultivators.

The essentials of this scheme were embodied in the 'Land Improvement Loans Act XIX of 1883 and the 'The Agriculturists Loans Act XII of 1884. Under the 'Land Improvement Loans Act's long term loans are advanced to land holders and cultivators for permanent improvements to land, such as construction of wells and tanks, the preparation of land for irrigation, etc. The period of loan is normally restricted to 25 to 30 years in many states. The loan is repayable by equal annual instalments discharging both the principal and interest.

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3 Rengasamy, A., Co-operation of India, Op.cit
Under the Agriculturists Loans Act, short and medium term loans are granted for current agricultural needs such as purchase of seeds, cattle, rebuilding of houses destroyed by floods and for the relief of the distressed in areas affected by the famines. Loans for current cultivation expenses are recovered at the next harvest. The loans under these two Acts are known as "Taccavi Loans".

3.5 Advantages of Taccavi Loans

In Madras, the rate of interest charged for this kind of loan was only 5.5%. The loan for the relief of the distressed were advanced at 3%. The rates were considerably lower than those charged by money lenders. Further the loans given for the relief of the distressed were particularly useful as they were advanced at a time when other credit agencies were less willing to lend.

3.5 Fredrick Nicholson's Report

In the year 1892, Frederick Nicholson, an ICS Officer, was deputed by the Madras Government to make a careful study of the co-operative movement working in Europe and give advises to the Government of India. He made a careful study of the European systems of credit, and to come to the conclusion that the 'Popular Bank' initiated by Schultze-Delitze and Raiffeisen were the most suitable for the introductions in the Madras Presidency. He published his

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5 Refer Paranjothi, 1982, Committees and Commissions on Co-operation, Rainbow publications, p.3
5 Refer Rengasamy, A., Co-operation in India, Op cit.
reports in 1895 and 1897. He recommended in these reports, the adoption of co-operation in India.

3.7 Dupernex Enquiry

The government of united provinces had appointed Dupernex 6 to suggest, by local investigation, the form of co-operative societies best suited to the province. He advocated the establishment of village credit societies based on Raiffeisen principles. He further suggested the organisation of "Urban Banks" to act as agencies for organising and financing "Rural Credit Societies" and for disseminating the principles of co-operation.

3.8 Sir Edward Law Committee

The Indian famine commission of 1901 advocated strongly the establishment of agricultural banks on the lines of the mutual credit associations of Europe. Faced with these recommendations, the Government of India felt the necessity for special legislation and appointed a committee presided over by "Sir Edward Law" the Finance minister of the Government of India. 7 The committee included Sir Fredrick Nicholson and Dupernex as members. The law committee was of the opinion that formation of co-operative credit societies deserved every encouragement and should be given a fair trial on the basis of their recommendations, "The co-operative credit societies Act X

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6 Refer Rengasamy, A., Co-operation in India, Op cit.
7 Refer Rengasamy, A., Co-operation in India, Op cit.
of 1904" was passed and the co-operative movement was formally inaugurated in India.

3.9 Salient Features of this Act

1. Any ten persons living in the same village or town, belonging to the same class or caste can establish a co-operative society.

2. The main objects of a society were to raise funds by deposits from members and loans from non-members, government and other co-operative societies and to distribute loan even to other co-operative societies.

3. The co-operative societies were classified as rural and urban. A society was classed as rural if 4/5 of its members were agriculturists and as urban, if 4/5 of its members were non agriculturists.

4. The rural societies were bound to have unlimited liability in case of urban societies the liability; was left to their option.

5. The act provided only for the formation of credit societies.

6. The area of operation within which societies could operate was closely restricted.
7. The societies could advance loan to members only on personal or real security.

8. The interest of member in the share capital of the society was strictly limited, No member could hold shares for more than Rs.1000.

9. The accounts of every society was to be audited by the Registrar or by a member of his staff free of charge.

10. In rural societies, no dividends were allowed. But in urban societies no dividend was payable until one quarter of the profits in a given year were carried on to the reserve fund.

11. Societies were exempted from payment of income tax, stamp duties and registration fees.

12. It provided for the appointment of Registrar of co-operative societies in each province.

3.10 Defects of 1904 Act

1. There was no legal provision for the establishment of marketing, consumer's co-operative insurance and such other societies.

