

## **Quadrant II – Notes**

**Programme:** B. Sc. (Hons.) Agri.

**Subject:** Agricultural Economics

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**Course Title:** Agricultural Finance and Cooperation

**Module Name:** Origin and history of Indian cooperative movement,  
cooperative movement during pre-independence period,  
Progress of cooperative movement during post-  
independence period

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### **Notes**

**The origin and history of cooperative movement in India can be dealt under two eras.**

#### **a) Pre-Independence Era:**

The cooperative movement in India during pre-independence era can be divided in to four phases viz.,

1. Initiation phase (1904-1911)
2. Modification phase (1912-1918)
3. Expansion phase (1919-1929)
4. Restructuring phase (1930-1946)

#### **Initiation phase (1904-1911):**

In olden days rural credit service was dominated by non-institutional financial agencies (i.e. private money lenders) charging exorbitant interest rates from farmers. In extreme cases or out of distress the poor farmers have to sell their

belongings to clear their debts. This precarious situation triggered a sort of agitation by farmers against private money lenders in certain areas. The revolts found in Poona and Ahmednagar areas of Maharashtra attracted the attention of government. Immediately the government passed three acts viz.,

- Deccan Agriculture Relief Act (1879)
- Land Improvement Loan Act ( 1883)
- Agriculturists Loan Act (1884)

In 1892, the Madras government appointed Frederick Nicholson to study and examine the village banks organized on cooperative lines in Germany. After coming from there Nicholson submitted a report and raised a slogan “Find Raiffeissen”. During 1901, Indian Famine Commission and another committee headed by Sir Edward Law recommended the formation of credit societies on Raiffeissen model. These recommendations resulted in the enactment of Cooperative Credit Societies Act (1904).

#### **Important/salient features of 1904 Cooperative Credit Societies Act:.**

- ✓ Classification of cooperative societies into rural and urban was made. According to this, rural societies are those having 4/5ths of the total members from farming community and urban societies are those having 4/5ths of the total members from non-agriculturists.
- ✓ Both the organization and control of these societies was to be done by Registrar of cooperatives.
- ✓ Loans could be extended to the members on personal and collateral security.
- ✓ The principle of “one man one vote” was specified in the Act.

#### **Modification phase (1912-1918):**

Cooperative Societies Act of 1912 was enacted for rectifying the shortcomings of 1904 Act.

### **Important features of 1912 Cooperative Societies Act:**

- It provided legal protection to all types of cooperatives
- Liability is limited in the case of primary societies and unlimited for central societies.
- As this act of 1912 gave provision for registration of all types of cooperative societies, it led to the emergence of rural cooperatives both on credit and non-credit fronts. But this growth was uneven spatially i.e. localized in some areas only.

During the year 1914, the Government appointed a committee under the chairmanship of Edward Mac Lagan to look in to the performance of the societies. He presented his report in 1915. The Mac Lagan committee's recommendations and Cooperative Societies Act of 1912 introduced the cooperative planning process in India. The important observations of Mac Lagan committee were:

- Illiteracy among the members.
- Misappropriation of funds.
- Rampant nepotism.
- Undue delays in sanctioning of loans.
- Irregularity in repayment of loans.

### **Suggestions offered by Mac Lagan committee for the effective functioning of cooperatives:**

- All the members of the society should be made aware of the cooperative principles.
- Dealings should be restricted to the members only.
- Honesty should be the main criterion for extending a loan to some one.
- Careful scrutiny of applications before advancing a loan and effective follow up for proper utilization of loan amount.

- Loans should not be advanced for speculative purposes like investment in stock markets, lotteries etc.
- Ultimate authority should be with all the members but not with the office bearers.
- Thrift should be encouraged among the members, so as to build reserve fund.
- The principle of “one man one vote” should be strictly followed.

As far as possible, the capital should be raised from the savings of the members only.

Punctuality in repayment should be strictly insisted up on the borrowers.

