CHAPTER III

INDIAN CO-OPERATIVE MOVEMENT

Co-operative movement in Pre-Independence era

The joint family system was breaking down. As a result, of increase in population and the absence of rapid industrialisation, more and more people depended upon agriculture resulting in too much pressure on land. Rural debt was increasing and this increased the burden on the farmer. The Government felt that the farmer could be helped through some type of co-operative effort.

The Land Improvement Act of 1883 and the Agriculturists Loans Act of 1884 as well as other relief measures were found to be highly incommensurate in coping with the stupendous and complex problems of rural indebtedness.

I Stage of the movement (1904 - 1911)

An Act was passed in the year 1904 to regularise Co-operative Societies. The essential features of this Act were as follows:

1. A society could be formed by any 10 persons living in the same village or town.
2. The co-operative societies were classified as rural and urban.
3. The rural societies were bound to have unlimited liability, in the case of urban societies the question was left to their option.
(4) The Act provided only for the formation of credit societies.

(5) The area of operation within which societies could operate was closely restricted.

(6) The Societies could advance, loans to members only on personal or real security.

(7) The interest of a member in the share capital of the society was strictly limited. No member could hold shares for more than Rs.1,000/-.

(8) The accounts of every society were to be audited by the Registrar or by a member of his staff free of charge.

(9) Societies were exempted from payment of income-tax, stamp duties and Registration fees.

(10) The Societies were given a legal personality and were authorised to raise funds and carry on their business in a corporate capacity.

II Stage (1912 - 1918) period of hurried expansion

The difficulties experienced by the societies due to the operation of 1904 Act led to passing of the another Act in the year 1912. The essential features of this Act were the following:

(1) A federal society like the Central Bank could be registered.

(2) Unless otherwise directed by the State Government:

   (a) the liability of the central societies shall be limited and
   (b) the liability of the rural credit societies shall be unlimited.
(3) No member can have more than 1/5th of the total share capital or hold shares exceeding Rs.1,000/- in such a society.

(4) A society has a charge upon the shares, deposits etc., of a member with the society in respect of any debt due from such a member.

(5) The societies are granted exemption from compulsory registration and the state Government may grant exemption from the payment of stamp duties, registration fees and payment of income-tax etc.

(6) 1/4th of the net profits of a society must be carried to its reserve fund

III Stage (1919-1929) Period of Unplanned Expansion

Different kinds of co-operative societies in the field of credit supply distribution, better farming, mortgage banking saw the light of the day during this period.

Bombay gave a lead in this regard and passed a new act in 1925. It was followed by Madras, Bihar, Orissa and Bengal which passed their own Acts during the later years. During this period the movement continued to make a rapid progress.

The number of membership of agricultural credit societies increased 3 times, while their working capital moved up four-fold. The number of non-credit societies increased from 1971 in 1918-19 to 9761 in 1928-29, while the membership moved from 2.62 lakhs to 9.92 lakhs recording about a
four-fold increase in both the cases. The working capital of these societies moved from 2.17 crores to Rs.13.63 crores recording a six-fold increase.

According to the Royal Commission on Agriculture the main cause of failure of the co-operative movement was "the lack of the requisite education and of adequate supervision and guidance".

Inspite of this rapid expansion the proportion of the rural families brought within the co-operative fold was very small. It was as low as 1.8% in united provinces, 2.3% in central provinces, 2.9% in Assam, 3.1% in Bihar and Orissa and 3.8% in Bengal. It was only in Bombay, Madras and Punjab that between 8 to 10% of the rural population had come under the co-operative fold.

I V Stage {1929 - 30 to 1938-39} period of consolidation and reorganisation.

The demand for loans increased while overdues mounted up. The proportion of overdues to loans outstanding which was only 20% in 1927-28 rose to 40% in 1931-32.

The accumulation of heavy overdues and the freezing of the assets of societies resulted is clogging their business and paralysed the working of the co-operative movement over large parts of the country. Several central co-operative banks had to be closed as they were unable to carry on banking operations and many societies were liquidated.
In several provinces committees were appointed to assess the real situation and make suggestions for the development of the movement. For instance Vijayaraghavacharya committee in Madras, Rehabilitation. Enquiry committees of Travancore and Mysore, Kale committee in Gwalior, Metha and Bhansali committee on the Reorganisation of co-operative movement in Bombay and Wace committee in Punjab.