2. It did not provide security for the non-members.
3. There was no provision for supervision.

4. Principle involved that no dividend was given to the shareholder was a great defect.

5. The classifications into rural and urban was felt unscientific and inconvenient.

6. It did not provide for the distribution of profits in rural societies.

3.11. Act II of 1912

To rectify the defects of the 1904 Act, the government came forward with a new Act in 1912. The following are the special features of the 1912 Act.

1. This Act gave legal recognition to non-credit societies.

2. It recognised central societies as distinct from the primary societies, providing for mutual supervision and financing.

3. The old classification into rural and urban was given up and societies were more scientifically classified as unlimited or limited liability societies. All the central societies were to have limited liability and all the agricultural credit societies were to be on unlimited liability basis.
4. The societies with unlimited liability were also permitted to declare dividends after carrying a portion to the reserve fund out of the profits every year with the permission of the local government.

5. Provision was also made to set apart a portion of the net profits for educational and charitable purposes.

6. The requirement of an annual audit is retained.

7. The word "Co-operative" may not be used as part of the title of any business concern not registered under the Act, unless it was already doing business under that name before the Act came into effect.

8. Shares or interest in co-operative societies are exempted from attachment.

9. Societies have a prior claim to enforce the recovery of certain dues.

10. If sum dues have to be recovered from the people they cannot bind the share capital.

The new Act of 1912 gave a fresh impetus to the growth of the co-operative movement. The number of societies, their membership and the amount of working capital increased steadily.
By the end of 1917-18 there were 23,741 agricultural societies and 1,451 non-agricultural societies. The membership of these societies was 8.5 lakhs and 2.04 lakhs respectively. The working capital of all the co-operative societies amounted to Rs.760 lakhs.

3.12. Maclagan Committee

The Government of India is wanted to be sincere that the movement was progressing on sound lines, before taking the responsibility of fostering further growth. In 1914, therefore, a committee under the chairmanship of Maclagan, was appointed to take stock of the situation. The committee produced a classic report and made far-reaching proposals for the future development of the movement. The committee usually sounded a note of warning on the hurried expansion of the movement and recommended that the utmost care was to be exercised in the formation of a society. The officials should only consent to register a society after they were convinced that its prospective members understood co-operative principles and duties and were prepared to act upon them. The committee has laid down the following conditions necessary to make a society co-operative

1. Every member should have a knowledge of principles of co-operation.

Refer Rengasamy, A., Co-operation in India, Op cit.
2. **In the formation of a society the first essential is the careful selection of honest men as members, who have given satisfactory guarantees of their intention to lead an honest life in future.**

3. **As regards the dealings of the society, it should lend to its members only.**

4. **Loans should be given for productive purposes and must in no circumstances be for speculative purposes.**

5. **The borrowers should be required to satisfy their fellows that they are in a position to repay the loans from the income they will believe from their increased productive capacity.**

6. **When a loan has been given it is essential that the committee of the society and often members should exercise a vigilant watch that the money is expended on the purpose for which the loan was granted.**

7. **If the money is improperly applied, it should be at once recalled.**

8. **The express object of the society should be the development of thrift among its members.**
The Maclagan Committee made the following suggestions for the future development of the movement.

1. The area of operation of the society should be a village. There should be one society to one village and one village to one society.

2. The size of the society should not be large. It should be such that it can be easily supervised and managed.

3. The societies should have unlimited liability.

4. More emphasis should be laid on deposits. But the committee did not advocate compulsory deposits.

5. Great importance should be given to the recovery of loans.

6. Societies should be properly audited and regularly supervised.

7. All co-operative institutions should build up a reserve fund.

8. The total borrowings of the society and the normal maximum borrowing power of each member should be assessed beforehand by the society.
9. The government should exercise greater control over the objects for which the co-operative organisation is utilised and over the financial arrangements of the movement.

10. All the societies within the area of a central bank should be shareholders of the bank and should have no dealings with other financial bodies.

