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**EVOLUTION OF CO-OPERATIVE SOCIETIES IN LATE COLONIAL
TAMIL NADU- A HISTORICAL PERSPECTIVE**



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Short Profile

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ABSTRACT:

In the origin and development of the Co-operative Societies in Tamil Nadu , the Nicholson's Committee Report of 1895 and 1897 opened the eyes of the Government to the serious problems of rural people who were drowned in debts and were exploited at the hands of the rich and the money lenders. Ever since day of the recommendations of the Nicholson's Report was carried out in the late Colonial Tamil Nadu, till the Co-operative Societies were transferred to the State List under the dyarchical form of Government, by the Government of India Act of 1919, there was a

steady growth in the structure of the Co-operative Societies as well. During this period, the importance of accommodating the helpless people in the services of the Co-operative Societies was realised on a priority basis. The emergence of the Urban and Rural Co-operative Societies and Central Banks played a remarkable role in strengthening the agrarian economy of the later Colonial Tamil Nadu. The paper attempts to seek the emergence and development of of the Co-Operative Societies in a historical perspective.

KEYWORDS

F.Nicholson, Co-Operative Societies, Urban, Rural, Bank, Credit, Debt, Act, Raiffeisen Societies

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INTRODUCTION :

REPORT OF NICHOLSON

In 1892, F.Nicholson was assigned by the Government of Madras to report on the magnitude and character of the rural debt in the Madras Presidency. He was also to report on the advisability of starting a system of land banks in the Province.¹ Subsequently, F. Nicholson submitted his Report on "Land and Agricultural Banks" to the Government of Madras in two phases; one in 1895 and the other in 1897. It was both informative and exhaustive. He disclosed in the Report that the load of debt borne by the Madras Ryots was heavy, that its interest was high and that it had been incurred with minimum result in profit. He concludes thus: "On the whole, indebtedness in general and its burden are heavy on individuals and it is particularly so on rural masses; the remedies lie in systematic and simulative foe of banking which shall economically educate while assisting the ryots and in the spread of general education of the ordinary sort, with special attention to the facts of rural economy" .²

Of the alternative agencies best adopted for rural credit in the Madras Presidency, F.Nicholson came to the conclusion that, what was chiefly required for the credit work of the Madras District was "small, locally worked institutions on the lines of European village institutions".³ They would satisfy the postulates of proximity, security and create local confidence. Consequently, they would draw in local capital cheaply, almost gratuitously and thus provide cheap credit, influence borrowers towards the true use of credit and watch the utilization of loans in accordance with contract, exercise educative influence in matters of thrift, association and self- help and develop high forms both of individual capacity, of public life and of national character.⁴

Nicholson's Report was reviewed in 1899 by the Madras Government which expressed the opinion that the question of rural credit in the Madras Presidency was not one of urgency. They thought that, if a few rural banks were started on strictly on Raiffeisen⁵ line and their working watched for a few years, they might then be in a position to make recommendations.⁶ The Government of India, on receipt of Nicholson's Report, sought the opinions of local governments as to the possibility and advisability of action by the Government. Their answers were considered in June 1901 by a Committee under the presidentship of Sir Edward Law.⁷ Based on the Report of this Committee proposals for action first assumed a form sufficiently definite to allow detailed discussions. These proposals were referred to Local Government for their reaction.

RECOMMENDATION OF NICHOLSON

The Indian Famine Commission of 1901 of which Nicholson was also a member, recommended the introduction of mutual credit associations. On considerations of the Commission's recommendations, it became evident that, no real advance was possible without legislation and that the Companies Act, with its 256 sections and elaborate provisions, was wholly unsuited to societies of the kind it was desired to encourage.⁸ Therefore, a special legislation to this effect was found necessary and the Government of India passed the Co-operative Credit Societies Act (Act X of 1904). This Act was solely prepared on the recommendations given by F.Nicholson.

Father of Co-operation

The Co-operative Credit Societies Act (Act X of 1904) was designed to assist agricultural credit and to foster agricultural credit societies as distinct from agricultural banks. The Government made it clear that, the object of the Societies contemplated by the Act was far more special and limited. They would be small and simple credit societies, for small and simple folk with simple needs, requiring small sums, given for short periods, with prompt recoveries.⁹ Simplicity and elasticity was the motive behind framing the Act. The aim of the Act was to lay down merely general outlines which the experience of failure or success and the natural development of the societies might indicate as best suited to each part of the country. The Government of India informed the Local Government that until further experience had been gained, the regulative interference of the Government should be strictly limited to essentials as to leave spontaneous growth unhampered. During the whole colonial period, this stand of the Government of Madras remained unaltered. Much of the credit goes to Sir Frederick Nicholson for this kind of innovative contribution made to Co-operation. He deserves to be called the 'Father of Co-operation' both by his admirers and critics in the Madras Presidency.¹⁰