During this period of stress and strain rectification and rehabilitation rather than expansion became the chief aim of the co-operative departments. The number of agricultural credit societies fell from 93512 in 1930-31, to 92226 in 1933-34 recording a fall of about 13%. Another essential feature of this period was that a close supervision and strict scrutiny of loan operation of the societies began to be followed.

**Agricultural credit department**

A significant highlight of this period was the establishment of the RBI in 1935 and its agricultural credit department which was charged with the duty of studying various problems relating to agricultural credit. In 1937, the RBI stressed the importance of organising multi-purpose co-operative societies which could embrace the whole life of the agriculturists.
V stage period of recovery (1939-46)

The All India figures of overdues decreased from Rs.14.05 crores in 1938-39 to Rs.8.52 crores in 1945-46. The proportion of credit societies which was 83% in 1938-39 came down to 77% in 1945-46. The movement of organising multi purpose societies which would undertake all activities affecting the daily life and business of agriculturists and artisans got momentum.

a. Agricultural finance subcommittee

In 1944, the Government of India appointed a subcommittee. Under the chairmanship of Professor D.R. Gadgil to suggest ways in which indebtedness could be reduced and finance, both short-term and long-term provided under efficient control for agricultural and animal husbandry operations. Discussing the role of the co-operative movement, the committee observed, that in general agreement with the view that the spread to co-operation would provide the best and the most lasting solution for the problem of agricultural credit in particular and those of rural economy in general.

b. Co-operative Planning Committee

The co-operative planning committee pointed out that the main causes for the limited progress of the co-operative movement were, the laissez faire policy of the state, the illiteracy of the people and the fact that the movement did not especially in its initial stages take the life of the individual as a whole,
the other cause being the small size of the primary unit and undue reliance on honorary services with resultant inefficiency in management.

For the 1st time this committee fixed an overall target of bringing 50% of the villages and 30% of the rural population in the ambit of the co-operative movement within a period of 10 years. Again 25% of the total marketable surplus of agricultural produce was to come under co-operatives.¹

Position before independence

Co-operative transport societies were also organised in some parts of the country before independence but they were mostly societies of vehicle owners and not of workers engaged in their operations. From the co-operation point of view, one could notice defects in their constitution. There were hardly any labour society or housing society before independence. In the industrial sector, weaver's societies came into existence. Some of these were one-man shows, that man being the master weaver.

Characteristics of co-operative movement before independence

1. Official sponsorship of the movement

One of the most important characteristics features of the co-operative movement in India has been that it was sponsored by the state. The movement came as a Government policy rather than as an urge from the people.

¹ Mathur, B.S., op.cit., p.65-75
2. Largely confined to credit

Before, independence, the co-operative movement was largely a credit movement. This is evident from the fact that in 1947-48 more than 73% of the co-operative societies were credit societies. Non credit movement was largely confined to consumer co-operatives.

3. Development without much state aid

Though the co-operative movement was officially sponsored, it developed without much financial aid. The amounts given in the form of subsides or grants-in-aid was very small. The loans given by the state to co-operative institutions formed only 1.87% of the total working capital in 1947-48. The co-operative planning committee has pointed out that one of the main causes of the limited progress of the co-operative movement in India has been the laissez faire policy of the state.

4. Uneven growth

The growth of the co-operative movement was highly uneven. It was largely confined to the former Bombay state, Madras and Punjab. There were large parts of the country where there was no trace of the movement. Even within the same state the progress was not on a uniform basis.
5. Unplanned expansion

The co-operative movement passed through various phases before independence but a distinctive feature of the development of the movement was its haphazard growth. There was hardly any co-ordination between its various branches. There was no link between credit and marketing or between consumers and marketing societies.

Causes of slow growth

The co-operative movement could not achieve much success before independence on account of the following reasons:

1. Lack of knowledge of co-operative principles.
2. Lack of careful selection of members.
3. Lack of effective supervision and inspection.
4. Lack of congenial atmosphere.
5. Lack of efficient management.
7. Lack of education and inadequacy of training.
8. Lack of co-operation between various co-operative institutions.
9. High overdues.
10. Over emphasis on honorary service.
11. Laissez faire policy of the state
12. Movement did not take life of the individual as a whole.
13. Unlimited liability of the societies.
14. Inhibiting factors within the movement.

(i) Aligning credit to ownership to property.
(ii) Indifference to recovery.
(iii) Inattention to purpose of loans.
(iv) High rate of interest.
(v) Mismanagement by members of managing committee.
(vi) Inadequacy of finance provided.

