While the co-operative organisations that we find to-day in India have hardly fifty years' standing, the co-operative idea of mutual help and interdependence exists in the country from the dawn of history. The Hindu family, joint in food, worship and property is a co-operative association. The caste system of India based on occupations and division of labour represents the co-operative idea. System of Aryan Society was based on the principles of communal living and there was a community Government in each village. Indigenous and spontaneous co-operation existed among the artisans in the sense that they helped one another by exchange of tools and other implements. With the decline of handicrafts and the increasing pressure of population on land, co-operative spirit developed more and more. Agriculturists helped one another as neighbours in the form of lending seeds, implements, and livestock and joined hands with one another during harvest times. In some parts of the country, fragmentation of holdings pulled the agriculturists together to cultivate the land in common, dividing the produce after each harvest in proportion to the labour and stock employed by each member. The villagers who are mostly agriculturists co-operated in the construction and repair of roads, in the sinking and repair of wells and ponds and in the herding of cattle and employed common watchman to protect their crops against wild animals.
Before the advent of European ideas of co-operation and the launching of the official co-operative Movement in India, there existed in Madras highly developed and successful form of indigenous co-operation in Nidhis or mutual loan associations like the provident fund and friendly societies of Europe. Different systems of mutual loans prevailing in Nidhis were based on the co-operative principles of association, confidence and honest dealing. Nidhis found clients more in advanced and educated class than among the agriculturists and existed even after the starting of the co-operative societies in the country. They never inquired into the objects of the loans nor did they inculcate among the members the habit of thrift. Their distinguishing characteristics were the limitation of operation to members, insistence on punctual payment with penalties in case of default, a monthly instalment towards share-capital and a voluntary dissolution after a fixed term of years, with distribution of accumulated share capital and profits among the members. Despite a number of failures due to fraud, ignorance and absence of supervision, the success they achieved was considerable enough to inspire imitation in U.P., the Punjab and Bengal. There existed 200 Nidhis with 36,000 members and a subscribed capital of about two crores of rupees. There were Bharmagolas or grain stores in the Punjab, U.P. and Orissa based on principles of co-operation. Agriculturists used to deposit surplus grains during good seasons to the grain store to draw during drought or in other emergencies.

Even before the passing of the Indian Co-operative
Societies' Act of 1904, experiments were made to organise co-operative societies by many officials, including Sir Edward Maclagan, and Captain Crosthwaite in the Punjab, Mr. H. Dupornex in the United Provinces and Mr. Lyon in Bengal "with varying success and on a limited basis of experience." Lord Macdonell did pioneering work in the United Provinces by establishing in 1901, 200 co-operative societies, registered under ordinary Company Law. Agricultural Banks were started in Mysore in 1894 to provide credit to members to the extent of their personal integrity for purposes of annual requirements of cultivation, agricultural improvements and debt liquidation. There were as many as 64 Agricultural Banks in 1898 in Mysore but they did not survive due to reckless borrowing at low interest rates, insufficient incentive to banks to raise local capital, management and inadequate supervision.

While co-operative Movement was a spontaneous growth in Europe and America, in Asia and particularly in India the Movement did not come from the people themselves but was an official Movement. It was more a government policy than a spontaneous growth. Even to-day, it receives encouragement and support from the Government and is dependent to a small degree on official initiative, direction and control that is unparalleled elsewhere. This may perhaps be explained due to the comparative high illiteracy and low standard of living of the people.

In an agricultural country like India, the need for credit arises due to a number of causes such as the recurrence
of famines due to scarcity of rains and floods due to excessive rains, the social and religious obligations of peasants, finance of agriculture and other needs. Before the 1850s the only source of finance to the farmers was the indigenous moneylending system. The moneylender or the Mahajan in the village exacted usurious rates of interest both in cash and in kind and took away the cream of the agricultural produce at the harvest time. The Government in India since the ancient times used to give loans to agriculturists to enable them to tide over emergencies such as flood and famine. The British Government passed a number of Tassavi Acts in 1871, 1876 and 1879 for financing agriculturists in times of grave emergency.

