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## **Cooperative movement in India**

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### **Abstract**

The history of cooperatives in India is more than a hundred years old. The cooperatives have more reach to the rural India through their huge network of credit societies in the institutional credit structure. The cooperative credit structure is serving the Indian society since 1904 and since then it has several ups and downs. The cooperative movement has been rendering useful services for the economic progress and well-being of the country. However, there is a dire need to create awareness among people. People are not well informed about the objectives of the cooperative movement. Despite of this, the sector has tremendous potentialities.

**Keywords:** cooperative movement, democratic management, development of society, economic reforms, Indian scenario

### **Introduction**

The history of the cooperative movement concerns the origins and history of cooperatives. Although cooperative arrangements, such as mutual insurance, and principles of cooperation existed long before, the cooperative movement began with the application of cooperative principles to business organization.

The cooperative movement began in Europe in the 19th century, primarily in Britain and France, although The Shore Porters Society claims to be one of the world's first cooperatives, being established in Aberdeen in 1498 (although it has since demutualized to become a private partnership). The industrial revolution and the increasing mechanism of the economy transformed society and threatened the livelihoods of many workers. The concurrent labour and social movements and the issues they attempted to address describe the climate at the time.

The first documented consumer cooperative was founded in 1769, in a barely furnished cottage in Fenwick, East Ayrshire, when local weavers manhandled a sack of oatmeal into John Walker's whitewashed front room and began selling the contents at a discount, forming the Fenwick Weavers' Society. In the decades that followed, several cooperatives or cooperative societies formed including Lennox town Friendly Victualling Society, founded in 1812.

By 1830, there were several hundred co-operatives. Some were initially successful, but most cooperatives founded in the early 19th century had failed by 1840. However, Lock hurst Lane Industrial Co-operative Society (founded in 1832 and now Heart of England Co-operative Society), and Galashiels and Hawick Co-operative Societies (1839 or earlier, merged with The Co-operative Group) still trade today.

It was not until 1844 when the Rochdale Society of Equitable Pioneers established the "Rochdale Principles" on which they ran their cooperative, that the basis for development and growth of the modern cooperative movement was established. Financially, credit unions were invented in Germany in the

mid-19th century, first by Franz Hermann Schulze-Delitzsch (1852, urban), then by Friedrich Wilhelm Raiffeisen (1864, rural). While Schulze-Delitzsch is chronologically earlier, Raiffeisen has proven more influential over time – see history of credit unions. In Britain, the friendly society, building society, and mutual savings bank were earlier forms of similar institutions.

Cooperative institutions exist all over the world providing essential services, which would otherwise be unattainable. In many Third World countries, cooperatives such as credit unions and agricultural organizations have been very successful in helping people to provide for themselves where private and other corporate capitals do not see high profitability. In 90 countries of the world, over 700 million individuals are members of cooperative institutions. Globally, cooperatives have been able to elevate its position as a powerful economic model. In some countries, they are a sizeable force within the national economy.

### **Indian Scenario**

During the British rule, Nicholson a British Officer in India suggested to introduce Raiffersen model of German agricultural credit Cooperatives in India. As a follow-up of that recommendation, the first Cooperative Society Act of 1904 was enacted to enable formation of "agricultural credit cooperatives" in villages in India under Government sponsorship. With the enactment of 1904 Act, Cooperatives were to get a direct legal identity as every agricultural Cooperative was to be registered under that Act only. The 1904 Cooperative Societies Act, was repealed by 1912 Cooperative Societies Act which provided formation of Cooperative societies other than credit. Under 1919 Administrative Reforms Act, Cooperatives was made a provincial subject making each province responsible for Cooperative development. In 1942, the British Government enacted the Multi-Unit Cooperative Societies Act, 1942 with an object to cover societies whose operations are extended to

more than one state. The impulses of the Indian freedom movement gave birth to many initiatives and institutions in the post-independence era in India and armed with an experience of 42 years in the working of Multi Unit Cooperative Societies and the Multi-Unit Cooperative Societies Act, 1942. The Central Government enacted a comprehensive Act known as Multi State Cooperative Societies Act 1984, repealing the Act of 1942.

