

CHAPTER III

REVIEW OF LITERATURE

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3.1 INTRODUCTION

The review of literature helps to understand the importance, background and the present situation related to the subject selected for the research work. Therefore it is necessary to review all kinds of literature related to the subject matter.

As per the co-operative credit structure the urban co-operative credit societies work on the primary level and they are linked with the district central co-operative banks and the district central co-operative banks are linked with state co-operative banks at state level.

Thus the working of the urban co-operative credit societies is with urban co-operative banks. Therefore review of literature in the banking sector is also taken into consideration in this chapter.

This chapter has been divided into the following two sections.

- 1) The main recommendations of committees; study groups and commission related to the co-operative banking sector appointed by the central government, state government, Reserve Bank of India.
- 2) The introduction of various laws passed by central government which affect, regulate and control the day to day working of the co-operative banks and urban co-operative credit societies

3.2 COMMITTEES, STUDY GROUPS AND COMMISSIONS.

3.2.1 INTRODUCTYION.

When any problem arises, related authority appoints one or more persons to study all the related aspects of that problem. The appointed persons may be in form of committee, working group or a commission. In the co-operative banking sector also so many committee study groups and commissions have been appointed to study the matter related to the co-operative banking business. They are appointed whether by central government or state government or by Reserve Bank of India.

After studying the related problem the committee gives its observations as well as the recommendations and suggestions on the issue. In section the committees related to the co-operative credit sector have been considered.

3.2.2 COMMITTEES, STUDY GROUPS AND COMMISSIONS BEFORE INDEPENDENCE

It is important to note the recommendations of some important committees, study groups and commissions.

1) Sir Fredrick Nicholson's Report 1884.

In 1882, the government of Madras appointed Sir Fredrick Nicholson has to probe into the possibility of introducing land and agricultural bank in that province.

In 1887 Sir Fredrick Nicholson was also sent to the Germany and other western countries to study the co-operative movement in those countries. They returned in 1893 and presented his report in 1894 recommending that the co-operative movement should be sponsored by the government. In his report, he stated that India must find its own Raiffeisen who could organize and effectively nurture a co-operative movement in the country, if the conditions were to be improved.

2) Maclegan Committee 1915.

In the beginning of twentieth century, there was no remarkable growth in the number of urban co-operative credit societies. On 8th October 1914, a review committee was established under the chairmanship of Sir Edward D. Maclegan. This committee gives important recommendations about the three tier structure of co-operative sector and then the situation changed. That after urban co-operative credit societies were started to establish speedily in the urban area. Maclegan committee in its report had expressed the view that these societies can perform their dual part of collecting saving from local people through deposits and fulfil their financial need to escape them from the money lender trap. This committee clearly stated the necessity of establishing district central co-operative banks to help the primary co-operative credit societies. This committee also suggests need of establishing state co-operative bank at state level.

3) *Central Banking Enquiry Committee 1931.*

In 1930, there arose a great world of depression. However, it did not affect on the growth of urban co-operative credit movement. At that time a committee was appointed to study the banking business in our country. This committee also studied the urban co-operative credit societies.

The main recommendations of this committee were as follows.

- 1) Central bank for whole country should be immediately established.
- 2) Urban banks should be provide financial assistance to the small trader, vendor, small businessmen and middlemen, needy people just like as commercial banks provide finance to the big businessman and industrialists.
- 3) There should be separate land mortgage bank on provincial level for each province.
- 4) When the reserve bank is established, the indigenous bankers should be bought into the direct relations with the reserve bank and thereby provide with rediscount facility from that institution.

4) *Mehta Bhansali committee 1937.*

This committee was appointed by the Bombay province. As per the recommendations of this committee, the rules and regulations of the primary agricultural co-operative credit societies were changed and they were modified.