### **Expansion phase (1919-1929):**

This phase was considered as “Golden Era” for the cooperative movement in India. Cooperative movement got impetus as the cooperatives became a provincial subject under Montague Chelmsford Act of 1919. The economic prosperity during the period 1920-1929 also contributed to the growth of cooperative movement. During the same period, the birth of Land Mortgage Banks (LMBs) took place first in Punjab (1924) subsequently in Madras (1925) and in Bombay (1926).

### **Restructuring phase (1930-1946):**

In the year 1931, Indian Central Banking Enquiry Committee also emphasized shortcomings with reference to undue delays in advancing loans and inadequacy of credit. In the year 1932, Madras Cooperative Societies Act came into existence aiming at the growth of the cooperative movement. Madras Cooperative Land Mortgage Banks Act (1934) came into force for the development of long-term credit. Excessive and abnormal fall in prices of agricultural commodities and the economic depression of early thirties lead to the collapse of the cooperative

movement. Various enquiry committees were also constituted for restructuring and reorganization of cooperative societies. They were

- Vijayaraghavacharya committee in Madras.
- Rehabilitation Enquiry committee of Travancore (Kerala) and Mysore.
- Kale committee of Gwalior.
- Wace committee of Punjab. The Agricultural Finance sub-committee under the chairmanship of Prof. D.R. Gadgil, in 1944 recommended the
- Adoption of limited liability for cooperatives.
- Assessing the credit –worthiness of a farmer based on his repayment capacity.
- Subsidizing the cost of administration of small cooperative societies.
- Linking credit with marketing.

In 1945, the Cooperative Planning Committee (CPC) under the chairmanship of Sri. R.G. Saraiya pointed out that the limited progress of cooperatives is due to the Laissez-faire policy of Government and illiteracy of the people, etc.

### **b) Post-Independence Era:**

Planning commission was established in March, 1950, prepared first five year plan (1951-1956) in 1951 under which main objectives with regard to cooperatives were

- Involvement of cooperatives in rural development programmes.
- Development of well-organized credit system.
- Extending cooperatives to the fields of farming, industry, housing, marketing etc.
- Training of higher-level personnel engaged in cooperatives. During the year 1951, All India Rural Credit Survey Committee (AIRCSC) appointed under the chairmanship of Sri. A.D. Gorwala pointed out two main drawbacks of cooperative credit. They were

- Cooperative credit was unevenly distributed.
- Cooperative credit was inadequate and mostly lent to the asset-oriented large cultivators rather than small and marginal farmers. He also pointed that weakest link in chain of cooperatives was the primary credit societies.

The All-India Rural Credit Survey Committee also observed that “Cooperation has failed in India but must succeed”. This All-India Rural Credit Survey Committee also recommended an integrated scheme as a remedy for the then existing situation. The important recommendations of it were

- State/Govt partnership in cooperatives at all levels.
- There should be coordination between cooperative credit, marketing and processing.
- Development of adequate warehousing.
- Giving adequate training for cooperative personnel engaged at all levels.

Under Second five-year plan (1956-1961), on the recommendations of All India Rural Credit Survey Committee during the year 1956, National Cooperative Development and Warehousing Board (NCDWB) was established. Apart from this, the second five-year plan initiated the setting up of producers’ cooperatives and processing cooperatives.

During the year 1959, the Committee on Cooperative Credit under the chairmanship of Sri. V. L. Mehtha opined that the membership in a cooperative should not be too large and each village falling under the service area of the cooperative should be at a distance of less than 3-4 miles. The Committee on Taccavi (Govt) loans and cooperative credit under the chairmanship of Sri. B.P Patel in 1961-62, stressed that the cooperatives should provide loans to the farmers for carrying out agricultural operations and land improvement. These loans should be given only to the farmers under distressed conditions. The

Committee on Cooperative Administration headed by Sri. V. L. Mehta said that the supervision of cooperatives at grassroots level i.e. PACSs should be done by

