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## UNIT 17 COOPERATIVE MOVEMENT IN AGRICULTURE

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### 17.0 OBJECTIVES

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After going through this unit, you will be in a position to:

- explain the process of evolution of the cooperative movement in India;
- define the concept of cooperation; and
- explain the distinguishing features of a cooperative enterprise.

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### 17.1 INTRODUCTION

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The success of 'Rochdale Pioneers' established in 1844 by Robert Owen in England enthused many philanthropists for the initiation of Cooperative Movement in their respective countries. The Rochdale Pioneers was a consumer society, based on the principle of self help and mutual help. In 1948 F. W. Raiffeisen founded a cooperative society in Germany for distribution of bread and potato to the poor. In 1949, he founded a loan society. In the same year Schulze and Bernhardt established a friendly society for Relief in Sickness and later they founded an association of shoe makers.

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## 17.2 EVOLUTION OF COOPERATIVE MOVEMENT IN INDIA

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In India, the Cooperative Movement, however, started on the initiative of the Central Government, with the enactment of All the India Cooperative Societies Act in 1904 as a purveyor of rural credit in order to protect the peasants from usurious rates of interest charged by the village money-lenders. To ameliorate the conditions of the farmers the Government passed the Taccavi Act, the Land Improvement Loan Act and the Agriculturists Loan Act to facilitate the advance of short-term and long-term loans for farm operations.

The success of Credit Societies encouraged the need for organisation of non-credit societies also. As a consequence, the All India Cooperative Societies Act, 1912 came into being. This Act facilitated the organisation of marketing, insurance, dairy, handloom and consumer cooperative societies. Also societies for retail of farm implements, purchase and sale of manures etc. were organised. In 1914, Maolagan Committee recommended for setting up of a pyramidal structure of the cooperatives with the primary society at the base, Central Bank at the district and Apex Bank at the State levels.

In 1919, under the Montegu-Chelmsford Reforms, cooperation became a provincial (State) subject. Consequently Provincial Governments enacted their own Acts. The Bombay Province was the first one to pass an act, that is the Bombay Provincial Cooperative societies Act, 1925. By 1932, all the provinces (States) either passed their own acts or adopted Bombay Provincial Act.

The policy towards cooperative development has been a subject of frequent review and revision since its inception. The economic depression of the 1930s had a dovetailing effect on the working of the cooperatives. In order to recover the shocks the movement had suffered during depression, rehabilitation efforts were initiated from 1930 onwards which included (i) the re-organisation and revitalization of societies, (ii) scaling down and writing off the dues, and (iii) provision of rehabilitation grants to Central Cooperative Banks. Establishment of the Reserve Bank of India (RBI) in 1935 was another significant development. The RBI took up the programme of providing concessional finance to agriculturists for production purposes.

In order to meet the needs of the village community such as supply of farm implements, seed, fertiliser and household requirements, and assist in the marketing of produce, the primary credit societies were converted into multi-purpose societies. These societies were financed by the Central Cooperative Banks while the requirements of urban population and traders were met by the Urban Cooperative Banks. The organisation of banking institutions like Central Cooperative Banks, Land Mortgage Banks and Urban Cooperative Banks demanded an agency for coordinating their policies and programmes. Consequently the Cooperative Banks Association at the national level was established. Later on, the State and National Associations were renamed as State Central Cooperative (Apex) Bank.

During the Second World War (1939-45) the prices of almost all the commodities including agricultural produce and consumer goods increased considerably. Because of the difficulties in proper distribution of controlled and essential commodities, the need for setting up of consumer cooperatives was increasingly felt. The consumer movement was thus initiated. During the decades of the 1940s and 1950s, cooperatives of sugar growers, dairy producers, fruit and vegetables growers, weavers as well as other industrial producers were established.

In 1942, Multi Unit Cooperative Societies Act was passed. This act paved the way for the establishment of cooperatives with area of operation in more than one state.