5) *Nanavati Committee 1939.*

Form the year 1904, the primary credit societies were started to establish only for giving loans to the farmers. The Mehta Bhansali committee and Nanavati committee suggest that the primary societies should not only give loans to the farmers, but also give all the necessary facility to them to develop their farming business. As per the recommendations of these committees from the year 1939, the primary societies were converted into the various executors co-operative societies. Nanavati committee gave the encouragement for the establishment of various executors' co-operative societies. Besides the financial assistance, these types of societies started to collect and send the goods of farmers for the purchasing and selling co-operative stores.

6) Preview by Reserve Bank of India 1939-40.

During the period of Second World War our country, experience a great shortage of essentials and other commodities. However, at that time only the economic field of the country got the days of prosperity. At that time a big need for credit supply has been aroused for various purposes. This credit needs can be satisfied by urban co-operative credit societies and urban co-operative banks. And as a result of this a great encouragement received for the establishment of the urban co-operative credit societies and the urban co-operative banks. Not only the urban co-operative credit societies and the urban co-operative banks gradually increased day by day. Their progress can be assessed from the following observations of Reserve Bank of India made in preview of the co-operative movement in India in 1939- 40.

“Urban credit societies and urban co-operative banks are the most important feature of the urban co-operative movement in India, and make up to some extent for the absence of joint stock banking facilities in the smallest towns.”

7) Agricultural Finance Sub – Committee (Gadgil committee) 1944.

Gadgil committee of 1944 at first time deeply discussed about the agricultural finance. Committee stated that if the rural finance structure were to be the effective and useful the financial needs of the farmers should be given proper weightage.

Gadgil committee suggested the following two important suggestions.

- 1) It is essential to establish institutional structure to fulfill the needs of production, consumption and other social activities.
- 2) There should be coordination between the short term, medium term and long term loans to the farmers and there should be only one financial institution to provide all these three types of loans.

8) Co-operative Planning Committee (Saraiyya Committee) 1945.

The central government established the co-operative planning committee in 1945, under the chairmanship of Mr. Rana Lal Saraiyya the great leader in the field of co-operative movement. The committee stated the importance of the functions of the urban co-operative banks and urban co-operative credit societies. The committee stated that it is very much expensive to give small loans and to recover them. Therefore joint stock banks have no interest at all in giving loans and advances to

the small businessman. On the contrary, the urban co-operative banks and urban co-operative credit societies have cordial and affectionate relation with the people having lower income. Therefore, such types of urban co-operative banks feel trustworthy from the point of fulfilling the credit requirements of the low income groups.

The committee has given the essentials of urban co-operative banks as it should accept current deposits. It should have a paid up capital minimum Rs. 20,000. It should keep the floating capital as per the rules of co-operative department. It should transfer 1/3 amount of net profit to reserve fund.

3.2.3 COMMITTEES, STUDY GROUPS AND COMMISSIONS AFTER INDPENDENCE.

1) Rural Banking Enquiry Committee (P. Das Committee) 1950.

The rural banking enquiry committee appointed under the chairmanship of Mr. P. Das in 1950 also stated absolute importance of urban co-operative banking in the Indian banking system. This committee expressed its view that urban co-operative banks can fulfill the credit requirements of not only the urban people but of the rural people also. As these types of banks and societies have lower administrative expanses, they can perform well in the small sections at taluka level also.

This committee suggested to make the banking facilities available in rural area and to develop the banking business.

2) All India Rural Credit Review Committee (Gorwala Committee) 1954.

In India the financial planning started from the year 1951. The banks got the utmost importance in the financial and industrial development of our country. After the beginning of planning there was tremendous growth in the bank deposits. The Reserve Bank of India appointed a commission to review the rural credit under the chairmanship of Mr. A. D. Gorwala. This committee submits its important report in the year 1954.

This committee recommended that there should be a bank just like commercial bank on all India level to finance the farmers in the rural area for this purpose, the committee suggested that state bank of India should be established by nationalizing

the Imperial Bank. As per this recommendation, government passed the state bank of India act and founded state bank of India on 1 July 1955.

