

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 (97th 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 19th 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.
- o **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:**
 - o The defects of the 1904 Act were remedied when the Cooperative Societies Act, 1912 was enacted.
 - o **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:**
 - o 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.
 - o **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
- o 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:

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

▪ Economic Depression: The year 1929 witnessed the **Great Economic Depression**.

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

Restructuring Stage of Cooperative Societies (1930-1946)

▪ Appointment of Committees:

- o Various committees were appointed in **Madras, Bombay, Travancore, Mysore, Gwalior and Punjab** for examining the possibilities of restructuring the Cooperative societies.
- o In 1937 the **Congress Ministry** came to power in many states and revived interest in organising the cooperative movement.

▪ Role of World War II:

- o The abnormal conditions created by the **Second World War** led to **far-reaching developments in the Cooperative Movement**.
- o 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.
- o 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.

- o 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**.
 - o 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.
 - o 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.
 - o He observed that the closest cooperation amongst the peasants is an absolute necessity.
 - o 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.

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History of Co-operative Movement in India!

This essay provides information about the history of co-operative movement in India: The trend of co-operative movement in India can be analysed under two heads, (a) co-operative movement from the early period up to independence, and (b) from independence to present day.

Pre-independence era:

The co-operative movement in the Indian context in the pre-independence era can be classified into four phases. They are- (a) initiation stage (1904-1911), (b) modification stage (1912-1918), (c) expansion stage (1919-1929) and (d) restructuring stage (1930-1946).

(a) Initiation stage (1904-1911):

In olden days non-institutional agencies in the shape of money-lenders were charging exorbitant rates of interest from the helpless peasants. The situation was such that the farmers were forced to sell their belongings to repay the debts. In some parts of the country especially in Poona and

Ahmednagar the farmers spearheaded an agitation against the moneylenders.

Ultimately the government understood the miserable plight of the farmers and passed three Acts viz, the Deccan Agriculture Relief Act (1879), the Land Improvement Loan Act (1883) and the Agriculturists Loan Act (1884).

During 1892, the Madras Government appointed Frederick Nicholson to study the village banks organized on co-operative lines in Germany. On his return he submitted a report. The name of the report was “Find Raiffeissen”. In the report he suggested to establish co-operative societies for supplying rural credit.

The Famine Commission of 1901 strongly recommended that in order to prevent famine, agriculturists should be granted loans to improve agriculture. By 1904, the Co-operative Society Act was passed.

Salient features of 1904 Act:

1. Rural-urban classification of societies was made. Rural co- operative societies were to be organised on the basis of Raiffeissen Model where liability was unlimited and loans were granted to the members only for productive purposes. Urban credit societies were organised on the basis of Shulze-delitzsch Model where liability was limited and the societies also carried out certain non-credit functions.
2. Registrar was supposed to organise and control the societies.
3. Loans could be given to members on personal or real (immovable) security.
4. One-man, one vote was specified in the Act.

The working of this Act showed several defects-

1. There was no provision for setting up of non credit cooperative societies in rural areas.
2. There was no central agency to supervise and supply funds.
3. The classification of societies into rural and urban was extremely unscientific.
4. There was the need for re-organisation for payment of credits.

(b) Modification stage (1912-1918):

Societies Act of 1912. The new Act provided legal protection to all types of co-operatives including central financing agencies and supervising unions. The distinction between rural and urban societies was given a new focus.

The liability was limited in the case of primary societies and unlimited for central societies. Since this Act provided for the registration of all types of co-operative societies, it led to the emergence of rural co-operatives both on credit front and non-credit front, but this growth was uneven spatially.

In 1914 the Government appointed a committee under the chairmanship of Sir Edward Mac Lagan to review the progress of co-operative movement. The report of the committee came out in 1915.

The committee observed that illiteracy and ignorance of the masses, misappropriation of funds, rampant nepotism, inordinate delay in granting loans and viewing co-operative movement as a Government movement were some of the glaring defects of the co-operative movement. These observations prompted Mac Lagan to offer the following suggestions for the effective and smooth functioning of the co-operative societies.

1. All members should be made aware of the co-operative principles.
2. Honesty should be the main criterion for taking loan.
3. Dealings should be strictly confined to the members only.
4. Applications should be carefully scrutinized before advancing loan and there should be careful follow up for effective utilization of loan.
6. One member-one vote should be strictly followed.
7. Capital should be raised as far as possible from the savings of the members only.
8. Punctual repayment should be insisted.

These recommendations could not be put into practice because of the 1st World War.

(c) Expansion stage (1919-29):

Under the Montague- Chelmsford Act of 1919, co-operation became a provincial subject which gave further impetus to the movement. Various states passed their own Acts to make co-operative movement a successful

one. The membership of the co-operative societies increased considerably during this period.

The same period also witnessed the birth of co-operative land mortgage banks first in Punjab and subsequently land mortgage banks were registered in Madras (1925) and Bombay (1926). The year 1929 witnessed a worldwide economic depression.

The prices of the agricultural commodities fell down to a remarkable extent. Unemployment along with other economic crises grew up. The agriculturists could not pay back the loans of the societies. Over dues increased unexpectedly and co-operative societies were ruined.

(d) Restructuring stage (1930-1946):

Various enquiry committees, viz., Vijayaraghava Charya Committee in Madras, Rehabilitation Enquiry Committees of Travancore and Mysore, Kale Committee in Gwalior, Mehta and Bhansali Committee in Bombay and Wace Committee in Punjab etc. were appointed for examining the possibilities of restructuring the co-operative societies.

The Indian Central Banking Enquiry Committee (1931) highlighted the glaring lacunae, particularly with reference to undue delays and inadequacy of credit. Meanwhile the Madras Co-operative Societies Act of 1932 and the Madras Co-operative Land Mortgage Banks Act of 1934 came into force with the former aiming at the growth of co-operative movement, while the latter for developing the long term credit.

In 1937 the Congress Ministry came to power in many states and revived interest in organising the cooperative movement. They conducted enquiries about the failure of the cooperative societies and made provisions for payment of overdues.

Then came the Second World War. The abnormal conditions created by Second World War led to far-reaching developments in the co-operative movement. Prices of agricultural commodities began to rise. The rural farmer got extra economic gains. Non- credit societies like marketing, production and consumer societies increased rapidly.

The working capital of co-operative societies also increased. The co-operative societies gained in strength and vigour. The All India Co-operative Planning Committee in 1945 also gave a fillip to the growth of co-operative movement.