Co-operative Credit Societies Act, 1904

Some of the main provisions of Co-operative Credit Societies Act, 1904 are noteworthy. A Society registered under the Act, consisted of ten or more persons, above 18 years of age, living in the same locality. Both rural and urban societies were established separately. Four-fifths of the members of the rural society, were non-agriculturists. In the rural society the liability of members for debts incurred by the Society was, as a rule, unlimited. In both classes of societies, a reserve fund was created. In a rural society, all profits went into the reserve fund. When the fund had attained a certain proportion to the local liabilities, further profits, not exceeding three-fourths of the total, might be distributed among the members by way of bonus. In an urban society, there was no restriction with regard to the payment of profits except that at least a fourth of the annual profit was to be credited to the reserve fund. Societies were subject to audit and inspection by officers deputed by the Government. They were exempted from certain legal constraints such as the Income Tax, Stamp Duties and Registration fees, and also from the share capital of any member in the event of being seized by a Court of Law for payment of debts.¹¹

There was an almost phenomenal growth in the number and activities of Societies between the years 1906 and 1911. The Act of 1904 was found insufficient to meet the growing needs of Co-operatives. In the first place, the Act, as it stood, gave no legal protection to Societies formed for purposes other than credit. A few Societies sprang up for such purposes as marketing and production for which no room could be found within the framework of the Act. In the second place, the growth in the number of societies and the difficulty experienced in raising capital locally, gave rise to the question of creating

some form of central organization to supervise local societies and to provide them with sufficient capital. These defects were remedied by the Co-operative Credit Societies Act II of 1912 which gave legal recognition for the first time to productive distributive Societies and to various forms of central organizations. The new Act abolished the old distinction between rural and urban Societies and substituted for it the classification of unlimited and limited liability Societies.¹²

First Co-operative Village Credit Society

Soon after the passing of the Co-operative Credit Societies Act of 1904, Sir. P. Rajagopalachariar was appointed the first Registrar of Co-operative Societies in Madras. The first purely Co-operative Village Credit Society at Tirur, in the Chengalpattu District, was registered on 30th August 1903 though it began transaction earlier on the 21st August 1904.¹³ The Registrar, before the Society was registered, convened a meeting of the Managing Committee and made an arrangement for raising Rs. 500/- as deposit, among the Committee members.¹⁴ The Registrar, after paying a visit to the Tirur Co-operative Credit Society and after making a thorough inspection of it in 1905, sent notes to the Government. As per the bye-laws framed by the Society, each share was put at Rs.5/- and the loan permissible to a member was fixed at Rs.10/- for each rupee of share capital contributed by the shareholder. There were 214 members distributed over ten villages which were the suburbs of Tirur. Nine loans were disbursed aggregating to Rs. 29-38- 0 (8 Annas =50 Paise). Three had availed of this loan. According to the Registrar, if the deposits promised by the concerned keep up their promises, there would not be any difficulty in raising a similar amount from the Government as grants.¹⁵

Rural Co-operative Credit Societies

From 1905 onwards, a number of Rural Co-operative Credit Societies sprang up all over the Province. In addition to Government and Christian Missionaries' support, the moral and material support extended by philanthropists and humanists like D.M. Hamilton, a British official,, the Zamindars of Nambipuram and Kilachery Arulaiya Naidu, helped the growth of the Co-operatives in the Madras Province. Especially, D.M. Hamilton alone had contributed Rs.20,000/- out of which Rs.5000/- was allotted to the Government of Madras at that time.¹⁶ On 30th June 1907, the number of Societies had grown to 63 with 6439 members; on 30th June 1912, the number of Societies rose to 972 and of members to 66,156; on 30th June 1915, the corresponding figures were 1600 (Societies) and 1,18,726 (members). Of these, 1446 were Agricultural Credit Societies and the remainder of them were Urban Credit Societies. The working capital of all kinds of Societies was Rs. 142.10 lakhs.¹⁷ There was very slow progress in the beginning. More attention was paid to the selection of the area and men to run the Societies than to enrolling members. The Registrar personally supervised and inspected every Society and sanctioned all loans. He also personally trained his subordinates.

Urban Credit Societies

Concurrently, along with the Rural Credit Societies, Urban Credit Societies also grew in cities and towns in the Madras Presidency about the same period. For many years, Nidhis or indigenous financing associations had been in existence in the Madras Province, which did not lend except to members. Its organization was in some respects narrow and unsuitable to agriculturists, as it enforced a share capital, which had to be paid up in monthly installments over a period of 45 or 84 months.¹⁸ But the organization was found by experience to be suitable for artisans and men of small means in towns who earned monthly income. The great advantage of the Nidhi organisation was that it enforced thrift, as no person could join a Nidhi unless one was prepared to take up one or more shares and to contribute to the share capital month after month, and the amount a member could borrow was

proportionate to the shares one took up. Sudar Court Fund, which was formed in 1850 by some officials of Madras, was one such Nidhi that catered to the needs of the members. While presenting a note on the Nidhis of the Madras Presidency at the Conference of Registrars of Co-operative Credit Societies held at Simla on 25th September 1906, the then Registrar of the Co-operative Credit Societies, Madras, P.Rajagopalachariar said: " That the Nidhi model is particularly suitable to the people in towns is evident from the fact that, notwithstanding many failures, we have still a large number of Nidhis , several of them doing very good work and the people are so partial to this form of Co-operation that more than one .Co-operative Credit Society (registered by under India Act X of 1904) follows the model".¹⁹