3) '*Finance for private sector*' Study Committee (Shroff Committee), 1954

The finance for private sector suggesting committees stated that 'there should be direct contact between the indigenous bankers and Reserve Bank .There should be attempts for this'. The committee also observed that many of all the Indigenous Bankers were not ready to differentiate between there banking and other business. They were not ready only to in specialize and concentrate banking business. Therefore, these attempts were not easy and not beneficial too.

Committee recommended the Indigenous Bankers should try to perform their business on the modern lines. They should have their organization on of country-level and government should release them from the binding of laws.

4) *Reserve Bank of India Survey of Urban Co-operative Banks (1958-59).*

In the year 1958-59 Reserve Bank of India appointed a study group to review the working of urban co-operative banks. This survey studied about the collection of deposits, investment of fund, success or failure of the banks and overall working of the banks. In the survey report of the Reserve Bank of India it is clearly stated that urban co-operative banks should give stress on giving loans and advances which will helpful for the production function, from the point of view of fulfilling credit requirement of the low income group in the society to provide finance to the small entrepreneurs should be the future direction of development of these banks. The survey report was given its opinion that though there is possibility of increase in loan demanded for household reasons of the families these banks should give maximum importance to give loans, which will be helpful to increase the economic capacity and welfare of their members.

5) *Study Group on Credit Co-operative in the Non-Agricultural Sector (V. P. Varde Committee) 1963*

In urban co-operative banks, urban and rural non- agricultural co-operative credit societies and employment servant co-operative credit societies are fulfilling the credit requirements of middlemen taking into account this fact the central government appointed 'study group on credit co-operatives in the non agricultural sector' in 1963, under the chairmanship of V. P. Varde. This study group studied

the working of urban co-operative banks, employer co-operative credit societies and non agricultural co-operative credit societies. It was expected from the committee to study these institutions and to give suggestions, how they can develop fast.

The important recommendations of the committee are as follows,

- 1) The urban co-operative banks can teach the general banking principles to the middlemen and workers in the urban and semi urban areas through encouraging their habits of savings.
- 2) The amount of saving collected by the urban co-operative banks can be used for the industrial purposes and hence the economic development of the country can be achieved.
- 3) On the background of price raising the urban co-operative banks can do the important job of releasing the middleman from the trap of moneylenders through giving such loans with lower rate of interest.
- 4) These banks can be helpful in the industrial development of our nation by giving financial assistance to the artisan and entrepreneurs.

This committee has given detailed suggestions in respect of definitions, minimum number of members, area of operation, minimum share capital, elections of the directors, and training to the directors for the urban co-operative banks and urban co-operative credit societies.

6) Working Group on Industrial Financing through Co-operative Banks (Damari Committee) 1968

The Reserve Bank of India appointed a working group on industrial financing through co-operative banks under the chairmanship of ex-deputy governor of Reserve Bank of India Mr. P. N. Damari in the year 1967. This group presented its report in 1968 and gave the recommendations as follows,

- 1) The urban co-operative banks should be given preference for their establishment in areas where the number of small scale and cottage industries is more.
- 2) Reserve Bank of India should sanction the long-term loans to the state government through the National Agricultural credit (long-term) fund, so that they can have the partnership in the share capital of urban co-operative banks.

- 3) To get the benefit of credit guarantee scheme to the urban co-operative banks the Reserve Bank of India should decide proper norms to include the urban co-operative banks in the 'Approved' institution list.

The Damari working group has made detailed suggestions in respect of membership, area of operation, share capital, rate of interest, branch expansion of urban co-operative banks, etc.

7) A Study - Group by National Credit Council, 1969

The National credit council appointed a study Group in October 1968 under the chairmanship of Dr. D. R. Gadgil to suggest useful recommendations regarding how the commercial Banks can help to decrease the regional inequality and imbalance in India. This study Group was expected to report on "The organizational frame work for the implementation of social objectives."

