



# 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”.
- **SC Ruling:**
  - In July, 2021, the Supreme Court struck down certain provisions of the 97th Amendment Act, 2011.
    - It gave a major boost for **federalism** as the amendment shrank the exclusive authority of States over its co-operative societies.
  - **Part IX B** dictates the terms for running **co-operative societies**.
    - As per the SC, **Part IX B (Articles 243ZH to 243ZT)** has “significantly and substantially **impacted**” **State legislatures’ “exclusive legislative power”** over its co-operative sector.
    - Also, the provisions in the 97th Amendment were passed by Parliament without getting them ratified by State legislatures as required by the Constitution.
    - The SC held that states have exclusive power to legislate on topics reserved exclusively to them (**cooperatives are a part of State list**).
      - The **97th Constitutional Amendment** required **ratification by at least one-half of the state legislatures** as per **Article 368(2)**.
      - Since the ratification was not done in the case of the 97th amendment, it was liable to strike it down.
      - It **upheld the validity of the provisions of Part IX B** which are related to **Multi State Cooperative Societies (MSCS)**.
      - It said that in case of MSCS with objects not confined to one state, the legislative power would be that of the Union of India.

## 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, Bhisies, 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'**.