Consequently, national level federations and societies such as Indian Farmers' Fertilizers Cooperative, and Krishak Bharti Cooperatives were established. This Act was further broadened and renamed as 'Multi-State Cooperative Societies Act' in 1984.

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### 17.3 COOPERATION IN PLANNED ECONOMY

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In spite of the government patronage right from its inception in terms of financial and administrative support, the progress was very slow mainly due to internal weakness of the cooperative structure. Secondly, the policy of the government towards cooperatives was not sufficiently defined. Thirdly, the implementation of the policy was largely left to the states and the cooperative movement itself. Fourthly, the scheme regarding cooperation adopted by various states was also not uniform in their objectives and methods. Fifthly, there was neither an agreed policy for the country as a whole nor any definite target except for the volume of advances to farmers. Consequently, marked unevenness in the development of the cooperative structure in different states was observed.

With the acceptance of the recommendations of the All India Rural Credit Survey Committee Report 1954 with regard to state participation in strengthening the financial resources of the cooperatives, the cooperative movement got the boost during the second and subsequent Five Year Plans. In 1956, the National Cooperative Development and Warehousing Board was established for planning and promoting programmes of production, marketing, storage, warehousing, export and import of agricultural produce through a cooperative society or a warehousing co-operative. It also provided financial assistance to Central and State Warehousing Corporations for the purpose. This Board was subsequently bifurcated and the National Cooperative Development Corporation (NCDC) came into being in 1962 to plan and promote programmes for production, processing, marketing, storage, export and import of agricultural produce and modified commodities through cooperatives.

The Reserve Bank of India Act was also amended and National Agricultural Credit (Long Term Operation) with initial contribution of Rs. 18 crore and National Agriculture Credit (Stabilisation) Fund with initial contribution of Rs. 1 crore were created. In 1982, the RBI was trifurcated and National Bank for Agriculture and Rural Development (NABARD) to take care of agricultural and cooperative development was created.

As a result, 4.5 lakhs cooperatives of various types with their membership of about 20 crores covering almost 100% villages and nearly 96% families have been established. But at the same time, government also participated in the management of cooperative institutions by nominating their representatives thereby imposing various restrictions, eroding cooperatives autonomy and independence.

#### Check Your Progress 1

- 1) Name the first cooperative established in the world. Who founded this society? In which year, was it founded?

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2) Under which act did the Cooperative Movement in India start in 1904?

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3) Mark 'T' for true and 'F' for false.

- a) All India Cooperative Societies Act, 1912 facilitated establishment of credit societies in the country.
- b) The setting up of Pyramidal structure for cooperative was recommended by Agriculture Commission.
- c) Under Mounford Reforms Cooperation became a State subject.
- d) The policy of Cooperative Development has been a subject of frequent review and revision.

4) Mention the reasons for the slow progress of cooperative movement during pre-independence period.

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5) What were the objectives of establishing the National Cooperative Development Cooperation?

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### 17.4 COOPERATIVE PRINCIPLES

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Every organisation has its own principles, which are to be observed for its smooth working. The principles are formulated keeping in view the objectives, pattern of governance, power and authority structure, accountability, organisational framework, financial structure, etc. In general, any distortion, deviation or non-observance cause aberrations and create various problems. Cooperatives have their own set of principles right from their inception, which are universal in nature, recognition and acceptance.

### **17.4.1 Evolution of Cooperative Principles**

Initially the working practices and rules adopted by the Rochdale Pioneers for their working were accepted as Cooperative Principles world over. However, these principles were debated time and again in the Cooperative congresses of the International Cooperative Alliance (ICA) and suitably modified. The noteworthy modifications were made by the 13th ICA Cooperative Congress held at Vienna in 1930, the 15th ICA Cooperative Congress held at Paris in 1937 and 23rd ICA Cooperative Congress held at Vienna in 1966. The 1966 congress under the Chairmanship of Prof. D. G. Karve, adopted the following principles:

- 1) Open and Voluntary membership
- 2) Democratic Administration
- 3) Limited interest on capital
- 4) Distribution of Surplus to the member in proportion to their transactions
- 5) Cooperative Education
- 6) Cooperation among cooperatives.