It was in 1882, on the initiative of Sir William Wedderburn, the then District Judge of Poona and Mr. Justice N.G. Ranade that the Government of India proposed the Government of Bombay to establish an experimental Agricultural Bank in the Furandhar Taluka of Poona District for financing the agriculturists on reasonable terms. Though the scheme proposed by the Government of India was not favoured by the Secretary of State for India on superficial grounds, its essentials were embodied in the Land Improvement Loans' Act XIX of 1883 and the Agriculturists' Loans Act XII of 1884, passed on the recommendation of the Famine Commission of 1880. While Land Improvement Loans Act was intended to provide long-term loans for effecting permanent improvements in agriculture, the Agriculturists' Loans Act provided short-term finance to meet current agricultural needs such as the purchase of seed, cattle, manure, implements, etc.
Short-term loans were to be repaid at the next main harvest or latest after two main harvests and the rate of interest charged was kept as low as permissible by cost of service. Greater strictness in respect of recovery, delay in the advancement of loans due to lengthy procedure of careful scrutiny, the corruption and red-tapism of the petty revenue officials were all matters of complaint. These half-hearted measures failed to meet the credit needs of the agriculturists and compelled the Government of India to institute an inquiry into this acute problem to find out an agency which can relieve their financial difficulties and indebtedness.

In 1892 the Government of Madras, considering the possibilities of co-operation as a remedy, deputed Mr (later Sir Frederick Nicholson on special duty "to study the theory and practice of Agricultural and other Land Banks in Europe and to suggest means by which a similar movement might be popularised in India." Madras Presidency was then considered a suitable field for starting co-operative societies as indigenous institutions like the Sidhis had a successful record at their credit. A Report submitted by Mr. F. Nicholson and Mr. H. Dupernex's "People's Banks for Northern India", based on the successful experimenting with village banks in the U.P. came to the notice of the Government of India which was seriously considering the question of introducing co-operative societies in the country. The Famine Commission of 1901, of which Sir Frederick Nicholson was a member,
recommended the formation of mutual credit associations as the chief means of relieving the ryots from the clutches of the moneylenders, by finding capital to finance them and drive out usurers from the field. The Government of India referred to a Committee which after careful consideration recommended the formation of co-operative societies on Raiffeisen basis and as a result of its recommendations a bill was introduced in the Legislative Council by Sir Denzil Ibbetson and was subsequently passed as Act X of 1904.

It was necessary to pass this Co-operative Societies' Act of 1904 as prior to that, there was no existing law under which societies based on co-operative principles could be formed and registered. The two existing India Acts, the Societies Registration Act No. XXI of 1860 and the Indian Companies' Act No. VI of 1862 were hardly suitable for forming a society based on the co-operative principles of thrift and self-help. Indian Co-operative Societies' Act, 1904 was passed to solve the problem of credit and "to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means." This Act itself was a short one aiming at maintaining simplicity and elasticity and imposing no avoidable restrictions on local experiments. It prescribed general outlines, leaving the details to be filled in generally on lines which experience of failure or success might indicate as best suited to each part of the country. In building up the co-operative structure, the Act left wide discretion to the Registrars of Co-operative Societies to be appointed in each province by Local Governments.
The Registrar of Co-operative Societies in each province was endowed with considerable powers of discretion in the registration, liquidation, cancellation, inquiry and inspection and was also charged with the work of propaganda and education.

By a special order of a Local Government, not less than ten persons living in the same village or town, belonging to the same class or caste might be registered as a co-operative society to encourage thrift and self-help among the members.

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 the money thus obtained in loans to members or with the special permission of the Registrar, to other co-operative societies. Societies were classified as "rural" and "urban", and it was laid down that four-fifth of the members in the former group must be agriculturists, while in the latter, non-agriculturists. Rural Societies following the Saloifeisen model, were based on unlimited liability of members unless otherwise specially sanctioned by the Local Government while the urban societies were left free to choose the Schulze-Deitach model. Auditing of every society was to be carried out by the Registrar or by a member of his staff free of charge. The Registrar was also in charge of organisation, supervision and control of co-operative societies. No dividend was to be paid out of the profits of a rural society before carrying a certain fixed proportion to the reserve fund and a bonus might be distributed to the members after meeting all the contingents for the
safety of the society. Dividends were payable to members of urban societies only after having carried forward a quarter of the annual net profits to a reserve fund. Strict limitations were placed in the holding of share capital of a society for an individual member. Societies were exempted from fees payable under income-tax, stamp duties and registration. Among other privileges enjoyed by the societies might be included the exemption of a member's shares or other interests in the capital of a society from attachment for private debts and the grant to societies of a measure of priority over ordinary creditors in enforcing claims over crops, cattle, etc.