3.13 Constitutional Reforms of 1919

The First world war was ended under the Treaty Versailles in 1919. Constitutional reforms known as the Montague-Chelmsford Reforms were introduced in India in that year. Under this reform co-operation became a transferred subject, a subject to be administered by the states. This gave an impetus to the movement. Between 1920 and 1929 there was a rapid increase in the number of societies. The Madras co-operative societies Act of 1932 was enacted giving effect to the suggestions of the "Townsend committee" and embodying the result of the experience of the movement.

The state government passed "The Madras Co-operative Land Mortgage Banks Act 1934", containing some special provisions relating to Land Mortgage Banks in the state. In 1939 the state government appointed a committee headed by Sir T. Vijayaraghavachariar. The committee's

9 Refer Rengasamy, A., Co-operation in India, Op cit.
recommendations included several suggestions for the amendment of the Act of 1932.

3.14. Saraiya Committee (1945)

In accordance with the recommendations made by the fourteenth conference of Registrar of co-operative societies, the Government of India appointed in 1945 a twelve man committee under Saraiya as its chairman. It submitted a comprehensive report in 1946 dealing with all aspects of development of different types of co-operative institutions. It emphasised that more financial assistance should be made available to the movement.

3.15 After Independence

The advent of the popular ministry in 1946 and the emergence of independence in 1947 changed the outlook of the government on co-operation. The government of India appointed the rural banking enquiry committee in 1949, under the chairmanship of Shri Purushotamdas Thakurdas. The committee made several proposals for the extension of banking facilities, grant of several concession to co-operative banks and the setting up of a state sponsored bank.

About this time, the Reserve Bank appointed the Rural credit survey committee in August, 1951 to conduct a survey of the problems connected with

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Refer Rengasamy, A., Co-operation in India, Op cit.
rural credit in the country and make recommendations. Its report was published in December, 1954.

3.16 Co-operation during the Five year plans

In order to make the best use of its scarce resources, the country decided to build up its economic base in a planned way. A series of Five-year plans have been launched with the object of building up by democratic means a rapidly expanding economy and a social order based on justice and equality for all. The plans aim at building up what has been called a "Mixed Economy" in which the private as well as the public sectors play an equally important role.

3.17 Co-operation during the First Five year plan (1951-56)

In the First Plan special targets for the promotion and development of co-operative movement were fixed and efforts were put in to achieve them. It was launched in 1950-51 described the co-operative movement as an indispensable instrument of planned action in the country. The First plan stated "The principle of mutual aid, which is the basis of co-operative organisation, and the practice of thrift and self-help which sustain it, generate a steady feeling of self-reliance which is of basic importance in a democratic way of life." By pooling their experience and knowledge and by helping one another,
members of co-operative societies cannot only find the solutions of individual problems but also become better citizens”.

3.18 All India Rural Credit Survey Committee in 1954

The Government of India appointed the committee of director of the All India Rural credit survey in 1954 under the chairmanship of Sri.A.D. Gowala, to define the approach to co-operative development specifically in agricultural sector. The committee observed; "Co-operation has failed in India, but it must succeed", and recommended a well-defined institutional framework for co-operative organisation particularly for meeting the needs of rural India. Its main recommendations were as follows.

a. State Partnership

State partnership in co-operative societies would provide a balancing factor between the weak co-operative movement and the strong urban economy and enable the co-operative organisations to withstand opposition from vested interests, which had so far retarded their progress. It would also create the necessary confidence of the public in co-operative institutions, in so far as the share capital contributed by the state would serve as a buffer between the societies and their losses. It would provide the societies with the necessary borrowing power and enable them to meet the credit requirements of members to the desire extent.
b. Establishment of the State Bank of India

It was recommended that a State Bank of India be set up into which the Imperial Bank of India and state associated banks be amalgamated. The State Bank of India is extending its activities more and more in the rural areas and giving large financial accommodation and remittance facilities to the co-operative institutions.

c. Creation of various funds

It was recommended that the state governments, the Reserve Bank of India and the co-operative institutions should create funds for various purposes. The fund is utilised to give loans to state governments for purchasing shares of the credit institutions, to give long-term loans to and purchase debentures of land mortgage banks, and to give medium term loans to state co-operative banks.

d. Reorganisation of the co-operative movement

The Committee recommended the reorganisation of the whole co-operative movement by establishing large-sized credit societies at primary level for providing medium and short term loans for productive purposes. The committee also recommended the administrative and financial strengthening of the credit structure at apex and central levels. Progressive organisation of marketing and processing societies, having a link with the primary societies,
progressive organisation of land mortgage banks and other non credit activities on co-operative basis was also recommended.

e. Co-operative Training

The committee strongly recommended the importance of training of officials as well as non-officials to enable them to successfully run the co-operative institutions.