This study Group presented its report in October 1969. It recommended area approach method in the preparation of plans and programs for the development of the banking and credit structure. The lead Bank scheme introduced by the Reserve Bank of India in December 1969, may be said to be the beginning of the implementation of the area approach method.

8) Banking Enquiry and Survey Board, 1969

In the February month of 1969, the Banking Enquiry and survey Board was appointed by the Reserve Bank of India. This board had been given the task of deciding how an Act can be prepared on all over India level for the rural credit by the commercial Banks in the different states.

The (committee) Board in its report suggested, "The commercial Banks are not well familiar with the rural credit sector. To give more finance to the farmer, the legal restrictions on the loan payments in the states should be dismissed. It is necessary to modify the act related particularly to mortgage the land ownership right.

The Board also suggested that the Commercial Banks should get all these facilities, which the co-operative societies get while giving loans to the farmers. because these facilities are ultimately for the farmers.

9) All India Rural Credit Review (Survey) Valuation Committee 1969

There is a great importance to rural credit in the financial planning of our country, Reserve Bank of India appointed 'rural credit review valuation committee' in July 1966 under the chairmanship of Mr. B. Vyankatapaiyya to review how the financial needs of the farmers can be maximum fulfilled. Committee submitted its report on 30th July 1969.

The important recommendations of this committee are as follows,

- 1) To restructure the rural credit department and to establish the 'Agricultural Credit Board'.
- 2) To provide the capital finance for agricultural on a large scale and to provide sufficient credit on time to the farmers through the co-operative banks. From this point of view the refinance corporations should be reconstructed.
- 3) To change their policy and system of commercial banks in view of supplying agricultural finance.
- 4) To fulfill the above objectives banks should decentralize their rights and there should be coordination in the credit functions of commercial and co-operative banks.

This committee has also given the guideline in respect of the working of state co-operative banks, district central co-operative banks and urban co-operative credit societies.

10) Banking Law Commission, 1972

Government of India constructed the banking law commission under the chairmanship of Shri R. G. Saraiyya in 1972. This commission made various recommendations regarding the banking business. Due to these suggestions the banking business in India got a healthy and constructive turn. The commission insisted on setting up of rural banking which extend the banking facilities to rural area and thus developing the rural finance.

According to the commission the banking entity in rural area should be essentially co-operative in character and provide a wider range of services than those which were provided by primary agricultural credit societies.

11) Committee on Problem of Urban Co-operative Banks in Maharashtra 1976

The number of urban co-operative banks in Maharashtra is comparatively more than other state. The co-operative movement in Maharashtra is also more advanced than any other state. Hence, the problems of this movement are many more as well. The government of Maharashtra appointed committee on problems on urban co-operative banks in Maharashtra under the chairmanship of Mr. V. M. Joglekar in December 1974. Committee has praised the urban co-operative banks in following words –

“In Maharashtra the working of urban co-operative banks is very much satisfactory. The number of these banks is increasing day by day in the past some year and its credit go to the selfless and hard working social worker. The increase in the number of member is more than increase in the number of banks. It shows the participation of people in this movement. The same thing is about the deposit. The deposit is collected from non-member are more than the deposits collected from members. It is an evidence of the fact that of the urban co-operative banks has been qualified to the trust of the depositor in urban and semi urban area.”

This committee studied various obstacles in the way of the progress of the urban co-operative banks and urban co-operative credit societies. The recommendations about the main problem are as follows,

- 1) The restrictions on the urban co-operative banks to collect deposits from trustee, municipalities and other boards should be removed.
- 2) Reserve Bank of India should give the remittance facilities free to charge at least for hundred times under the “free remittance facilities” scheme.
- 3) The audit fees of the urban co-operative banks should be depends on the working capital and on the working load of the bank.
- 4) There is a dual control of Reserve Bank of India and co-operative registrar on the working of urban co-operative banks. It should be divided. Reserve Bank of India should have to watch the following of the co-operative rules and regulations by these banks.

