



## Cooperative Movement in India

---

 drishtiias.com/printpdf/cooperative-movement-in-india

### Cooperatives in India

---

- **Definition:**

The **International Cooperative Alliance (ICA)** defines a **Cooperative** as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”

- **Constitutional Provisions:**

The **Constitution (97<sup>th</sup> Amendment) Act, 2011** added a new Part IXB right after Part IXA (Municipals) regarding the cooperatives working in India.

- The word “**cooperatives**” was added after “**unions and associations**” in **Article 19(1)(c)** under **Part III of the Constitution**.

This enables all the citizens to **form cooperatives by giving it the status of fundamental right of citizens**.

- A new **Article 43B** was added in the **Directive Principles of State Policy** (Part IV) regarding the “promotion of cooperative societies”.

### Genesis of Cooperative Movement in India

- **Causes of the Movement:** The Cooperative Movement in India was born out of the **distress and turmoil that prevailed in the last quarter of the 19<sup>th</sup> century**.

- The **Industrial Revolution** had given a death blow to village industries and driven people to agriculture, the only avenue of employment and livelihood.
- The consequent **sub-division and fragmentation of holdings** had made **agriculture an uneconomic proposition**.
- Other factors such as the **rigidity of land revenue collection, uncertainty of rainfall and consequently lesser crop production** compelled the farmers to approach the money-lenders.

The money lenders advanced money either by purchasing the crop at a throwaway price or by charging very high rates of interest.

- All these factors emphasised the need for the provision of cheap credit through an alternative agency.

- **Informal Cooperatives in India:** Even before formal cooperative structures came into being through the passing of a law, the practice of the concept of cooperation and cooperative activities were prevalent in several parts of India.
  - Some of them were named as **Devarai or Vanarai, Chit Funds, Kuries, Bhishies, Phads.**
    - In the **Madras** Presidency were organised '**Nidhis**' or **Mutual-Loan Associations.**
    - In the **Punjab**, a society on cooperative lines was started in 1891 for **controlling the common land of the village** for the benefit of the co-sharers.
  - All these efforts were purely **voluntary and strictly non-official.**
  - The **first official step** was taken when **Sir William Wedderburn** made, after the **Deccan riots**, the proposal for the **establishment of agricultural banks** as a remedy against rural indebtedness.

## Cooperative Movement in Pre-Independence Era

---

### Initial Stage of Cooperative Movement (1904-11)

#### First Cooperative Act in India:

- The **Indian Famine Commission (1901)** induced the government to set up a committee under the presidency of **Sir Edward Law** to report on the introduction of cooperative societies in India.
- The Committee reported favorably in 1903 and the first **Cooperative Credit Societies Act was passed in 1904.**
- **Salient Features of the Act:**
  - Any ten persons living in the same village or town or belonging to the same class or tribe could form a cooperative credit society.
  - **Societies were classified as Rural and Urban** depending if the majority of the total membership (80%) was agricultural or non-agricultural.
  - **Rural society was not permitted to distribute profits**, but in the case of urban societies, profits could be distributed after carrying 25% of the net profits to the Reserve Fund.
- **Drawbacks of the Act:**
  - The act provided **no legal protection to non-credit societies.**
  - It also made **no provision for mobilising urban savings** for financing agricultural operations.
  - The **classification** of societies into urban and rural was found to be **arbitrary, unscientific, and highly inconvenient.**
  - Many provisions of the Act of 1904 became a hindrance to the further spread of the movement.

### Modification Stage of Cooperative Movement (1912-1918)

- **The Cooperative Societies Act of 1912:**
  - The defects of the 1904 Act were remedied when the Cooperative Societies Act, 1912 was enacted.
  - **Salient Features:**
    - **Any society, credit or otherwise, could be registered** which had as its objective, the promotion of the economic interest of its members.
    - A federal society like the **Central Bank or union could be registered.**
    - No member could have more than 1/5 of the total share capital or hold share exceeding Rs. 1,000 in such a society.
    - The societies were **granted exemption from compulsory registration** and from the **payment of income tax and stamp duties.**
- **Maclagan Committee:**
  - In 1915, a committee headed by **Sir Edward Maclagan**, was appointed to study and report whether the cooperative movement was proceeding on economically and financially sound lines.
    - The committee observed that **illiteracy and ignorance of the masses, misappropriation of funds, rampant nepotism, inordinate delay in granting loans and viewing the cooperative movement as a Government movement** were some of the glaring defects of the cooperative movement.
  - **The committee made the following suggestions:**
    - All members should be made aware of the cooperative principles.
    - Honesty should be the main criterion for taking a loan.
    - Dealings should be strictly confined to the members only.
    - Applications should be carefully scrutinized before advancing loans and there should be careful follow up for effective utilization of loans.
    - One member-one vote should be strictly followed
  - These recommendations could not be put into practice because of the **First World War.**

### **Expansion Stage of the Cooperative Movement (1919-29)**

- **Montague-Chelmsford Reforms:**
  - Through the **Montague- Chelmsford Reforms of 1919**, co-operation became a **provincial subject** which gave further impetus to the movement.
  - Various states passed their own Acts to make the Cooperative Movement a successful one.
  - The **membership of the Cooperative societies increased** considerably during this period.

