



## Multi-State Cooperatives

**For Prelims:** Multistate Cooperatives, Constitution (97<sup>th</sup> Amendment) Act, 2011, Constitutional Provisions Related to Cooperatives.

**For Mains:** Loopholes in the Multi State Cooperative Societies (MSCS) Act, 2002.

### Why in News?

The Union Cabinet has approved the Multi-State Cooperative Societies (MSCS) Amendment Bill, 2022, which seeks to amend the Multi-State Cooperative Societies Act, 2002

- A new Ministry of Cooperation was formed in July 2021 with an objective to provide renewed impetus to the growth of Cooperative Sector.

### What are the Changes Proposed in the Bill?

- The amendments seek to improve ease of doing business, bringing greater transparency and enhance governance.
- It has included provisions relating to **representation of women and Scheduled Caste/Scheduled Tribe members on the board** of multi-state cooperative societies.
- The amendments have been brought to **reform the electoral process**, strengthen monitoring mechanisms and enhance accountability.
- It will also **widen the composition of board and ensure financial discipline**, besides enabling the multi-state cooperative societies to raise funds.
- To improve the governance of multi-state cooperative societies, the Bill has specific provisions for setting up of **Cooperative Election Authority, Cooperative Information Officer and Cooperative Ombudsman**.
- There will also be a **provision for issuing non-voting shares** in multi-state co-operative societies to help them raise funds.
- Further, the newly proposed **Rehabilitation, Reconstruction & Development Fund** will help in revitalising sick co-operative societies.
- The Bill will incorporate the provisions of the **97<sup>th</sup> Constitutional Amendment**.
- Moreover, the provision for stipulating prudential norms will bring in financial discipline. The amendments relating to auditing mechanism will ensure more accountability.

### What are the Key Points of MSCS Act, 2002?

- **About:**
  - **Multi State Cooperative Societies:** Although Cooperatives is a state subject, there are many societies such as those for sugar and milk, banks, milk unions etc whose members and areas of operation are spread across more than one state.
    - For example, most sugar mills along the districts on the Karnataka-Maharashtra border procure cane from both states.
    - Maharashtra has the highest number of such cooperative societies at 567, followed

- by Uttar Pradesh (147) and New Delhi (133).
- The MSCS Act was passed to govern such cooperatives.
- **Legal Jurisdiction:** Their board of directors has representation from all states they operate in.
  - Administrative and financial control of these societies is with the central registrar, with the law making it clear that no state government official can wield any control on them.
  - The exclusive control of the central registrar was meant to allow smooth functioning of these societies, without interference of state authorities.
- **Associated Concerns:**
  - **Lack of Checks and Balances:** While the system for state-registered societies includes checks and balances at multiple layers to ensure transparency in the process, these layers do not exist in the case of multi state societies.
    - The central registrar can only allow inspection of the societies under special conditions.
    - Further, inspections can happen only after prior intimation to societies.
  - **Weak Institutional Infrastructure of Central Registrar:** The on-ground infrastructure for central registrar is thin — there are no officers or offices at state level, with most work being carried out either online or through correspondence.
    - Due to this, the grievance redressal mechanism has become very poor.
    - This has led to several instances when credit societies have launched ponzi schemes taking advantage of these loopholes.

## What are 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.”
  - Examples of Successful Cooperatives in India:
    - [National Agricultural Cooperative Marketing Federation of India \(NAFED\)](#),
    - [Indian Farmers Fertilisers Cooperative Limited \(IFFCO\)](#)
    - AMUL
- **Constitutional Provisions:**
  - The [Constitution \(97<sup>th</sup> Amendment\) Act, 2011](#) added a new Part IXB 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”.
- **Supreme Court Judgement:**
  - In July, 2021, the Supreme Court **struck down certain provisions of the 97th Amendment Act, 2011**.
    - 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 97<sup>th</sup> 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.

### UPSC Civil Services Examination Previous Year Question (PYQ)

**Q.** “In the villages itself no form of credit organization will be suitable except the cooperative society.” – All India Rural Credit Survey. Discuss this statement in the background of agricultural finance in India. What constraints and challenges do financial institutions supplying agricultural finance face? How can technology be used to better reach and serve rural clients? (200 words) **(2014)**

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