12) “Financing supply to very small landholders through co-operative credit societies” survey committee (Dandekar Committee) 1976

Governments of Maharashtra appointed a committee in August 1975 under the chairmanship of Dr. V. M. Dandekar, a well known economist and scholar in the

field of co-operative credit. The committee was entrusted to analysis the policy and actual work of co-operative banks regarding the agricultural finance to small and very small land owner farmers.

The important recommendations of this committee are as follows,

- 1) The definition for the small landholder should be made on the basis of loan qualifications depended on the area of croup wise rate of loans.
- 2) The small landholders should get their proper share in co-operative loans (minimum up to 20 %).
- 3) The small land holders should get consideration in the rate of interest.
- 4) To protect crops from natural calamities such as flood, famine, insects, etc. there should be insurance for crop loans also.

13) Working Group on the problem of various types of financial institutions working in the rural area (Kamat Committee) 1978

Before the social control of 1968 on the banks the co-operative department had the monopoly to provide finance to the agricultural sector. However, after nationalization of 14 commercial banks in 1969, the policies were designed to participate the commercial banks in rural financing with the co-operative credit societies. The Regional Rural Banks were established for the progress of special regions and sections in rural area.

In the Indian villages more than one type of finance institution can provide the credit and financial assistance. All these instructions must act and work with mutual understanding and coordination.

To study the problem arising due to the working of the various types of financial institutions in rural area the Reserve Bank of India appointed a working group on 4th August 1976 under the chairmanship of Mr. C. M. Kamat.

The main recommendations of this committee are as follows,

- 1) The geographical area of operations of co-operative commercial and regional rural banks should be fixed instead of dividing their working as per the functions.
- 2) In financing for the agricultural and related purpose the co-operative banks should be given performance because the structure of co-operative societies is proper to reach towards the farmers and their expansion is also on large scale.

- 3) The commercial and regional rural banks should not compete with the co-operative banks in rural areas. Instead of that they should support the co-operative credit societies.
- 4) The commercial and regional rural banks should help to those rural development programs for which co-operative banks are not able to give the financial assistance.

14) Committee on Urban Co-operative Banks 1979

After 1960 the urban co-operative banks were rapidly increasing. However, many obstacles regarding their working and policies were aroused. Therefore, to survey the urban co-operative banks and to suggest remedies to improve their efficiency Reserve Bank of India appointed this committee in September 1977 under the chairmanship of Mr. Madhav Das. The committee presented its report in April 1979.

The main recommendations of this committee are as follows,

- 1) To encourage the establishment of urban co-operative banks at small towns like taluka places.
- 2) The efficient urban co-operative credit societies should be converted into urban co-operative banks.
- 3) The salaried servants' co-operative credit societies and the urban co-operative credit societies should not accept deposits from non members.
- 4) These banks should give training to their employees.
- 5) The loans should be given for production function and to small entrepreneurs only.

15) Agricultural credit review committee (Khustro Committee) 1989

The Reserve Bank of India appointed agricultural credit review committee of experts under the chairmanship of well known economist Dr. A. M. Khustro on 1st August 1986. This committee was expected to study deeply on subject "Revival and revitalization of primary agricultural credit societies."

The main recommendations of this committee are as follows,

- 1) The weak district central co-operative banks, regional rural banks and state central co-operative banks should be made strong so that they can provide

finance to those societies which provide financial assistance to agricultural sector.

- 2) National co-operative banks should be established on national level to make the mutual cooperation in the business and working of national, state and district level financial and other resources supplying co-operative institutions.
- 3) More than 75% of regional rural banks were in loss. Therefore this committee recommended that all regional rural banks should be amalgamated in the respective parent nationalized banks.
- 4) Co-operative banks should increase their own funds and they should minimize to take grants from the government.