### **17.4.2 Cooperative Principles, 1995**

The ICA Cooperative Congress held at Manchester in 1995 adopted the following principles as suggested by Prof. Ian Mac Pherson on the basis of his global study.

- 1) Open and Voluntary Membership
- 2) Democratic Member Control
- 3) Member Economic Participation
- 4) Autonomy and Independence
- 5) Education, Training and Information
- 6) Cooperation among Cooperatives
- 7) Concern for Community

### **17.4.3 Open and Voluntary Membership**

The primary purpose of the Cooperatives is to serve their members who are the users of the service of the Cooperative. These are voluntary organisations, open to all persons who are able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

### **17.4.4 Democratic Member Control**

Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. In primary cooperatives, members enjoy equal voting right, on a 'one member, one vote' basis. Cooperatives at other levels are also organised in a democratic manner. Persons responsible for administration are accountable to the members.

### **17.4.5 Economic Participation of Members**

Members contribute equitably to the capital and democratically control the capital of their cooperative society. A part of that capital is usually the common property of the cooperative. Members receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the business of the cooperative, setting reserves for further exigencies, benefiting members in proportion to their transaction with the cooperative, and encouraging further development of the cooperative movement.

### 17.4.6 Autonomy and Independence

Cooperatives are autonomous, self-help organisations controlled by their members. Cooperatives can enter into agreement with other organisations including governments freely and on mutually agreed and acceptable terms.

### 17.4.7 Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public about the nature and benefits of cooperation.

### 17.4.8 Cooperation among Cooperatives

In order to best serve the interest of their members and the community, cooperatives actively cooperate in every practical way with other cooperatives by working together, through local, national, regional and international structures.

### 17.4.9 Concern for Community

Cooperatives are concerned about the community in which they exist. While focussing on members needs, they strive for the sustainable development of those communities through policies that are respectful of the environment and acceptable to their members.

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## 17.5 PHILOSOPHY OF COOPERATION

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The philosophy of Cooperation is derived from its principles. It has political, economic and social considerations. For example, the principles of open and voluntary membership, democratic member control and autonomy and independence constitute its political philosophy. The principle of member economic participation lays down the economics of cooperation while the principle of concern for community constitute its social philosophy. The principles of cooperation among cooperatives help in the growth and development of cooperative institutions. Likewise the principle of education, training and information makes it possible to have effective observance and application of all other principles.

### Check Your Progress 2

- 1) What are the principles of Cooperatives approved by the ICA Cooperative Congress 1995?

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- 2) Explain five important principles of cooperatives.

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3) Discuss the philosophy of cooperation.

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## 17.6 DISTINGUISHING FEATURES OF A COOPERATIVE SOCIETY

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A Cooperative is one of the many forms of business organisation. Its distinctiveness stems from its principles, the incorporation of which constitute cooperative organisation. A cooperative enterprise essentially recognizes the principle of private ownership through certain organisational arrangements visualised to ensure wide dispersal of ownership and economic power incidental to such ownership.

Cooperation has two important approaches to solve the problems of economic life: association and use. In cooperation the emphasis is always on human values. It puts market values in a wider and more human setting.

### 17.6.1 Form of Business Organisation

You may be aware that a business organisation can be established along the following lines:

- a) Individual or family owned business enterprise
- b) Partnership firm which have more than one partners
- c) Joint Stock Company which is registered as private limited firm
- d) Government undertaking or corporation
- e) Cooperative enterprise

Let us discuss the distinguishing features of cooperatives compared to these organisations.

