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The cooperative movement is as old as India's Independence. As cooperatives are predominantly non-financial organisations, they have great potential to rejuvenate growth, formalise the economy, and reduce inequality besides improving the standard of living of the poor. The founding fathers of the Indian Constitution have rightly kept 'cooperatives' in the State List while 'banking' is included in the Union List.

State governments have a great responsibility in promoting non-financial cooperatives without any dispute over jurisdiction. When it comes to cooperative banks — both urban and rural — there is dual control leading to jurisdictional disputes. While incorporation, management, audit, supersession of board and liquidation are administered by the Registrar of Cooperatives, banking licence, prudential regulation, capital adequacy, etc., are prescribed by the RBI. Many expert committees have concluded that dual control over cooperative banks has not served them well for their orderly growth.

Currently, there are about 10 lakh cooperatives, of which 1.05 lakh are financial cooperatives. Among the financial co-operatives, rural co-operatives have a three-tier system with around 1.02 lakh primary agricultural cooperative societies (PACS), 351 District Central Cooperative Banks (DCCBs), 34 State Cooperative Banks (SCBs), besides 616 rural cooperatives for long-term lending. India has 1,514 primary urban cooperative banks (UCBs), of which, 52 are scheduled and the rest unscheduled, some are multi-State UCBs.

BANKING SECTOR DISARRAY

Poor corporate governance has been the main reason behind the failure of many cooperative banks. Since 2004-05, there were 145 mergers of non-scheduled UCBs, nine in 2021-22. Since 2015-16, the RBI cancelled the licences of 54 UCBs, including 10 in 2021-22. The number of UCBs has declined from 1,926 in March 2004 to 1,514 in March 2022. The balance sheets of about one-third of the newly licensed UCBs are unsound. UCBs reported more than 1,000 cases of fraud in the last five years. The collapse of the Punjab and Maharashtra Cooperative (PMC) Bank in 2019 was mainly due to financial irregularities, failure of internal control, and under-reporting of exposures.

To protect the interest of depositors and strengthen the functioning of cooperative banks, the Centre promulgated an ordinance in June 2020 followed by an amendment to the Banking Regulation Act, 1949, which applies to both UCBs and rural cooperative banks. Accordingly,



The knotty business of running cooperatives

WAY AHEAD. Cooperative banks are entangled in Centre-State turf wars.

States must focus on non-financial cooperatives to realise their socio-economic potential

provisions relating to banking companies would now apply to cooperative banks for better governance like amalgamation without a moratorium, the RBI superseding the board of directors, the appointment of MD based on fit-and-proper criteria, etc.

As 'incorporation, regulation and winding up of cooperative societies' is a State subject, several High Courts — Rajasthan, Punjab & Haryana and Madhya Pradesh — admitted petitions against the constitutionality of this Act and stayed the execution of the RBI circular issued on June 25, 2021.

Amidst uncertainty about the Banking Regulation (Amendment) Act, 2020, the Central Government in December 2022 introduced another Bill to amend the Multi-State Co-operative Societies Act, 2002. This Bill is at the advanced stage of enactment as the Joint Parliamentary Committee has given its report on March 15.

The key features of this Bill are: (a) the Central Government will establish the Cooperative Election Authority to conduct the election of board members; (b) provision for amalgamation of UCBs

with other multi-State UCBs as decided by general meeting with two-thirds of its members present and voting; (c) the Central Government will prepare a scheme and create a fund, to be contributed by profit-making multi-State UCBs, for rehabilitation of sick multi-State UCBs; (d) there are restrictions on the redemption of government shareholding; and (e) one or more Co-operative Ombudsmen with territorial jurisdiction to be appointed by the Central Government for redress of complaints.

UCBs have more than 8.6 lakh depositors involving over ₹5-lakh crore deposits. Rural cooperative banks have a deposit base of over ₹6-lakh crore. As banking regulations are primarily governed by the protection of depositors' interests, different principles cannot be applied to commercial banks and cooperative banks.

NON-FINANCIAL COOPERATIVES

The Central Government has made elaborate arrangements for the orderly growth of non-financial cooperatives. First, it has introduced a separate Ministry for Cooperation. Second, it provides fiscal incentives for farmer producer organisations (FPOs). Third, several schemes are available for handicrafts and handlooms. Fourth, after the electronic national agriculture market (eNAM), the Government's electronic Marketplace (GeM), version 4, is a successful innovative online platform dedicated to the marketing of

several goods and services produced by MSMEs and non-financial cooperatives. As of now, more than 62,000 government buyers, 49 lakh sellers, 10,000 products, and 290 services are registered on this platform.

Fifth, opportunities exist for brand building and exports under a one-district-one-product scheme. Sixth, welfare schemes are also available for dairy development and fisheries. Milk cooperatives are a grand success in India. Seventh, cooperatives as a business model can be pursued in multiple areas such as post-harvest processing, warehousing, and packaging. Eighth, the government has the vision to use technology for rural development under several schemes. And ninth, opportunities are growing for start-ups in rural areas, which can be pursued under non-financial cooperatives.

Cooperative banks can raise money through public issues and private placements of equity or preference shares with prior RBI permission. Amendments do not apply to PACS or cooperative societies lending for long-term requirements of agriculture. If cooperative banks want to grow in a competitive environment, they must lift their governance. Alternatively, the State governments should concentrate on non-financial cooperatives rather than waste their time and energy on turf wars relating to financial cooperatives.

The writer is RBI Chair Professor at Utkal University and former Head of the Monetary Policy Department, RBI. Views are personal