3.19 Second Five-year Plan (1956-61)

According to the rural credit survey committee report, economic development on co-operative lines offers a vast field for the application of co-operation in its infinitely carrying forms. Our socialistic pattern of society implies the creation of a large number of decentralised units, both in agriculture and industry. The fields when marked themselves out as being specially appropriate for the co-operative method of organisation are agricultural credit, marketing and processing, all aspects of production in rural areas, consumers, consumer co-operative stores, co-operatives of artisans and labourers and construction co-operatives. Thus the second plan provided sample opportunities to co-operatives to prove their worth, and the building up of co-operative sector became one of the important aims of our national policy. An allocation of Rs. 57 crores was made for the development of co-operatives during the plan period.
3.20 Third Five Year Plan (1961-66)

The Third Plan observed that in a planned economy pledged to the values of socialism and democracy, co-operation should become progressively the principal basis of organisation in many branches of economic life, notably in agriculture and minor irrigation, small, industry and processing, marketing, the provision of essential amenities for local communities, distribution, supplies, rural electrification, housing and construction. Accordingly the entire rural economy is to be reorganised on a co-operative basis.

3.21 Fourth Five Year Plan (1970-75)

The government on its part will endeavour to assist the co-operatives to equip themselves for the task in important aspects, such as finances, organisation and training of personnel. The main objective of the fourth plan being "growth with stability" major stress in the co-operative sector was on developing agricultural and industrial co-operatives for increasing production and consumer co-operatives for stabilising prices. In pursuance of these objectives, the plan envisaged the development of co-operative credit structure so as to meet a substantial portion of agricultural credit needs.

3.22 Fifth Five Year Plan (1975-80)

The objective of the fifth five-year plan was to consolidate and strengthen the co-operative as democratic and viable units responsive to the
needs of the peasants, the artisans, the workers and the consumers. The co-operative movement was recognised to serve as an important instrument for implementing national policies of "growth with social justice". While developing the co-operative movement special attention was proposed to be paid to the needs of the small and marginal farmers and other weaker sections and also of tribal people. The main objective was to ensure stable prices at a reasonable level for the basic necessities of life. The national and the state level co-operative federations were also to be encouraged to feed, assist and serve the co-operative movement at the primary level in a more positive and meaningful manner.

3.23 Sixth Five Year Plan (1980-85)

The main objectives of co-operative development in the sixth five-year plan were

a. A clearly concerned action programme to be drawn up for the strengthening of primary village societies so that they are able to effectively act as multipurpose units catering to diverse needs of their members.

b. Re-examination of the existing co-operative policies and procedures with a view to ensuring that the efforts of the co-operatives are more systematically directed towards ameliorating the economic conditions of the rural poor.
c. Reorientation and consolidation of the role of the co-operative federal organisations so that through their constituent organisation. They are able to effectively support a rapidly diversifying and expanding agricultural sector.

d. Development of professional manpower and appropriate professional cadres to man managerial positions.

3.24 Seventh Five Year Plan (1985-90)

Faster agriculture growth is an important objective in Seventh Plan. It seeks to, emphasise policies and programmes which will accelerate the growth in good grains production, increased employment opportunities and noise productivity. The strategy for co-operative development under the Seventh Plan envisages.

a. Comprehensive development of primary agricultural credit societies to function as multipurpose viable units.

b. realignment of the policies and procedures of co-operatives to expand the flow of credit and ensure supply of inputs and services particularly to the weaker sections

c. taking up all special co-operative programmes for implementation in the underdeveloped states, especially in the north eastern region.
d. strengthening the consumer co-operative movement in the urban as well as rural areas so that it can play a pivotal role in the public distribution system

e. promoting promotional management and strengthening of effective training facilities for improving the operational efficiency

3.25 Role of co-operative in 8th Five Year Plan

i) With the concurrence of the government of India the Agricultural minister has assured to include co-operatives as a sector.