### **District Cooperative Banks.**

During Third five-year plan (1961-1966), the emphasis was placed on the revitalization of dormant societies apart from increased emphasis on cooperative credit and cooperative farming. During this period National Cooperative Development Corporation (NCDC) was established in 1963 and also National Federation of Cooperative Sugar Factories (NFCSF). All India Rural Credit Review Committee (AIRCRC) was constituted during July, 1966 under the chairmanship of Sri. B. Venkatappaiah. He submitted his final report in the year 1969 and recommended the

- Setting up of Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Labourers Development Agency (MFAL) and Rural Electrification Corporation (REC).
- Reorganization of primary societies into economically viable units.
- Revitalization of weak cooperative central banks.
- Checking of overdues.
- Greater flexibility in conversion of short-term loans into medium-term loans.
- Simplification of loan application.
- Disbursement of a part of loan in kind form.
- During the third five year plan period itself the new concept of transport

cooperatives was initiated.

After the third five year plan, during 1966-1968 there were three annual plans called rolling plans. In the year 1967, Vaikunth Mehta National Institute of Cooperative Management (VAMNICOM) was started in Poona.

Fourth five year plan (1969-1974), gave impetus for the rehabilitation and reorganization of District Cooperative Credit Societies for the smooth flow of cooperative credit. During this plan, Indian Farmers Fertilizer Cooperative Limited (IFFCO) was established at Kandla, Gujarat.

During Fifth five year plan (1975-1979) new fertilizer projects were initiated with the success during fourth five year plan. National Bank for Rural Development (NABARD) was established for providing credit to agriculture and allied activities under Sixth plan (1980-1985). The strengthening of dairy cooperatives was also given importance in this period. Seventh five year plan (1985-1990), stressed up on

- a) Organizing of special cooperative loan recovery camps
- b) Strengthening of National and State Consumer Federation (NSCF)
- c) Introduction of single window system of credit in Andhra Pradesh.

Eighth five year plan (1992-1997) emphasized replication of Anand Pattern of cooperatives for milk and strengthening of processing cooperatives. During Ninth Five Year Plan (1997-2002) measures have been initiated to revitalize the co-operatives to make them vibrant democratic institutions with economic viability and active involvement of members by the Government. These include the framing of national policy on cooperatives and finalisation of a new Multi State Cooperative Societies Bill to replace the existing Multi State Cooperative Societies Act, 1984. Broadly, the following issues have been addressed in the proposed legislation.

- (i) Greater degree of autonomy of Multi State Cooperative Societies
- (ii) Reduction in the control and level of intervention of the Government
- (iii) Establishment of Quasi-judicial Dispute Settlement Authority
- (iv) Provisions for safeguarding the interest of members



(v) Removal of some restrictive provisions on the functioning of societies

(vi) Freedom of societies to determine their own priorities Amendments to the NCDC Act are proposed. The main features of the proposed amendment are as follows: (a) expansion of NCDC's scope to include animal husbandry, forestry, horticulture, pisciculture, etc. (b) extension of NCDC's coverage to livestock, industrial goods, handicrafts and the services sector, and (c) provision of loans directly to cooperative societies on appropriate security to be furnished by the borrower.

### **Tenth Five Year Plan (2002-2007)**

The following initiatives were taken with respect of cooperatives during tenth five year plan

- To make a special study of the role of the cooperatives and challenges to be met in the wake of globalization of Indian economy and also the issues relating to competitive efficiency of the cooperatives, constraints and remedial measures for improving the commercial and economic viability of the cooperatives with regard to modernization, diversification, technology upgradation, quality improvement, marketability and export promotion, etc.
- To study the regional disparity in the development of cooperatives, identify the factors inhibiting the development of cooperatives in the states and suggest suitable programmes for encouraging cooperatives in the cooperatively underdeveloped states.
- To suggest measures for human resource development in the cooperatives.
- To review the role and functioning of consumer cooperatives and suggest suitable measures for their improvement