15. Other factors

(i) Deficit agriculture
(ii) Illiteracy
(iii) Widespread indebtedness.
(iv) Uneconomic holdings.
(v) Inadequate transport and storage facilities.
(vi) Dearth of regulated markets.
(vii) Great price fluctuations.

First Five Year Plan

The main features of the first plan with reference to co-operation are the following:

1. As an instrument of democratic planning, combining initiative, mutual benefit and social purpose, co-operation must be an essential feature of the programme for the implementation of the first plan.
2. Co-operative agencies in the village should have the closest possible relationship with panchayat.

3. An attempt should be made to have in each village a co-operative organisation, which will cater to the multiple needs to its members.

4. The target set up the co-operative planning committee to cover 50% of India's villages and 30% of rural population should be achieved by 1955-56.

5. The credit supplied by co-operative movement for agricultural production should reach the level of Rs.130 crores p.a., Rs.100 crores for short-term, Rs.25 crores as medium term and Rs.5 crores as long-term loans.

6. The state should encourage the formation of co-operative farms.

7. The plan also stressed the need for having adequately trained staff for facilitating the growth of the movement.

8. The need for developing co-operative marketing was emphasised from the point of view principally of ensuring better prices for agriculturists.
In the first five year plan, for achieving the goal of socialism, the planning commission laid emphasis on co-ordination between village Panchayats and co-operative societies, multipurpose societies, co-operative farming and industrial co-operative societies.²

**Rural credit survey committee**

Rural credit survey committee made on the following recommendation

1. **State partnership**

   At the apex level, such partnership would be direct, that is the State Govt would directly contribute to the share capital of the Institutions concerned. At the primary level, this partnership would be indirect, it would take the form of similar contributions to the apex institutions to enable them to provide funds to the organisations, at the district level which in turn would contribute to the share capital of the institutions at the primary level. In marketing and processing societies, state partnerships may be direct at all level.

2. **Loans against anticipated crops**

   Its main emphasis was on crop loans, the essential features of which are:

   1. **The amount of the crop loan should be so fixed.**

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² Ibid, p. 76-81.
2. The loans should be given in suitable instalment
3. The societies should have a statutory charge on the crop
4. There should be adequate supervision and efficient arrangements for recovery.

3. Large sized societies

Large sized societies were expected to have a compact group of villages within the area of their operation and adequate business so that they might become viable units.

4. Linking of credit with marketing

The survey committee suggested that there should be a close link between primary agricultural credit societies and marketing societies. The primary society should finance its members on condition that their produce would be sold through its marketing society. For this purpose, the survey committee also suggested the establishment of primary marketing societies at important mandis (wholesale markets) or at taluka centres.

5. Training of personnel

As a success of the whole scheme of co-operative reorganisation would depend a good deal on trained staff. The training of all the services should be organised by or under the guidance of the central committee for co-operative training.
6. Effective supervision and Audit

The committee also laid considerable importance on proper supervision and audit. It considered supervision as the legitimate function of central financing agencies and audit and inspection to be the main function of co-operative departments.

8. Special funds

The committee suggested, the formation of two special funds viz.,

(i) The National Agricultural credit (stabilisation) fund

It means granting medium-term loans to state co-operative banks in circumstances in which it was satisfied that short-term loans could not be repaid.

(ii) The National Agricultural credit (Relief and Guarantee) fund

This fund was constituted with the object of providing relief to institution when a widespread calamity was likely to affect the very stability of co-operative credit structure and relief to Government when they had to fulfil the guarantee extended by them in respect of the accommodation received by the Reserve bank.  

3 Ibid., p.82-83.
Objective of the First Five Year Plan due to the following factors

(i) Internal weaknesses of the co-operative structure such as small membership, weak capital structure, inadequate loan operations, heavy overdues, failure to harness local savings and to promote thrift.

(ii) Co-operatives could not appreciate the precise role assigned to them in the development of the economy and could not gear up their activities accordingly.

(iii) The policy of the states towards co-operation was not sufficiently defined and action to implement it was largely left to the states and co-operative movement itself.

(iv) The scheme of co-operative development of various states were not uniform in their objectives and methods and differed widely from state to state.

(v) The co-operative movement was not sufficiently broad based and arrangements for credit were not linked with marketing.

Second Five Year Plan

During the second plan special emphasis was laid on the following schemes.
(i) The organisation of large-sized credit societies.

(ii) The organisation or reorganisation of primary marketing societies.