16) Committee on Licensing of new Urban Co-operative Banks (Marathe Committee) 1992

Reserve Bank of India accepted Madhav Das committee report of 1978 relating to the urban co-operative banks. Due to the execution of these recommendations, new co-operative banks were established on large numbers. However, the urban co-operative banks raised demands regarding branch expansion, efficiency, ability norms, license of Reserve Bank of India to them, etc. to fix a proper policy by considering these demands Reserve Bank of India appointed committee under the chairmanship of Mr. S. S. Marathe in September 1992.

The committee presented its report on May, 1992 with following main recommendations.

- 1) New urban co-operative banks will be permitted to establish in underdeveloped area. Encouraging will be given for that.
- 2) New employees' co-operative banks will not be permitted.
- 3) Regarding the area of operation will not be any difference such as urban and rural area.
- 4) The area of operation for the scheduled urban co-operative banks will be a whole state. Reserve Bank of India permission will continue to be required for the expansion of area of the present operations.

3.3 LAWS RELATING TO BANKS AND CO-OPERATIVE CREDIT SOCIETIES.

There are various types of laws related to the banking business in India which affect, regulate and control the day to day working of the banks and urban co-operative credit societies. Following are the various laws passed by the central government and state government applicable to co-operative banks & co-operative societies in Maharashtra.

1) The Maharashtra Co-operative Societies Act, 1960 (MCS Act) and The Maharashtra Co-operative Societies Rules, 1961.

The Maharashtra Co-operative Societies Act, 1960 (MCS Act) and The Maharashtra Co-operative Societies Rules, 1961 are applicable to any co-operative society registered in Maharashtra and having no branches outside Maharashtra. Many other states (Gujarat-1962, Delhi-1972, etc.) have also enacted their own state co-operative laws. If any state does not have its own state act, the Co-operative Societies Act, 1912 and Rules become applicable.

Important provisions of The Maharashtra Co-operative Societies Act, 1960 and the rules

1. Chapter I (sections 1 and 2) deals with various definitions

- Under section 2(27), "society" has been defined as "a co-operative society registered or deemed to be registered under this Act". Though co-operative society has not been defined, section 4 states that a society which could be registered is one which has objects for promotion of the economic interests or general welfare of its members or of the public in accordance with the co-operative principles.
- The person governing this Act is called "Registrar". In Maharashtra, he is known as "Commissioner of Co-operation and Registrar of Co-operative Societies".

2. Chapter II (sections 3 to 21) deals with registration, amendments, amalgamation, and reorganization and deregistration of societies.

- Sections 4 to 11 deal with matters relating to registration of society. Under rule 10, after registration of the society, the Registrar has to classify the society into any one class and sub-class. There are 12 classes and 20 sub-classes listed in this rule.
3. Chapter III (sections 22 to 35) deals with matters relating to members, their rights and liabilities.
- As per section 22, an individual, who is competent to contract, a firm, company or other body corporate, a registered society, a local authority, a public trust and government can become members of the society. If a person has applied for admission and the society does not communicate any decision within 3 months of receipt of such application, the applicant is deemed to have been admitted as member of the society. Section 25 of MSCS Act permits any person competent to contract to become a member.
 - Section 24 provides for admission of nominal, associate and sympathizer members. These members have limited rights in the society compared to regular members.
 - Section 27 provides that during meetings, members have to remain present in person and no proxies are allowed. Further, one person is allowed one vote only, no matter how many shares he holds.
 - Section 28 provides that no member can hold shares exceeding 1/5 of the share capital of the society or Rs. 20,000/- whichever is less. Under section 33 of the MSCS Act, maximum shareholding can be as provided in the bye-laws, subject to a ceiling of 1/5 of the share capital. However, for co-operative banks, RBI has laid a limit of 25% of the capital up to a maximum of Rs.1 lakh. (*UBD.No.Plan.10/UB.32/92-93 dt. 26th May, 1993*)
 - Urban co-op. banks are not permitted to issue bonus shares (*RBI circular UBD.No.Plan. Cir.PCB.9/09.20.00/2000-01 DT. 10th November, 2000*)

