

Draft NATIONAL POLICY ON COOPERATIVES 2022: *
(Limited to Credit Sector-Rural Cooperative Banks)

The need to review the National Policy on Cooperatives 2002, to make it relevant to the everchanging socio-economic aspirations of cooperative members has been felt by the Government of India and hence called for consultations from the members.

A perusal at the two decade's old policy results into the following observations: The policy document remains more relevant even after two decades of its formulation, but calls for an appropriate revision (**para wise revision is suggested**) as the implementing agencies (including Government of India and State Governments) failed to achieve the objectives of the policy .

1.1 No Change in the Facts of 2002 policy

1.2 In order to administer the operations of cooperative societies where membership was from more than one province, the Government of India enacted the Multi-Unit Cooperative Societies Act. 1942, which was subsequently replaced by the Multi-State Cooperative Societies Act. 1984 under entry 44 of the Union List and **Multi-State Cooperative Societies Act. 2002. It was on 07-12-2022, the Lok Sabha passed MSCS (Amendment)Bill,2022, and fundamental conceptual changes if any.**

2. Review since Independence: There are various developments since the current Policy 2002 was formulated. The following developments may be considered to be documented in the revised policy: **The past few decades have witnessed substantial growth of the sector in diverse areas of the economy. The number of all types of cooperatives increased from 5.45 Lakhs in 2000-01 to 8.54 Lakhs . The total membership of cooperative societies increased from 23.62 crore to 29 crore during the same period covering about 98 villages. Cooperatives advanced agricultural credit to the tune of Rs.1.9 lakh crores (provisional) during 2021 and had 12.18% share in institutional agricultural credit. The share of cooperatives in fertilizer distribution is of the order of 35% while the fertilizer produced by the cooperatives accounts for 24.92% of the total fertilizer production in the country. 30.60% of the sugar production in the country is from the cooperative sector. There are 1.77 lakhs village dairy cooperative societies in the country procuring 428.68 lakh kg. milk per day. These village level dairy cooperative societies are having membership of 162 lakh out of which 29.79 per cent are women members. The Rural Cooperative credit sector consists of 34 State Cooperative Banks(SCBs) 351 District Central Cooperative Banks (DCCBs) and 102559 Primary Agricultural Credit Societies.(PACS).Besides procurement and marketing of milk, dairy cooperatives are actively engaged in the field of superior cattle breeding, product diversification, nutrition, animal health and high quality animal feed.**

2.1.Rural Cooperative Banks/Cooperatives: The 3 Tier short term cooperative credit structure which purveys agriculture & rural credit is very well conceived credit delivery structure in the country. The number of State Cooperative Banks (SCBs) increased from 30 in 2000-2001 to 34 in 2022.The District Central Cooperative Banks (DCCBs) have been brought down to from 370 to 351 due to either withdrawal of Licences or due to their merger with SCBs in two states. The number of Primary Agricultural Credit Societies (PACS) appears to have

been increased from 98843 to 102559 as on 31-03-2021. The number of viable PACS are 65,109. The deposits of SCBs increased from Rs. 32612.95 crore to Rs. 198142.58 crore, DCCBs from Rs. 39111.78 Crores to Rs.325895.29 Crores and PACS from Rs.1,912,0.23 Crores to Rs. 198142.58 Crores. The average deposits per SCB, which stood at Rs.1087.10 Crore in March 2001, rose to Rs.6004.32 crore by March 2020.

The number of Urban Cooperative Banks decreased from 1926 as on March 2004 to 1539 as at the end of March 2020 and deposit increased from Rs.38003 crore to Rs. 5,01,208 crore. The average deposits per bank, which stood at Rs.1973 Crore in March 2004, rose to Rs.325.67 crore by March 2020. (The updated position of UCBs may be ascertained from NAFCUB)

2.2. Steps towards Revitalisation /recapitalisation/Revival Package for Rural Cooperative Banks .Incomplete implementation of the Package

2.3.Freedom of Autonomy not ensured but controls continued on Rural Cooperatives.

2.4.Chage in the Policy Norms for of Licencing of DCCBs/SCBs

2.5.Application of Prudential norms including compliance to Capital Adequacy norms: CRAR.