### 17.6.2 Setting up Objectives

The individual firm, partnership and Joint Stock Company are organisations of private individuals who use their capital with a profit motive. The owners are not the sole users of the services provided by the firm. These firms, however, compete with other firms in trade. They cannot earn profits unless they are efficient in production. The business firm, therefore, will have to be efficient in use of resources, well managed and service oriented towards its customers.

The Cooperative is similar to private firms so far as its resources are owned by the individuals. But there is a major difference between the cooperative business firm and other private firms. The owners of private business produce a good or service to be

sold to others. Here traders and customers are distinguishable. The cooperatives are set up for the benefit of its members. Thus the trader-customer dichotomy is non-existent.

Since cooperatives conduct trade with their members who are the owners, profit need not be reflected in its transaction. The profits could be shifted to its members in the form of lower prices charged for the services. However, earning of surplus (profit) is as important for a cooperative for its survival and growth as is for a private firm.

The differences between the Cooperative and Private firms with respect to profit are:

- a) the manner of earning profit
- b) the manner of distributing profit
- c) the emphasis on objectives other than profit

### **17.6.3 Membership of a Business Organisation**

The individual family enterprise and partnership firms are closed organisations in the sense that their membership is not open to the public. However, in a joint stock company membership is open to any one who is willing to buy shares. Open and voluntary membership is a feature which cooperatives share with joint stock company. But there are differences:

- 1) The membership of a cooperative is restricted to those who need a service from it. They must be active participants in the trading activity of the society and just not investors who wish to derive profits on their capital.
- 2) A cooperative is an association of people who have come together for mutual help. Thus, personal knowledge of each other is quite important. In a cooperative, the character of a member is as important as the amount of his contribution to capital. This aspect is lacking in a joint stock company.
- 3) The membership of a cooperative should be drawn from weaker sections. An association of rich businessmen to protect their interests cannot be called a cooperative organisation.

### **17.6.4 Mobilising Capital**

Cooperatives lay strong emphasis on self-reliance as capital is collected from those who need the services of the cooperative, i. e., the members. They cannot sell or buy shares in the open market, whereas the private businesses borrow money from the open market as well as float shares.

### **17.6.5 Decision Making and Control**

In the case of family enterprise and partnership firms, the control and management generally vests with the head of the family or the same authority. In the case of joint stock company, the complex nature of business and the size necessitate skilled business managers who control and manage but the risk and uncertainty are not born by them. It is vested with the share holders.

In case of a cooperative, the ultimate control rests with the general body of the members. The degree of control does not depend upon the contribution to capital. One man one vote is the cardinal principle of cooperation. Thus, control of a cooperative is divorced from the liability of risk. This is a revolutionary departure from the conventional methods of business organisation.

### 17.6.6 Determining Reward for the Capital

In private firms, the investor is given the pride of place. He is vested with the ultimate control of the firm. All other parties in the firm, viz., the workers and the managers, are paid according to the contracts entered into with them. These parties do not bear the risk of the enterprise.

The logic of cooperative is different. The member gets reward for his capital but in a limited way. He does not get the pride of place. The cooperative also emphasises on social responsibility, which is unique for a business firm. Cooperative makes explicit provision for setting apart a portion of profit towards common goals. The concept of development of the community in which cooperative business is located is basic to the underlying philosophy of cooperatives.

### 17.6.7 Relationship between Management and Members

In a Cooperative the supreme authority remains with the General Body of Members. There is a delegation of authority from members to elected official representatives.

We may thus conclude that a cooperative is a society which:

- a) groups only those people who have a common activity (farming, marketing, etc.) and/or common problems (credit, supply, purchase of consumer goods, finding a job, etc.) and who realise that they cannot carry out their activities or solve their problems individually;
- b) aims at providing its services to its members at cost price (i.e., without profits);
- c) operates on the basis of both mutual and self-help;
- d) gives top priority to group interests without ignoring individual members' desires;
- e) gives priority to the quality of its services rather than to make profits;
- f) aims at cutting all unnecessary costs and expenses, mainly with regard to middlemen and money-lenders;
- g) defends the position of weaker members by giving to every members the same decision-making power (one man one vote); and
- h) aims at eliminating all conflicting positions between producers and consumers.