Opinions differed as to the success or failure of these societies. "Our co-operative credit society is but a frail barque launched upon a treacherous ocean", said the Hon'ble Mr (Later Sir Harvey) Adamson "but if it can escape from being wrecked by the opposition of the moneylender, if it can avoid being stranded on the shoals of mutual distrust among its members, if it can carry safe to part a portion of its cargo of self-help and co-operation, it will some day rank as the most important bill ever passed by the Government for the betterment of Indian agriculturists." The progress had been so rapid regarding the growth of co-operative

societies that it was apprehended in some quarters and rightly so that quantitative progress might outgrow the healthy and qualitative strength of the Movement. In every important province the Movement had made a rapid progress, but each had some special feature to show, and the Movement was not proceeding on identical lines in every part of the country. The success achieved was sufficient to open up further horizons and suggested the possibility of extending the principles of co-operation to purchase, sale, manufacture and distribution.

In many parts of the country rates of interest had been lowered by the moneylender and success was achieved in attracting the confidence and savings of the genuine agriculturist. Co-operators claimed that effect was very marked in some places in checking litigation, in improving the education and morality of the communities which had adopted it and in reducing unnecessary expenditure.

Though the Movement surpassed the expectations of its founders under the Act of 1904, the limitations of the system were brought to the notice of the Government by the Conferences of Registrars held annually. Need for amending the Act of 1904 arose because it did not provide for the registration of non-credit organisations and other forms of co-operation, free supply of capital and improved system of non-official supervision, inspection and control. It was also found that the classification of societies into "rural" and "urban" involved needless complications which would be cleared if they were classified into "limited" and "unlimited" liability societies.
The main features of the legislation of the 1912 Act was the inclusion of other forms of co-operation within the scope of the Act. Under the new Act, therefore, any society could be registered, "which has as its object the promotion of economic interests of its members in accordance with cooperative principles or a society established with the object of facilitating the operations of such a society." The former arbitrary classification between "rural" and "urban" societies was removed, while the distinction between limited and unlimited liability of the members of societies was retained. Greater latitude in the distribution of profits in an unlimited liability agricultural society was permitted to attract many who otherwise would have abstained from joining the Movement. The Act provided for the establishment of central agencies, banks, unions and other federations with limited liability of members unless otherwise directed by the Local Governments concerned. A registered society after carrying ½ of the annual net profits to the reserve fund, could with the sanction of the Registrar, contribute up to 10 per cent of the remaining net profits to a wide range of charitable purposes. Local Governments are given considerable discretion in connection with the making of rules for the working of societies under the Act, including conditions of membership, methods of operation, procedure at general meetings and provisions for between members and between members and the committee or officers of the society, such rules have the same force in
the respective provinces as the Act itself. "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 force. Local Governments were charged with the administration of the Acts of 1904 and 1912 through the Registrar and the assistants appointed for the same. The passing of the 1912 Act considerably widened the scope of economic co-operation in India and as a result, new types of societies were started to help agriculturists to purchase their necessaries, seed, implements, cattle, artificial manure etc., grains in such a way as to avoid the middleman. In the field of industry, it had to guide the handicraftsmen and artisans in the same direction. The success attained was so spectacular that His Majesty the King Emperor remarked, "If the system of co-operation can be introduced and utilized to the full, I foresee a great and glorious future for the agricultural interests of this country."

In 1914, the Imperial Committee on Co-operation was appointed "to examine whether the movement, especially in its higher stages and in its final aspect, is progressing on sound lines, and to suggest any measure of improvement which seem to be required. For this purpose the inquiry will be directed primarily to an examination of such matters as the constitution and working of Central and Provincial Banks, the financial connections between the various parts of the co-
operative organisation, the audit, inspection and management of all classes of societies, the utilisation of the reserve and the manner in which reserve funds should be exhibited in the annual accounts. At the same time Government of India does not desire rigidly to limit the scope of the inquiry and the Committee may, at its discretion, consider and make recommendations regarding any aspect of the co-operative movement."