ii) The model state co-operative societies act prepared by the expert committee, appointed by Planning Commission of India ensures sufficient autonomy to federations for development of their co-operative constituents at different levels.

iii) With a view to making village level primary agricultural co-operative societies (PACS) viable as a multi-purpose institution a program of business development planning has been introduced all over the country.

iv) It assures regular conduct of elections to the board of management, timely and annual audit of accounts will be the responsibility of next higher tier.
v) Training programme would be suitably oriented based on the survey of the national council training.

vi) The national centre for co-operative education of NCUI organised a number of outstation programmes so as to orient the elected non-official to build up professional and executive skill. There has been a suggestion to launch a national co-operative bank of India to bridge the systematic gap within the credit sector.

viii) Advancement of loan by co-operative agricultural and rural development banks for non-form sector activities has been started with a view to enabling land development banks to undertake lending programme with a greater flexibility.

ix) The Reserve Bank of India has constituted a committee under the chairmanship of S.S.Marathe, to review the licensing policy for organisation for new banks and other related issues.

x) Two tier structures of tribal co-operatives has been set up in several states in the country aiming at

a) purchase of minor forest produce and other items procured by tribals at reasonable rates.

b) supply of essential commodities and agricultural inputs.

c) providing short-term agricultural and consumption loans.
xi) In order to identify the manufacturing of items of daily use in the co-operative sector, the consumer co-operatives are equated with private trade in so far as financing concerned.

xii) Various schemes for promotion and development of the handloom sector have been introduced by the central government. Through these schemes, assistance is being provided to the handloom weavers both within and outside the co-operative fold. As a result to-day a sound infrastructure for both qualitative and quantitative improvements in production is available in the country. One of them is "assistance for modernisation / renovation / purchase of looms". Assistance is provided to the state government in the form of 2/3rd loan and 1/3rd subsidy with the funding pattern of 50 : 50 matching basis between state and central governments. It was liberalised for hill areas by revising the elements of subsidy upto 50% of the total assistance. The central government has been making efforts to ensure the regular supply of yarn to the handloom sector at reasonable prices through hank yarn obligation scheme.

xiii) In order to improve managerial skill a national institute of fishery co-operative management is established to impart training and managerial skills to the paid staff of fishery co-operatives. Special efforts were made for organising fisher-woman co-operatives.
xv) The National Housing Bank, in the light of feedback received from the National Co-operative Housing Federation of India and other lending institutions, liberalised some of its provisions in March and September 1990, to enable the lending institutions which include state co-operative housing federations, to take maximum benefit of the scheme.

xvi) The diary co-operative sector has been delicensed, the member diary co-operatives to competition from multi-channel co-operations and other investor-oriented firms. The co-operative movement has possibly made greater strides than any other sector in its efforts to integrate woman into co-operative sector.

xvii) A proposal for supplant for woman co-operative development which included special scheme of financial assistance Rs.10 crores was submitted to the government of India for inclusion in 8th Plan proposal.

xviii) With a view to make co-operative education programme need based and effective, the national co-operative union of India has introduced monitoring and evaluation of co-operative education. Under this approach of the need of the members and prospective members of the co-operative organisations and on the basis of the identified needs the development plans for co-operative organisations is drawn.
xix) The workshop on human resources development in co-operatives in India recommended that the training needs determined on the basis of man power survey may be classified into three categories;

- a) Foundation training programmes (long-term)
- b) Management training programme (short duration)
- c) Job related training programs to develop specific skills

3.26 CONCLUSION

This Chapter enumerates that the importance of the co-operative movement which is indispensable to mankind. Examples of this has been cited from Vedic period and historical times. The effective functioning of the co-operative movements was brought into being during 1884 Acts. Co-operation has become a state subject from 1932 in this state right from Multi purpose societies Act passed in 1948. Co-operative development has passed through many hurdles and riddles. Laws and Acts were rhetorical during the past history of co-operative development in which a common man has not enjoyed the exact purpose of co-operatives. All the Five Year Plans including the eighth one, the government is trying its level best to achieve the exact objectives of co-operatives which should reach a common man in order to make the people volunteer themselves to the co-operative fold.