#### Check Your Progress 3

- 1) What are the distinguishing features of a cooperative?

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- 2) Write 'T' for true and 'F' for false.

- i) Cooperatives can float debentures.
- ii) Only those who are ready to share the responsibility should join a cooperative society.
- iii) Cooperatives are self-help organisations.

- iv) Cooperatives aim at providing services to the members at cost price.
  - v) Cooperatives do not eliminate conflicting positions between producers and consumers.
- 3) In what respects is cooperative different from other forms of business organisation?
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### 17.7 LET US SUM UP

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The discussion above leads to certain broad conclusions when we think of philosophy, principles and characteristics of cooperation. These are:

- 1) Without cooperative principles, cooperative organisation cannot be visualized.
- 2) Member involvement and leadership role can effectively ensure social objectives of cooperatives.
- 3) Professionalisation of management can effectively ensure the achievement of economic goals of cooperatives.
- 4) Horizontal and vertical integration can effectively be achieved only by strengthening cooperative federalism and cooperation among cooperatives.
- 5) Profiteering is ruled out in a cooperative yet surplus has to be earned for future development of the cooperative.
- 6) Cooperatives need to develop forward looking strategies for greater and more efficient service to the members on the one hand and competitive business efficiency on the other.
- 7) Cooperative development will be in direct proportion to the inputs in member educational programmes by the cooperatives themselves at the micro and macro levels.
- 8) Serving the members' interest consistent with the community interest should be the ultimate goal of cooperatives.

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### 17.8 KEY WORDS

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- Province** : During pre-independence period states were known as Provinces
- ICA** : International Cooperative Alliance
- Mobilisation of Capital** : Collecting finances for meeting fixed and working capital requirements.

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### 17.9 SOME USEFUL BOOKS

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Bhatnagar K. P., 1958, *Cooperation in India and Abroad*, Kishore Publishing House, Kanpur.

Dwivedi , R.C., 1997, *Cooperative Identity, Concept and Reality*, Triveni Enterprises, New Delhi.

Hough E. M., 1959, *The Cooperative Movement in India*, Oxford University Press, London.

Mathur B. S., 1994, *Cooperation in India*, Sahitya Bhavan, Agra.

Sinha, B. K., 1969, *Cooperatives in India*, National Cooperative Union of India, New Delhi.

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## 17.10 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

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### Check Your Progress 1

- 1) Rochadale Pioneers, Robert Owne, 1844.
- 2) All India Cooperative Societies Act, 1904
- 3) a) T    b)    F    c)    T    d)    T
- 4) The important reasons are: (i) Internal weakness of cooperative structure.  
ii) Government policy towards cooperatives was not sufficiently defined,  
iii) Implementation of the policy was left to the state and the cooperative itself.  
iv) The schemes regarding cooperation adopted by various states were not uniform in their objectives and methods. v) No agreed policy for the country as a whole nor definite targets.
- 5) NCDC was established to plan and promote programmes for production, processing, marketing, storage, export and import of agricultural produce and essential commodities through cooperatives.

### Check Your Progress-2

- 1) Read Sub-section 17.4.2 and answer.
- 2) Read Section 17.4 for the answer.
- 3) The important aspects are: i) political philosophy, ii) social philosophy, iii) economic philosophy, iv) effective observance and application.

### Check Your Progress-3

- 1) Read Section 17.6 for the answer.
- 2) i) F    ii)    T    iii)    T    iv)    T    v)    F
- 3) Read Sub-sections 17.6.2 to 17.6.6. Point out how cooperatives are different from business enterprises with respect to goal setting, ownership, capital mobilisation, decision making and membership.