For the purpose and successful functioning of a co-operative credit society the Maclagan Committee on Co-operation recommended the spread of the knowledge of co-operative principles, proper selection of members, restriction of operations to members, loans for productive purposes only, exercise of careful scrutiny before advancing loans and constant vigilance afterwards, gradual de-officialisation of the movement, encouragement of thrift and maintenance of an adequate reserve fund, one member one vote principle with maximum publicity within the society, capital to be raised as far as possible from the savings among members and punctual repayment of loans. They criticized the undue enthusiasm shown in the launching of new co-operative societies which would be unhealthy to the growth of the co-operative co-operation movement and warned against the dangers of cheap and easy supply of credit. They emphasised the need for thorough audit and supervision to prevent bad management and embezzlement and to inspire confidence in the investing public. Unfortunately, their recommendations were not heeded to in many provinces.


A Resolution of 8th October 1914 - Quoted (Government of India, Central Publication Branch, Calcutta, 1930 Reprint) p. 9.
The movement made rapid progress during the First World War and in the post-war days of prosperity. Societies multiplied during the war; especially, consumers' co-operative societies increased tremendously in number on account of the scarcity of the prime necessities of life which resulted from the military demand on the market and from the restriction of transport, leading to a considerable business in cloth, grain, salt, oils and fuels, many societies scoring brilliant victories over the middlemen. The Government of India Act of 1919 made co-operation a provincial subject and the local Governments were empowered to adopt the 1912 Act to their own requirements. A few provinces enacted legislations within their jurisdiction to amend the 1912 Act of co-operative societies; Bombay was the earliest with its Act VII of 1925; next came Madras with its Act of 1932; then followed Bihar and Orissa with the Act VI of 1935; then came Coorg with its Act II of 1936 and the last was Bengal with its Act XXI of 1940. Co-operative Societies' Act of 1912 has been replaced by Mysore Co-operative Societies' Act of 1948 in Mysore, Assam Co-operative Societies' Act, 1950 in Assam and Delhi Co-operative Societies' Act, 1949 in Delhi. Amendments to the Co-operative Societies' Acts and Rules are made in almost every State according to changing needs and circumstances. In a few States the Act of 1912 is still in force. The Bombay Co-operative Societies' Act (No. VII of 1925) which may be considered as more or less typical of co-operative legislation in other parts of the country, following Co-operative Societies' Act of 1912 in most respects has widened the scope
of the co-operative Movement to facilitate the formation and working of co-operative societies for the promotion of thrift, self-help and mutual aid among agriculturists and other persons with common economic needs so as to bring about better living better business and better methods of production. This was the first time when in the history of the co-operative law, an attempt was made to classify the societies on scientific basis according to the nature of societies as determined by the objects which they were intended to achieve.

Societies were classified as "Resource", "Producers", "Consumers", "Housing", "Farming", and "General". Further it made definite provisions for the arbitration of disputes, improved the procedure for liquidation and recovery, provided definite penalties for specified offences of societies, officers or members, provided for contribution to education fund and permitted a society to set aside a sum not exceeding 20 per cent of its net profits for charitable purposes after having met the requirements for the building up of the reserve fund. Bombay Co-operative Societies Act No. XII of 1950 made some amendments to the previous Act in the field of co-operative housing and in regard to arbitration of disputes. On the whole, the tendency of provincial legislation has been to strengthen the official control and position of the Registrar in the co-operative structure. All these acts have kept the Registrar as the very centre of the co-operative picture instead of the village society. Though the non-
-official bodies such as Co-operative Institutes and the Central co-operative agencies have begun to play an important role in the field of education, propaganda, supervision over societies and even in audit, the de-officialization of the movement is discouraged on the ground (without any solid foundation) that official control is necessitated, for, the members of our co-operative institutions lack in character and capacity to manage their own affairs. Under the existing situation, for the proper and democratic management of the movement, the power and control of direction which rests with the officials should be transferred over gradually but steadily to the non-official co-operators on whom rest the responsibility and management of co-operative institutions.