2.6.Banking Regulation (Amendment)Act 2020 : A step away from democratic Process & closer to regulatory controls.

2.7.Indifferent /hostile approach of Govt of India, State Governments/RBI/NABARD towards Rural cooperative Banks.

2.8.Continuous efforts to delayer the well- conceived 3 tier cooperative credit and Banking structure in the name of mergers-A step towards destabilising the structure.

2.9 Need and Importance of Data & data bank on cooperative:Steps to encourage the National level federations to set up Data banks.

2.10.Need to curb the tendencies to destabilise well -conceived 3 tier STCCS in the name of delayering/merger/amalgamation

(The National Policy of Cooperatives 2022 should address the above issues in the interests of Rural Cooperatives.

3. **Existing legislative/Policy Constraints:** while most the constraints listed in 2002 remain more or less same, few more constraints have been added during the last 10 years. An indication of policy failure. These needs to be illustratively presented. For example:

3.1. **Absence of democratic Management** in the member driven cooperatives

3.2 **Duality of Control continues:** Efforts to do away with duality of control in & Over cooperatives at the earliest..

3.3. Increase in the controls of State Governments in the management of Member driven cooperatives

3.4. **Deputationists** from Departments of State governments without 'Fit & Proper' criteria

3.5. **Non - compliance of Regulatory/Statutory norms-No monitoring or improper monitoring by regulatory/Supervisory/Refinance organisations.**

3.6. **Micro management of Rural Cooperative Banks (RCBs) by the regulatory/Supervisory/Refinance organisations.**

3.7. **Resource Constraints:**

The SCBs and DCCBs which have high level of deposits as part of their resource base, also have their own problems. These institutions continue to look to borrowings from higher financing agency like NABARD. As the finance provided by NABARD is at a concessional rate, borrowings from NABARD help these institutions to cross-subsidise their loaning operations. However, refinance by the higher tier is available only to current loans outstanding. Further, SCBs and DCCBs are required to commit a certain minimum prescribed percentage of their internal lendable resources for lending for ST (SAO) purposes to be eligible for drawing refinance at the concessional rate.

Low resource-base, inadequate volume of business (below the break-even level), poor recovery levels with attendant afflictions such as increasing non-performing assets have been some of the factors contributing to their financial weakness.

3.8. **Governance Issues:**

Member participation in governance and management ineffective, (ii) Non adherence to fit and proper criteria in Boards and appointment of CEOs, (iii) Non-functional committees of the Board, (iv) Violation of Exposure Norms, (v) Poor internal checks and control systems as a result of long pending unreconciled entries and non-clearance of Migra-Dump created at the time of CBS leading to rise in number of frauds, cyber incidents, NPAs, etc. (vi) Poor compliance culture – Statutory and Regulatory Credit and Risk Management guidelines seldom adopted and (vii) Lacunae in accounting and audit systems.

3.9. The **eight areas** identified for constitutional amendments through **Constitution (97th Amendment) Act 2011** are as follows: i) Number and term of members of board and its office bearers. ii). Election of members of board . iii) Supersession and suspension of board and interim management.- iv). Audit of accounts of co-operative societies.-v).. Convening of general body meetings. vi). Right of a member to get information.-vii).

Returns and viii). Offences and penalties. **The National Policy 2022 may address these issues in view of the verdict by Supreme court against these amendments.**

4. The ideology of Cooperatives/Basic Cooperative Principles: There do not appear to be any change as the ideology and Basic principles. **They remain the same. (But need to introspect the extent of addressing these principles during governance of the cooperatives at various levels.)**

5. Need for a National Policy : Unquestionably, there is a need to formulate the policy and put in the Board approved policy at place.

The policy should be implementable policy as the current policy 2002 did not result in ensuring fully the policy and legislative support to cooperatives more particularly RCBs with a view to revitalize them. The National Policy should be the result and outcome of the final mutual consultations . A periodical review plan should be at place for consultations among all stakeholders.