First Urban Co-Operative Society

The first purely Co-operative Society formed to provide credit to an urban area was the Conjeevaram Town Bank in the Chengalpattu District which was formed in October 1904. Each succeeding year saw the birth of a few more of these Societies. The first non-credit Society formed in the Madras Presidency was the Triplicane Urban Co-operative Society which was earlier functioning under the designation of Triplicane Co-operative Stores. This was formed much before the Co-operative Societies Act X of 1904 was passed. This Society disbursed loans to the wholesale and retail provisions to the merchants who happened to be members of the Society. Besides, the members were given cash loans on personal surety. This Society got itself registered in 1905 under the Act X of 1904. This catered to the needs of the city people.²⁰ It was soon followed by similar Societies at Coimbatore and Madurai. Their object was providing more important necessities of life to their members. A Weavers' Union was formed at Conjeevaram in 1905, which purchased raw materials for its members and arranged for the sale of their manufactured products. It also introduced improved methods of weaving.²¹

Madras Central Urban Bank- A Feeder Bank,

For the first few years after the birth of the Co-operative Societies , the Government helped to finance it. But this practice was soon stopped. To assist in financing Co-operative Societies, the Madras Central Urban Bank, consisting of only individual share holders, was registered in October 1905 as a feeder bank, whose function was to finance the Co-operative Societies throughout the Presidency. In 1909, the formation of District Central Bank was found necessary and two such banks were constituted in that year. They were functioning more or less with identical principles and working with the Madras Central Urban Bank. Their object was to finance rural and Urban societies. Their shareholders were all individuals and the activities of each were confined to one Revenue District. From 1912 onwards, for about three years Central Banks began to be formed in one district after another. They began to admit both individuals and Societies as their members.²²

Dawn of Provincial Co-operative Union

When there was an increase in the number of Societies, the question of their supervision became a matter of importance, as it was not possible for the Registrar and his staff to supervise them.

The Central Banks also could not supervise the Societies satisfactorily as they were scattered over a large area of the District. The first local Co-operative Supervising Union of Societies was registered in 1910. During the year 1913-1914, the Provincial Co-operative Union was registered with the object of assisting Co-operative work.²³

Agricultural Credit Societies

Agricultural Credit Societies were by far the most widespread type of Co-operative organisation in Madras, as elsewhere in India. Their number on 30th June 1915 was only 1446. They rose to 10,784 out of the total of 13,759 Co-operative Societies of all kinds by 30th June 1939. It was followed by their phenomenal increase in their activities and transactions.²⁴

These Societies were formed on the model of Raiffeisen Societies and embodied in their organisation and working, the fundamental feature which characterised the Raiffeisen Societies, compact area of operations, unlimited liability, loans to members for productive purpose, gratuitous services, limitation of dividend etc., Of these, the contributory unlimited liability seemed to have been their basic principle with credit obtained on the joint security of the members joining the Society.

At the end of June 1915, share capital and deposits from members (which represent the savings of members) constituted nearly Rs. 62.5 lakhs of the total working capital of about Rs. 473 lakhs, the percentage roughly being 7.4. The reserve funds of Societies may be held to represent some form of collective savings of members.

VILLAGE CREDIT SOCIETIES AND CENTRAL BANKS

The Village Credit Societies obtained the bulk of their capital from Central Financing Institutions known as 'Central Banks'. They borrowed generally at rates varying from 5 to 6 per cent and lent to their members at rates varying from 6 1/2 to 7 1/2 per cent. The working margins ranged from about 1 1/4 to 1 1/2 per cent and penal interest for default was done away with. The interest rates in societies in the Province in 1915 compared favourably with those prevailing in other Provinces of Bombay, Bengal, Punjab, Central Provinces and United Provinces.²⁵

To conclude, the Co-Operative Societies play important aiding institutions in Urban and Rural economy in the past and present Tamil Nadu. The need for the establishment of the Co-Operative Societies was realized by the Colonial Government in the wake of the famine and drought. The Famine Commission and one of its members, F.Nicholson strongly recommended the for the establishment of the Co-Operative Societies In due course, a number of credit Co-Operative Societies were formed in order to meet the requirements of the agrarian economy which was suffered in many grounds. The Co-operative Credit Societies Act of 1904 regulated the affairs of the Co-Operative Societies. As a sequence, the rural and urban credit societies were established in a large number. Central Banks were established in the regional level which played the role of the feeder banks and financially aided the Co-Operative Societies in the far and wide of the Colonial Tamil Nadu.

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