From the beginning of the Movement to the middle of the twenties, success was measured by its quantity than its quality and everything seemed to be going on very well during those early prosperous years. With the passing away of the war-time prosperity and the early wave of enthusiasm, it was found that financial situation was worsening. Defaults in payment were increasingly common and Committees to inquire into the working of the movement were appointed in various provinces. The Central Provinces appointed a Committee to inquire into the working of co-operation in 1922, Bihar and Orissa appointed a Committee in 1923, Mysore appointed a Co-operative Enquiry Committee in 1923, U.P. appointed the Oakden Committee in 1926, Madras appointed the Townsend Committee in 1927-28, Mysore appointed a Committee on
Co-operation in 1935 and Madras appointed a Committee on Co-operation in 1939-40. Such Committees were also appointed in many Indian States to inquire into the working of the co-operative movement in their areas. Those Committees carefully analyzed the position in their respective areas and made recommendations for the consolidation and rectification of the co-operative organisation, and the extension of the non-credit side of the Movement. The Royal Commission on Agriculture appointed in 1926 touched upon the problem of co-operation and made important recommendations to provinces to give effect to. It emphasized the need for separate inquiries into the whole movement in different provinces on the lines of C.P., U.P., and Madras. On the whole, the Royal Commission expressed its satisfaction regarding the progress and the existing situation of the Movement. Various Banking Enquiry Committees appointed by the provinces surveyed developments of banking in relation to agriculture and credit and examined those aspects of the Movement which had an intimate bearing on the credit needs of the people. Unfortunately their wise counsels were neglected.

It may be mentioned that the Indian States were not slow in introducing the Co-operative Movement within their limits and the Movement in some of the more important States such as Mysore, Hyderabad, Travancore, Baroda, Gwalior and Indore made considerable progress, more or less on the same lines as those followed in the neighbouring provinces. Mysore was the first State to legislate for the formation of non-credit co-operative
societies in 1906. The Indian States modelled their legislation on the basis of the Co-operative Societies' Act II of 1912 and later on amended on the lines of the Acts in force in the neighbouring provinces.

With the first onslaught of the world-wide economic depression and the fading away of the period of prosperity, it was realised that everything was not right with the working of the Movement. The catastrophic fall in prices aggravated the situation and recoveries became difficult. The situation worsened to such an extent in some provinces that the Movement would have collapsed had the Government of affected provinces not rushed with liberal help. The movement came to grief first in Burma, and then suffered seriously in prestige in C.P., U.P., Bihar, Bengal and many other provinces and states. The failure of co-operative institutions might be attributed to the sudden collapse in the price-level on account of depressing world price-level, lack of adequate training and understanding of co-operative principles among the members of co-operative organisations, calculated inertness of the members of societies and officials in the working of co-operative societies, delay in repayments and consequent accumulation of overdue, lack of adequate supervision and guidance to co-operatives, and leaving aside the recommendations of the Maclagan Committee on Co-operation regarding successful working of co-operative societies.

Under Section 54 of the Reserve Bank of India Act a
separate Agricultural Credit Department was constituted to maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, Provincial Governments, Provincial Co-operative Banks and other banking organisations engaged in the business of agricultural credit. The Reserve Bank authorities investigated the working of the movement and strongly advised the Provincial Governments to improve the conditions of the existing societies, to emphasise more on the qualitative rather than on the quantitative aspect of the movement, to consolidate and re-organise and that unless conditions of co-operative societies improved, the Reserve Bank would not be prepared to provide co-operatives with necessary funds. Since the establishment of the Reserve Bank and the Agricultural Credit Department the movement has establlshed, consolidated and shown gradual but steady improvement in its working.

Starting with the depression of 1929 till the outbreak of the second World War the progress of the movement was rather slow as compared with the pre-depression period, But during the second World War the movement received considerable encouragement and help from the Government. "The greatest contribution of war to the co-operative movement was the shifting of emphasis from the credit aspect to its productive and distributive functions, or more generally, to its multi-purpose potentialities, a long-felt need for imparting that richness and balance which is necessary for the proper development of the movement." Improved position of the credit societies

movement during the war was reflected in the increase of the working capital, reduction of overdues, repayment of old loans in greater amount than the issue of new loans and the increased income of the farmer due to war-inflated price-level of agricultural commodities.

The partition of the country has not seriously affected the co-operative movement save in the States of Bengal and the Punjab where the movement is gradually overcoming the disabilities that resulted due to the partition. At the present stage, the trend is towards stabilization, consolidation, reorganization and strengthening of the existing co-operative institutions and the movement takes steps towards the establishment and development of non-credit organisations and specially to multi-purpose co-operative societies.