Multistate cooperative Societies

Why in news?

The Centre has decided to amend the Multi State Cooperative Societies (MSCS) Act, 2002 to plug the loopholes in the Act.

What are multistate cooperative societies?

- Cooperatives are a state subject. But many societies have their members and areas of operation spread across more than one state.
- For example, sugar mills along the districts on the Karnataka-Maharashtra border. They are thus registered under the MSCS Act.
- Their board of directors has representation from all states they operate in.

What is MSCS Act?

- The Act was passed to govern Multi State Cooperative Societies.
- Administrative and financial control of these societies is with the central registrar. No state government official can wield any control on them.
- So far 1,479 such societies have been registered. Maharashtra has the highest number (567) followed by Uttar Pradesh (147) and New Delhi (133).
- Credit societies constitute the bulk of registered societies followed by agro-based ones. (96 multistate cooperative dairies and 66 multistate cooperative banks)

Why does the government plan to amend the Act?

- For state-registered societies, financial and administrative control rests with state registrars who exercise it through district- and tehshil-level officers.
- Purchasing new machinery first requires permission from the sugar commissioner. Then, the proposal goes to the state-level committee that would float tenders and carry out the process.
- Such checks and balances at multiple layers do not exist in the case of multistate societies.
- In multi state society's exclusive the control lies with central registrar, who is also the Central Cooperative Commissioner.
- What was supposed to facilitate smooth functioning, however, has created obstacles.
- Instead of includes checks and balances at multiple layers, the board of directors has control of all finances and administration.
- Only for expenditure above a certain level, the annual general body meeting of the society has to be called.

What are the obstacles and issues with the Act?

- Many experts have noted there is an apparent lack of day-to-day government control on such societies.
- **Office location -** For central registrar there are no officers or offices at state level.

- The members of multi state societies can seek justice only in Delhi.
- State authorities can only forward their complaints to the central registrar.
- **Reports -** Unlike state cooperatives which have to submit multiple reports to the state registrar, multistate cooperatives need not.
- **Inspection -** The central registrar can only allow inspection of the societies under special conditions.
- A written request has to be sent to the office of the registrar by not less than $1/3^{rd}$ of the members of the board, or not less than $1/5^{th}$ of the number of members of the society.
- Inspections can happen only after prior intimation to societies.
- **Ponzi schemes -** There have been instances across the country when credit societies have launched ponzi schemes taking advantage of these loopholes.
- Fly-by-night operators mostly target small and medium holders with the lure of high returns. After a few instalments, they wind up their operations.
- The state commissioner could not take any action, due to lack of ground staff necessary for verifying the antecedents of such societies.
- **Declaring itself Sick -** Sugar mill in Sangli, which was registered under the central Act was privatised after board of directors passed a resolution.
- Taking advantage of the multistate status, the mill declared itself as a sick unit before it was auctioned off.
- This mill was among the 68 sold off by the Maharashtra State Cooperative Bank for defaulting on loans.

What needs to be done?

- Consultations with experts from various fields: bankers, sugar commissioners, cooperative commissioners, housing society federations etc.
- Increase in manpower, first in Delhi and then in the states, to ensure better governance of the societies.
- Use of technology to bring in transparency.
- Vesting the administrative control of such societies in the hands of state commissioners to ward off cases of fraud.

Reference

1. https://indianexpress.com/article/explained/multistate-cooperatives-how-they-function-why-govt-plans-to-amend-the-law-7682653/

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