6. Objectives: Let us understand the objectives of the National Cooperative Policy (NCP) 2002 as has been documented.

- i) Ensuring functioning of the cooperatives based on basic cooperative values and principles as enshrined in the declaration of the International Cooperative Alliance Congress, 1995.
- ii) Revitalisation of the cooperative structure particularly in the sector of agricultural credit.
- iii) Reduction of regional imbalances through provision of support measures by the Central Government/State Government, particularly in the under-developed and cooperatively underdeveloped States/regions.
- iv) Strengthening of the Cooperative Education and Training and Human resource Development for professionalization of the measurement of Cooperatives.
- v) Greater participation of members in the management of cooperatives and promoting the concept of user members.
- vi) Amendment/removal of provisions in cooperative laws providing for the restrictive regulatory regime.
- vii) Evolving a system of integrated cooperative structure by entrusting the federations predominantly the role of promotion, guidance, information system, etc. towards their affiliate members and potential members.
- viii) Evolving a system of inbuilt mechanism in Cooperative legislation to ensure timely conduct of general body meetings, elections and audit of cooperative societies.
- ix) Ensuring that the benefits of the cooperatives endeavor reach the poorer sections of the society and encouraging the participation of such sections and women in management of cooperatives.

The objectives of the National Policy may be framed such a way to make it an implementable policy. The review of the current objectives helps to spell out appropriately.

7. **Policy: The roles of Govt of India & State Governments should be clearly pronounced in the policy document.** The present policy document 2002 should be reviewed to appreciate the constraints in implementing & achieving the policy objectives both at Centre and state levels. This helps Government of India to further hold consultations and put in the policy for implementation in collaboration with state governments

8. **Plan of Action:** Prior to formulation of this current policy 2002, there was, in vogue, a commendable system of annual consultations with Cooperation Ministers, Secretaries/ Registrars of Cooperatives, Chairman & Chief Executives of National level cooperative organisations etc. and the system is no more encouraged. Further, regular consultations with National level cooperative organisations by Central registrar of Cooperative societies have also been discontinued. The future plan of Action may have to keep these issues/events in view.

Fortunately newly created Ministry of Cooperation constituted a 50 member national level committee to draft the new NCP.

9. **Conclusions:**

The objectives of the **National Cooperative Policy on Cooperatives (NCP) 2002**, includes 'ensuring functioning of the cooperatives based on basic cooperative values and principles as enshrined in the declaration of the International Cooperative Alliance Congress, 1995.

The recent policy, legal, regulatory and constitutional related initiatives and decisions are considered as very important and shall have varied impact on the functioning of cooperatives and also on Rural cooperatives. They are:

1. Cooperative Values /Identity-
2. The Banking Regulations (Amendment) Act 2020.
3. National level Data bank on cooperatives
4. Formation of New and separate Ministry of cooperation
5. National Policy on Cooperation: Emphasis on creation of Database at all India level
6. Constitutional (97th Amendment) Act 2011 and Supreme court Verdict 2021

The National Policy may have to be formulated keeping in view of the above developments.

This part of the Current policy 2002 needs a thorough introspection. Need for appropriate human resource policies at all levels of cooperatives especially in Financial and Business cooperatives, need to restore democratically elected managements in member driven cooperatives, discouraging deputationists to man the cooperatives, ensuring Fit & proper criteria for professional management, Freedom of functional autonomy, Need for formulation of Institutional Protection System (IPS), Need to encouraging Technology Adoption, Deposit Guarantee scheme are among few issues to be kept in view while drawing conclusions to the Policy. The impact of the amendments in the Banking related activities on cooperative principles, identity Ethics, Values needs to be assessed and the salient features may have to be justifiably documented in national policy.

Recommendation 193 of ILO (2002) on Promotion of Cooperatives may be considered for incorporation ,if any, in the proposed policy.

10.A draft 'reformulated' **National Policy on Cooperatives ,2022** may be circulated among all stakeholders to elicit views/suggestions for finetuning the policy. The draft policy may be duly endorsed by the Boards of Management of National level cooperative organisations.

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** Konduru Ravinder Rao Chairman, NAFSCOB and Member of National Committee for drafting NCP convened virtual meeting of SCBs and DCCBs to elicit their views on 08-12-2022.This paper is an outcome of the meeting : A new & revised version of the paper submitted earlier.