- As per rule 20, shares can be issued in joint names. Minors and persons of unsound mind, inheriting the share of a deceased member, can also be admitted as member through their legal representatives or guardians.
 - Section 29(2) (a) states that a member cannot transfer his shares until he has held it for one year.
 - Section 29(3) permits a society to buy back its shares from its members on their resignation etc., up to a maximum of 10% of the paid-up share capital every year. Rule 23 further provides that the amount to be paid back should be based on the valuation of his share, which in no case should exceed the amount paid for the purchase of those shares.
 - Section 30 read with rule 25 provides for nomination, including nomination of a minor or a person of unsound mind.
 - Rule 21 permits a member to resign by giving 3 months' notice.
 - As per section 35 read with rule 28, a member can be expelled from the society by a resolution passed by not less than $\frac{3}{4}$ th of members entitled to vote, who are present.
4. Chapters IV to VIII (sections 36 to 90) deal with matters relating to incorporation, duties and privileges, State's aid, property and funds, management and audit, inspection and supervision of the societies.
 5. The subsequent chapters (sections 91 to 167) deal with settlement of disputes, liquidation of societies, agriculture and rural development banks, elections of committees and officers of certain societies, offences and penalties, appeal, review and revision and other miscellaneous issues relating to societies.

Section 161 states that all auditors (including certified auditors) are deemed to be public servants within the meaning of section 21 of the Indian Penal Code. Thus, auditors enjoy the rights and bear the responsibilities of public servants.

Chapter VIII of the MCS Act and Chapter VII of the MCS Rules deal with matters pertaining to audit, inquiry, inspection and supervision. RBI has issued Master Circular on Inspection & Audit Systems in Primary (Urban) Co-operative Banks (*RBI/2005-06/46 – BPD. (PCB).MC. No. 4/09.06.000/2005-06 dt. July 3, 2006*)

2) *The Multi-State Co-operative Societies Act, 2002*

An Act to consolidate and amend the law relating to co-operative societies, with objects not confined to one State and serving the interests of members in more than one State, to facilitate the voluntary formation and democratic functioning of co-operatives as people's institutions based on self-help and mutual aid and to enable them to promote their economic and social betterment and to provide functional autonomy and for matters connected therewith or incidental thereto.

1. Short title, extent and commencement

- (1) This Act may be called the Multi-State Co-operative Societies Act, 2002.
- (2) It extends to the whole of India.

2. Application

This Act shall apply to -

- (a) All co-operative societies, with objects not confined to one State which were incorporated before the commencement of this Act
 - (i) Under the Co-operative Societies Act, 1912 (2 of 1912), or
 - (ii) Under any other law relating to co-operative societies in force in any State or in pursuance of the Multi-unit Co-operative Societies Act, 1942 or the Multi-State Co-operative Societies Act, 1984.
 and the registration of which has not been cancelled before such commencement; and
- (b) All multi-State co-operative societies.

Important provisions of the Multi-State Co-operative Societies Act, 2002 and rules.

1. Chapter I deals with various definitions such as area of operation, bye-laws, central register, co-operative society, etc.
2. Chapter II deals with registration of multi-state co-operative societies, bye-laws of multi-state co-operative societies, amalgamation or transfer of assets and liabilities, or division of multi-state co-operative societies, liability of multi-state co-operative societies.
3. Chapter III deals with registration and functions of federal co-operatives

4. Chapter IV is about the membership of multi-state co-operative societies and the duties, rights and liabilities of the members.
5. Chapter V deals with direction and management of multi-state co-operative societies.
6. Chapter VI is about the privileges of multi-state co-operative societies.
7. Chapter VII is about the properties and funds of multi-state co-operative societies.
8. Chapter VIII deals with audit, inquiry, inspection and surcharge of multi-state co-operative societies.
9. Chapter IX deals with settlement of disputes in multi-state co-operative societies.
10. Chapter X deals with winding up of multi-state co-operative society.