Ahmed (1964) <sup>[4]</sup> carried out a study on cooperative movement in South East Asia. His motive was to clearly establish the role of cooperatives in development of social and economic fronts of the society. He observed that an economic need was the basis for starting a cooperative organization which could be met by mutual help and effort. He further stated that the members are themselves able to improve their economic condition and raise themselves from weakness into strength when they satisfy their common economic needs by cooperative methods. Cooperatives are made with the intention of becoming a shield for the weak and the poor, against the evils of capitalism and antagonism.

In India, the co-operative sector has been assigned an important role in the development of many sectors. The First Five Year Plan envisaged the cooperative sector to cover a number of vital areas like agriculture, rural and small-scale industry, retail distribution, housing etc. The important objectives of the development of the co-operative sector are prevention of concentration of economic power, wider dispersal of ownership of productive resources, active involvement of people in development programmes, augmentation of the productive resources and speedier economic development, liquidation of unemployment and poverty, etc. According to Weerman, the following are the main background factors or influences which lead to a relationship between the state and co-operatives in developing countries:

- The need to give legal recognition to co-operative societies and to provide for their proper management and supervision in the interest of the movement.
- The need to safeguard the rights of the people vis-à-vis these societies.
- The need to prevent any abuse or privileges accorded to co-operatives.
- The need to promote the movement because:
  - a. It is, per se, desirable and nobody other than the government is likely to take the initiative in promoting it.
  - b. It is the best means of national development.
  - c. It solves the problem of lack of leadership and local personnel for the diffusion of new ideas and techniques.

#### **The important way in which the state patronises the co-operative movement in India are**

- State partnership in the share capital of co-operatives;
- Loans to societies;
- Subsidies and grants;
- Guarantees;
- Contribution to risk fund;
- Tax concession;
- Legal concession and sanctions;
- Training and education;

- Help from the Reserve Bank and other banking organisations that help the cooperatives; and
- Supply of government officers on deputation.

We have seen that the co-operative idea took a concrete shape in India for the first time in 1904, when the Co-operative Credit Societies Act- a measure designed to combat rural indebtedness and provide for the registration of credit societies- was passed. Later, in 1912, the Co-operative Societies Act provided for the registration of non-credit societies as well as federations of co-operatives. Since then, the co-operative movement has made progress, especially in the fields of agricultural credit, marketing and processing of agricultural produce, supply of farm inputs and distribution of consumer goods. By far the largest number of societies are in the agricultural credit sector. The primary agricultural credit societies cover over 96 percent of the rural areas.

#### **Processing and Industries Co-operatives**

Our industrial policy statements have emphasised the role of the co-operative sector in the industrialisation of the country, especially by developing cottage, village and small-scale industries. In the large and medium industries sector, certain agro-industries like sugar, jute and cotton have been considered to be ideally suited for the co-operative sector. At one time the Government of India had also made it a policy new sugar factory would be allowed only in the public and co-operative sectors.

The National Federation of Industrial Co-operatives assists in the marketing of the products of member societies. The structure of processing units established in the co-operative sector conforms to two distinct patterns, namely, (a) Unit established by independent processing units, and (b) Units established as adjuncts to co-operative marketing societies.

Under the first category fall the larger units, such as co-operative sugar factories, spinning mills and solvent extraction plants. Medium and small units, such as rice mills, oil mills, cotton ginning and pressing units, jute baling units, etc., fall under the second category.

The cooperative sector has significant presence in certain industries like cotton textiles, sugar and fertiliser. The Indian Farmers Fertiliser Co-operative Ltd. (IFFCO) is a unique venture of the co-operative movement in India in the field of large-scale fertilizer manufacture.

#### **Storage, Distribution and Marketing Co-operatives**

The National Co-operative Development Corporation is responsible for the planning, promotion and financing of the programme of augmenting the storage capacity FO the co-operatives at various levels. There are a very large number of rural godowns and marketing godowns. There are also a number of cold storage units.