(iii) The organisation of central and mortgage banks in states where they did not exist.

(iv) The rationalisation of co-operative banking structure with a view to establishing a strong central bank in each district.

(v) The establishment of central and state warehouses for increasing storage facilities at market centres of state and national importance.

National Development Council Policy Resolution 1958

The chief recommendations of the NDC were as follows

(i) Every family is represented in the village co-operatives.

(ii) Co-operative and Panchayat should serve identical areas.

(iii) Village societies should be federated through unions.

(iv) The village societies should be closely linked up with marketing.
(v) The restrictive features of the existing co-operative legislation should be removed.

(vi) Co-operatives should function as primary agencies in rural areas.

**Third Five Year Plan in 1961-66**

The third plan period laid down the following broad objectives:

(i) The agricultural credit movement should cover all the villages.

(ii) Government should participate at all levels.

(iii) Development of co-operative marketing, processing, and linking of credit with marketing should be accelerated.

(iv) Essential commodities should be distributed through consumer co-operatives in rural and urban areas.

(v) Small industries should be developed on co-operative lines.

(vi) The personnel of co-operative department should be strengthened at different levels.
The third plan included a large programme of non-credit co-operatives like housing, farming, fisheries and dairies etc.

Fourth Five Year Plan

The main features of co-operation under the fourth plan are the following

1. Co-operative credit

The fourth plan was to reorganise the primary credit structure so as to place it on a viable credit, rehabilitation of weak central banks, reduction of overdues and deposit mobilisations.

2. Small farmers

In the fourth plan, one of the main endeavours was to orient the policies and procedures of credit co-operative society and land development bank in favour of small cultivators.

3. Co-operative marketing

The fourth plan laid considerable emphasis on strengthening the co-operative marketing structure. At current prices, the value of agricultural produce likely to be handled by marketing and processing co-operatives was expected to be of the order of Rs.900 crores during the last year of the fourth plan.
4. Co-operative processing

It was proposed to organise about 550 co-operative agricultural processing units during the Fourth Plan. So that at the end of the plan there would be about 2150 such units.

5. Consumer co-operatives

In the fourth plan stress was laid on consolidation and strengthening of existing consumer co-operatives rather than the organisation of new institutions. Attention was paid to the organisation and strengthening of central consumer co-operatives with a view to building them up as large-sized multi-retail unit co-operative societies.

Fifth Five Year Plan (1974-79)

Specific objectives

1. To strengthen the network of agricultural co-operatives so as to serve as the principal institutions under planning for a process of sustained agricultural development.

2. To build up a viable consumer co-operative movement to enable it to function as an important element in a consumer-oriented distribution system.
3. To make efforts towards the correction of regional imbalances in the level of co-operative development particularly in the sphere of agricultural credit.

4. Special efforts will be made towards restructuring and reorienting the co-operatives so as to shift the focus on their activities increasingly in favours of small and marginal farmers and other underprivileged section of the people.

The important tasks of the Fifth Plan were the following

1. Co-operative credit and small farmers

    The objective of credit policies in the fifth plan was to ensure a substantial increase in the flow of institutional credit to small farmers, marginal farmers, tenants and share-croppers.

2. Co-operative marketing

    Co-operative agricultural marketing was on the consolidation and strengthening of existing societies. Additional societies would be organised only in cases where new secondary markets came up.
3. Co-operative processing

Approximately 650 new agricultural processing units in the co-operative sector were to be installed.

4. Co-operative training and Education

The co-operative training and education programmes at all levels were intensified and increasingly linked to the growing and diversified needs of the various sectors of the co-operative movement.

5. Co-operative management

The co-operative laws were proposed to be amended, wherever necessary, to provide for a suitable legal base for the establishment of management cadres.

Sixth plan (1980-85)

It is proposed to specifically direct attention during the sixth five year plan to the following tasks:

(i) A clearly conceived action programme to be drawn up for the strengthening of primary village societies so that they are able to effectively act as multi-purpose units catering to diverse needs of their members.
(ii) Re-examination of the existing co-operative policies and procedures with a view to ensuring that the efforts of the co-operatives are systematically directed towards ameliorating the economic conditions of the rural poor.

(iii) Reorientation and consolidation of the role of co-operative federal organisations so that they are able, through their constituent organisation, to effectively, support a rapidly diversifying and expanding agricultural sector, including horticulture, food-processing, sericulture etc., with credit, input supply, marketing and other services.

(iv). Development of professional cadres to man managerial positions. ⁴