3) *Banking Regulation Act, 1949.*

From so long time, there was need of separate act for the regulation of banking business in India. The banking regulation act was passed in 1949, with the objective of overall progress in banking sector. Firstly the name of this act was 'Banking companies act' but from 1st march 1966, it has been named as 'banking regulation act'.

This act is applicable to all types of banks & co-operative societies in the country. To apply this act to co-operative credit societies it requires some modifications. Chapter V of banking regulation act is deals with the application of the rules to co-operative banks and co-operative credit societies. This law applicable to co-operative banks and co-operative credit societies in its original form, but it required necessary modifications which are briefly explained in chapter V of the banking regulation act.

Important provisions of the Banking Regulation Act 1949

Part I (sections 1 to 5a) of this act deals with Short title, extent and commencement of laws, Application of other laws not barred, Act to apply to co-operative societies in certain cases, Power to suspend operation of Act, Act to override memorandum, articles, *etc*

Part II (sections 6 to 36a) of this act deals with business of co-operative banks and credit co-operative societies.

Part IIA (sections 36aa to 36ac) of this act deals with control over management which describes powers of Reserve Bank of India to be exercised on banks.

Part IIB (sections 36ad) of this act deals with prohibitions of certain activities in relation to co-operative banks & credit co-operative societies & punishment for certain activities in relations to co-operative banks & credit co-operative societies.

Part IIC (sections 36ae & 36aj) of this act deals with acquisition of the undertakings of co-operative bank in certain cases. Under section 35ae and 36af power of central government regarding acquisitions of co-operative banks has been explained.

Part III (sections 36b & 45) of this act deals with suspension of business and winding up of co-operative banks.

Part IIIA (sections 45a & 45x) of this act deals with special provisions for speedy disposal of winding up proceedings.

Part IIIB (sections 45y & 45za) of this act deals with provisions relating to certain operations of co-operative banks.

Part IV (sections 46 & 55a) of this act deals with miscellaneous matters such penalties, restrictions, change of name by banks, etc.

4) *Income-tax Act, 1961.*

The income earned by a co-operative society is subject to income tax under the Income-tax Act, 1961 and its Rules. It may be noted the income of a co-operative society is eligible for deduction u/s 80P of the Income-tax Act and not an exemption u/s 10. Hence, it is mandatory for all co-operative societies to file income tax return.

5) *Bombay stamp Act.*

The execution of loan and other documents are subject to rules applicable to the place where such documents are executed. Thus, for documents executed in Maharashtra, the Bombay Stamp Act (as applicable to Maharashtra) is applicable. For certain provisions not contained in this Act, the Indian Stamp Act becomes applicable.

6) *Bye-laws.*

Every society has to frame bye-laws for internal management of the society and get the same approved by the Registrar at the time of registration of the society. Further amendments to bye laws need to be approved by the Registrar. The bye-laws of a society constitute a contract between members and the society and the members *inter se* in respect of affairs of the society and they provide for the management of the society. The bye-laws are framed within the provisions of the applicable Act and the Rules. Bye-laws include objects of the society and define and restrict the society's activities and also provide for rights and obligations between the society and the members and between the members *inter se*.

Co-operative banks are also governed by the Reserve Bank of India under Banking Regulation Act, 1949 as amended by the Banking Laws (Application to Co-operative Societies) Act, 1965 and the Banking Regulation (Co-operative Societies) Rules, 1966. As per section 5A, the provisions of this Act override the ones in the MCS Act or the Rules or Bye-laws. Certain clauses of Reserve Bank of India Act, 1934 are also applicable to co-operative banks.

Co-operative societies are also governed by the circulars, notifications and directives issued from time to time by the various departments of co-operation. Co-operative banks are further governed by circulars issued by Reserve Bank of India.