



EDITORIAL ANALYSIS

Time: 10 min

Date: 05-10-2023

Fixing the rot in the cooperative sector

Syllabus: GS2/ Government Policies & Interventions, Indian Economy

In Context

- The **Enforcement Directorate (ED) investigation** was recently constituted citing financial irregularities in the Karuvannur Service Cooperative Bank of Kerala.

About the Cooperative Societies

- A co-operative society is a voluntary association of individuals having common needs who join hands for the achievement of common economic interest.
- Its aim is to serve the interest of the poorer sections of society through the principle of self-help and mutual help.
- The cooperative movement is as old as India's Independence. The **Union Ministry of Cooperation** was formed in 2021, its mandate was looked after by the Ministry of Agriculture before.

Cooperative Banks in India

- Cooperative banking refers to a small financial institution started by a group of individuals to address the capital needs of their specific community.
- Such financial institutions are owned and controlled by their members.
- Co-operative banks play an integral part in the implementation of development plans and are important for the effective functioning of the banking system in India.

97th Constitutional Amendment Act 2011

- It established the right to form cooperative societies as a fundamental right (**Article 19**).
- It included a new Directive Principle of State Policy on the Promotion of Cooperative Societies (**Article 43-B**).
- It added a new Part IX-B to the Constitution titled "The Co-operative Societies" (**Articles 243-ZH to 243-ZT**).
- It authorizes the Parliament to establish relevant laws in the case of **multi-state cooperative societies (MSCS)** and state legislatures in the case of other cooperative societies.

Significance of Cooperative Banks

- **Alternative Source of Credit:** The rural population benefits from cooperative banking as they provide credit at a lower rate as compared to the money lenders who tend to provide credit at a higher rate of interest.

- This protects the rural population from the monopoly of the money lenders.
- **Encouragement to Savings and Investment:** Cooperative banking has enabled the rural population to save more and invest rather than hoard money. This will have a long-term benefit on the money management of the rural population.
- **Improvement in Farming Methods:** Due to the lower interest rates of the credits provided by the Cooperative banks, the rural population can now utilise the same for better farming methods eg: purchasing seeds, chemical fertilizers etc.

Recent issue in the cooperative sector in Kerala

- The cooperative sector in the State has a **two-tier structure**.
 - At the apex level is the Kerala Bank, which was formed with the merger of 14 district cooperative banks.
 - Hundreds of primary agriculture cooperative societies and urban cooperative banks make up the second tier.
- **The loan scam of the Karuvannur Bank:**
 - The loan scam at the Karuvannur Bank came to light when customers began complaining that they were lured into a debt trap by middlemen.
 - The ED investigation later found that the **middleman named as the main accused** in the Karuvannur loan scam had **laundered money through other cooperative banks** too.
- **Financial irregularities:**
 - The rot in the cooperative sector became apparent when the government informed the Assembly that financial irregularities had been detected in 399 cooperative institutions over a period of six years.
- **Issues & criticisms:**
 - All the societies and urban banks are **controlled by local politicians** with **no professional expertise**.
 - Backdoor appointments are very common.
 - The **lack of a proper auditing mechanism** and the **absence of transparency** in the functioning of cooperatives are other major failures responsible for the current crisis that has severely eroded the credibility of the sector.

Other challenges faced by India's cooperative Banks

- **Financial Decline:**
 - In recent years, Urban Cooperative banks (UCBs) have witnessed a sharper decline in terms of both loans and deposits.
 - The overdue loans of the cooperative institutions have been increasing over the years.
- **Lack of modern banking practices:**
 - Co-operative banks lack modern banking practices like net banking, mobile banking, online banking, e-banking, ATM banking, and all other modern banking practices.
 - Due to this, they have been eliminated and remain on the back foot in the modern banking industry.
- **Limited resources:**

- The size of the cooperative banks is very small. Most of these societies only have a small number of members, and they only operate in one or two villages.
- As a result, their resources remain limited, which makes it impossible for them to expand their means and extend their area of operations.
- **Dual regulations:**
 - Co-operative banks have to follow regulations set by the RBI and their respective registrar of societies, which causes problems in coordination and management.
- **Inadequate Coverage:**
 - The membership of the rural population of cooperative banking is just 45%, hence the inadequate coverage is a matter of concern. It is restricted only to a few states like Gujrat, Maharashtra, Punjab etc.

Suggestions & Way ahead

- **Co-operatives have great potential** to rejuvenate growth, formalise the economy, and reduce inequality besides improving the standard of living of the poor.
- With panic setting in among thousands of investors in cooperative institutions, quick-fix solutions cannot address the deepening crisis in the sector.
 - The government has to **fix responsibility** for the scam and ensure that the culprits are brought to book regardless of their political affiliation.
- The system **needs to be thoroughly overhauled.**
 - **Professionalism** and a proper **auditing** system will have to be put in place to **restore public confidence** in the sector.

Daily Mains Question

[Q] What is the Significance of the Constitution of Cooperative Banks in India? What is the need of thorough overhaul of this sector?