Co-operatives in India play a significant role in the distribution of agricultural inputs, such as fertilizers, seeds, pesticides, agricultural implements and credit. A large share of the total fertilizers distributed in India are sold through the co-operative distribution system. The co-operative marketing structure consists of a large number of primary co-operative marketing societies, covering all the important agricultural

markets in the country. The National Agricultural Co-operative Marketing Federation (NAFED), which represents the co-operative marketing societies in the country, promotes inter-State and export trade of farm produce.

### Functional Co-operatives

Co-operatives for the weaker sections of society provide increased employment and income opportunities to different sections of the community, such as small and marginal farmers and fishermen. Functional co-operatives for dairy, fishery and poultry mainly relate to the service of the weaker sections. There are also a very large number of primary housing co-operatives in the country.

### Multi-Purpose Co-operatives

As part of the programme of economic development of tribals, primary co-operatives in tribal areas were reorganised to enable them to function as multi-purpose societies providing short, medium and long-term credit to tribals, undertaking collection and marketing of agricultural and minor forest produce, arranging for supply of agriculture inputs as well as essential consumer goods. State level co-operative tribal development corporations/federations have been established in a number of States to serve as apex organisations for the marketing of minor forest produce and consumer goods.

### National Level Co-operative Federations

A major development over the past one decade has been the emergence of national co-operative federations which have added a new dimension to the co-operative infrastructure. With the National Co-operative Union of India at the apex, the other national level co-operative organisations, include the National Agricultural Co-operative Marketing Federation, the All-India State Co-operative Banks Federation, the National Federation of Co-operative Sugar Factories, the National Co-operative Land Development Banks Federation, the National Co-operative Consumer's Federation, the National Federation of Industrial Co-operatives, the All-India Federation of Co-operative Spinning Mills, the National Co-operative Housing Federation, the National Co-operative Dairy Federation of India and the National Federation of Co-operative Urban Banks and Credit Societies.

In the context of a national pattern which is being evolved, the system of workers' participation in management is being introduced in large co-operative industrial units. Special co-operative programmes directed towards increasing employment and income opportunities for the vulnerable sections have been evolved and are being implemented. The National Co-operative Development Corporation has also extended its activities to cover cooperative programmes for weaker sections.

### Benefits of Cooperatives

Mohinder (1970)<sup>[5]</sup> undertook a study on cooperatives in Asia. He observed that cooperatives are not merely business organization; as for the very commencement of a cooperative and for its successful working, a sense of brotherhood, common fellowship, love and sacrifice are required. He concluded that cooperatives have a brighter future in India as

their objective is eradication of poverty and bridging the gap between the rich and the poor. Further the cooperative movement once spread out will guarantee abolition of the malpractices of hoarding and profiteering in the country.

Vishwanath (2007) made an attempt to study the cooperative movement in context of economic reforms. He pointed out that cooperatives are alternate institutional mechanism for enlisting the participation of people in economic Process. Cooperatives continue to be important institutions which give a voice to the voiceless. They must succeed as they are they only viable way of reaching out into country where the poor and marginalized reside and for whom corporate world has few answers.

The cooperative movement has been rendering useful services for the economic progress and well-being of the country. Some of such benefits are as under:

- **Easy Formation:** Procedures for registration of cooperative society is simple with nominal fees.
- **Democratic Management:** Each member enjoys an equal right to vote, and participation in decision-making process.
- **Limited Liability:** Liability of members is limited to the extent of unpaid shares held by them.
- **Open Membership:** Any person can become member by purchasing the shares of society.
- **Stability:** Continuity of cooperative society does not affect by death or insolvency of members.
- **Low Cost of Operation:** Since no salaries are paid to the office bearer and also enjoy various concessions and subsidies.
- **Tax Exemptions:** Cooperative society is exempted from income tax up to certain limit.
- **Economical Benefits:** They have played an important role in popularizing the use of various modern inputs such as fertilizers, improved seeds, new implements, pesticides; farmers are getting now better prices for their produce from these societies.