- **Economic Depression:** The year 1929 witnessed the **Great Economic Depression**.
  - The **prices of the agricultural commodities fell down** to a remarkable extent.
  - **Unemployment** along with other economic crises grew.
  - The **agriculturists could not pay back the loans** of the societies.
  - Over dues increased unexpectedly and **cooperative societies were ruined**.

### **Restructuring Stage of Cooperative Societies (1930-1946)**

- **Appointment of Committees:**
  - Various committees were appointed in **Madras, Bombay, Travancore, Mysore, Gwalior and Punjab** for examining the possibilities of restructuring the Cooperative societies.
  - In 1937 the **Congress Ministry** came to power in many states and revived interest in organising the cooperative movement.
- **Role of World War II:**
  - The abnormal conditions created by the **Second World War** led to **far-reaching developments in the Cooperative Movement**.
  - Prices of agricultural commodities began to rise, rural farmers got extra economic gains and non- credit societies like marketing, production and consumer societies increased rapidly.
  - The **All India Cooperative Planning Committee in 1945** also gave a fillip to the growth of the Cooperative Movement.

### **Gandhian Socialist Philosophy regarding Cooperatives**

- **Cooperation for Socialist Society:** Cooperation according to **Gandhiji** was **necessary for creation of a socialistic society and complete decentralization of power**.
 

He was of the opinion that cooperation was one of the important means to empower people.
- **Phoenix Settlement:** In South Africa, Mahatma Gandhi instituted the '**Phoenix Settlement**' as a cooperative in a **socialistic pattern**.
 

Its objective was to cultivate the three acres of land given to each member and to **stop the emergence of a new class of absentee landowners**.
- **Tolstoy Farm:** He established the **Tolstoy Farm as a rehabilitation cooperative settlement** for the families affected by the South African freedom struggle during the period.
 

He fully **believed in Tolstoy's socialistic philosophy**.

- **Cooperatives for Peasantry:** On return from South Africa, Gandhiji visited the countryside of India and realized the bankruptcy and distress of Indian peasantry oppressed by excess taxation, rack renting, illegal exaction etc.
  - He observed that the closest cooperation amongst the peasants is an absolute necessity.
  - Any industry based on agricultural produce such as cotton, sugar, oil seed, wheat etc. should be on a cooperative basis so that the producers could secure the best value for their output.

## Cooperative Movement After Independence

---

- **Part of Mixed Economy:**
  - After independence, the nation adopted the approach of planned economic development for establishment of a mixed economy consisting of three sectors namely Public, Private and Cooperative Sectors.
  - Cooperatives were visualized to play the role of a **balancing factor between public and private sectors.**
- **Part of FYPs:**
  - After independence, cooperatives became an integral part of **Five-Year Plans (FYPs).**
  - Pandit **Jawaharlal Nehru** considered cooperatives as one of the three pillars of Democracy, the other two being the **Panchayat** and the **Schools.**
- **National Policy of Cooperatives:**
  - In 1958, the **National Development Council (NDC)** had recommended a **national policy on cooperatives** and also for training of personnel and setting up of Cooperative Marketing Societies.
  - The Government of India announced a **National Policy on Cooperatives** in 2002.
- **Establishment of NCDC:**

**National Cooperative Development Corporation (NCDC), a statutory corporation, was set up under National Cooperative Development Corporation Act, 1962.**
- **Committees Set up for Cooperatives:**
  - The **Rural Credit Survey Committee** in 1954 recommended **state participation in cooperatives at all levels.**
  - The **S.T. Raja Committee** was appointed by the Government of India to **suggest amendments to the Cooperative Law.**

The committee prepared a Model Act enabling state participation and appointment of Government nominees on the management of assisted Cooperative Societies.

- **Successful Cooperatives in India:**
  - **Agriculture and Allied Sectors:** National Cooperative Development Corporation (NCDC), National Agricultural Cooperative Marketing Federation of India (NAFED), Indian Farmers Fertilisers Cooperative Limited (IFFCO), **AMUL** and Co-operative Rural Development Trust (CORDET).
  - **Banking Sector:** Punjab and Maharashtra Cooperative (PMC) Bank, Bharat Cooperative Bank and Saraswat Cooperative Bank.

## Issues Faced by the Cooperative Sector

---

- **Excessive Cooperative Legislations:** Cooperatives in India function in different sectors. Cooperatives is a **State subject** under the Constitution of India and State cooperative laws and their implementation vastly differ.
- **Irresponsibility and Unaccountability:** Serious inadequacies in governance including that related to Boards' roles and responsibilities.
  - The people on the board are not held accountable for many inconveniences.
- **Lack of Recognition:** A general lack of recognition of cooperatives as economic institutions both amongst the policy makers and public at large.
  - Inability to attract and retain competent professionals.
- **Lack of Capital Formation:** Lack of efforts for capital formation particularly that concern enhancing member equity and member stake.
- **Lack of Awareness:** People are not well informed about the objectives of the Movement, rules and regulations of co-operative institutions.

## Conclusion

---

- Cooperatives have a futuristic role of fostering collectivism and preserving the social capital base of the country.
  - Cooperatives are the best channels to keep the **spirit of collectivism** and **democracy afloat**.
- The presence of a large network of social organizations, like cooperatives, would aid in the **generation and utilization of social capital** and '**greater the social capital, greater would be the possibility of development**'.