### Problems of Cooperatives

Kaul (1988) evaluated the performance of Indian cooperatives at national level. He concluded that respondents had borrowed from non-formal and non-institutional sources. Also, the burden of informal loans was found to be much higher for the medium and big farmers as they raised loans from money lenders after defaulting with financial institutions. It was suggested in the study that there was a need of interference from the central and state government to improve the system and fulfil the aspiration of people at large and poor section in particular.

While the overall progress of the co-operative movement appears to be striking, there are wide regional disparities. The level of development of agricultural co-operatives is not uniform in all the states. The cooperative movement in India is very adversely affected by political overshadowing. Many co-operatives are controlled by politicians and/or the economically powerful members.

Gupta (1990)<sup>[1]</sup> carried out a study on the framework of cooperative societies for rural development in India. The study revealed that cooperative movement is yet to cover large

segments of target groups. The societies located in the urban area have switched over exclusively to credit business while the societies functioning in the rural areas continue to undertake credit as well as non-credit activities. The existing or newly established organizations must ensure that special needs and interests of low income group people are fully taken into account. He was of the view that the people themselves should take initiatives and be channelized through the cooperatives at a grass root level itself.

Maitin (1992)<sup>[2]</sup> outlined the need for disciplined management of cooperatives. He observed that it is not the concept of cooperatives, which can be discounted, it is faulty execution of concept by people responsible for their management, which has often defeated the entire purpose, and spirit of cooperative movement in India. Cooperative principles and policies therefore have to be translated into practice in a more disciplined manner. Though the system has been successful in selective areas, its operational application by and large has been an utter failure. He advocated a favourable shift in behavior and attitude of people entrusted with the task of organizing and using cooperative resources so as to justify the continued relevance of the system.

### Remedial Measures

Besides other causes of not getting the desired results, the utmost important one is that People are not well informed about the objectives of the movement, the contributions it can make in rebuilding the society and the rules and regulations of cooperative institutions. Unfortunately, no special efforts have been made in this direction. People look upon these institutions as means for obtaining facilities and concessions from the govt. So long as people expect to get something from the government, they see to it that societies somehow continue to function. Lack of education, dirty politics of the village, caste-ridden elections to the offices of cooperative societies, bureaucratic attitudes of the government officers at the lower rank are some of the hurdles in spreading the correct information about the cooperative movement and in educating the people about its true character and vital role in the society. The benefits of cooperatives may be reaped cent percent by following the below mentioned remedial measures:

- Accountability and transparency need to be brought in the implantation of the schemes.
- Enhancing the competitive strength in cooperatives by their merger and division, wherever necessary.
- Ensure active participation of members in their day today business and de-listing or removing the inefficient or inactive members from membership.
- Federal organizations of cooperatives must give sufficient financial and other support to their constituent societies.
- Reform in cooperative laws.
- Establish professional cooperative management centers and practice human resource management.
- Political and religious neutrality and timely conduct of elections and audit.
- Strengthening information and database of Cooperatives.

### Conclusion

The Government of India, immediately after independence, realising the significant role cooperatives can play in the development of national economy, recognised them as a third economic sector. They were charged with the responsibility for taking care the needs and aspirations of rural India with special emphasis on uplifting the small and marginal farmers as well as weaker -sections of the society.

For over the years now, In India cooperatives have been an effective way for people to exercise control over their economic livelihoods. Now the Indian cooperative movement, the world's largest movement covers almost 98% of rural India, having more than 8.50 lakh societies with the membership of about 290 Million. It's providing a unique tool for achieving one or more economic goals in an increasingly competitive global economy. Cooperative play a noteworthy role in white revolution which makes country self-reliant in milk produce in India.

Within a short span of time, role of cooperatives extended beyond agricultural credit. Rural cooperative societies are now entering into real estate, power, insurance, health-care and tourism sector. Cooperatives have tremendous opportunities in solving the problem of unemployment, by training the rural population through cooperatives can be a big leap forward. Co-operative movement in our country shall not only stay, but also grow in times to come.

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