



MSCS (Amendment) Act & Rules, 2023 **Strengthening Governance and Transparency**

The Multi-State Cooperative Societies (Amendment) Act, 2023 strengthens autonomous and democratic character of cooperatives. By resolving several issues, this act provides a conducive atmosphere for multistate cooperatives to grow and flourish in various areas of socio-economic activities. One of the key aspects of the amendment is the introduction of the Cooperative Election Authority. This provision is designed to ensure timely, regular, and transparent elections within multi-state cooperative societies (MSCS).

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he Government of India establishment of Ministry of Cooperation on July 6, 2021 was to underscore India's commitment to enhance the cooperative sector by providing a separate administrative, legal and policy framework for strengthening the cooperative movement in country. To realise the vision of strengthening and making cooperatives self-reliant through the mantra 'Sahkar Se Samriddhi' echoed by the Hon'ble Prime Minister, Ministry of Cooperation has been working tirelessly to enhance the reach and impact of cooperatives in India and rolled out more than 60 initiatives since its formation.

Ministry of Cooperation came across some instances of malfunctioning in some of the Multi State Cooperative Societies. Complaints about financial embezzlements, delay and disputes regarding holding elections, biased selection of auditors, and favouritism in recruitments, lack of active participation of members, etc. were commonly reported in societies. The relevant Act and Rules to address these shortcomings were enacted long ago, in 2002; and were not sufficiently integrated to avert these lapses.

This led to proactively implement various reforms in cooperatives, e.g., 'Ease of Doing Business' by making registration process easier, allowing online/digital registration, making membership more vibrant and active, providing information to increase transparency, appointing of Ombudsman for redressal of member

grievances, etc.

On August 3 and August 4, 2023, the Government officially notified the Multi-State Cooperative Societies (MSCS) (Amendment) Act & Rules, 2023, respectively, with the aim of overhauling the principal Multi-State Cooperative Societies Act & Rules of 2002, for strengthening governance, enhancing transparency, increasing accountability, and reforming the electoral process within multi-state cooperative societies. These amendments supplement the existing legislation while incorporating the provisions of the 97th Constitutional Amendment, thereby ensuring a more robust and efficient cooperative framework.

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Salient features of the MSCS (Amendments) Act, 2023

One of the key aspects of the amendment is the introduction of the Cooperative Election Authority. This provision is designed to ensure timely, regular, and transparent elections within multi-state cooperative societies (MSCS). Elections are a crucial part of the democratic functioning of these societies, and the new provision aims to eliminate irregularities and delays that often compromise the integrity of the process. Central Government in exercise of the powers conferred by

Sec 45 of the MSCS Act, 2002 (as amended in 2023) notified the Cooperative Elections Authority.

As per provisions in the act, above authority is now functioning with full establishment conducting elections of the Multi-State Cooperative societies successfully. Within short span, the following milestones are achieved:

- Issued 146 election programmes from the date of its constitution.
- Successfully conducted 113 elections of board of directors & office bearers.
- 33 elections are under process (as on 04.04.2025).
- In the month of March 2025, elections of 13 MSCS completed.
- As proactive measure, emails sent to 315 multi-state cooperative societies, whose elections are due till 31 March 2025, to conduct the elections within time and inform six months before expiry of the existing board.
- The CEA has started meeting with societies listed in Schedule-II to align their Bye-Laws with amended Multi-State Cooperative Societies Act/Rules.

Initiatives to Add Transparency in Cooperatives

Section 85A and Section 106 of the MSCS Act, along with the relevant rules, outline the creation and functioning of the Cooperative Ombudsman and Cooperative Information Officer, respectively. A significant feature of these amendments is the establishment of the Cooperative Ombudsman, a quasi-judicial authority responsible for handling member grievances. To ensure the effective implementation of these changes, Multi-State Cooperative Societies are required to appoint dedicated Cooperative Information Officers (CIOs) as mandated by Section 106. These CIOs can act as the 'extended arms' of the Cooperative Ombudsman. The role of CIOs is pivotal in addressing members' issues, providing information, and ensuring compliance with the new regulatory framework.

NCUI in collaboration with the Ministry of Cooperation is organizing training programmes for CIOs titled 'Responsible Governance, Compliance and Sustainability' with following objectives:

- To provide in-depth knowledge of the recent amendments to the MSCS Act and their implications.
- To train CIOs on effective information management and compliance with regulatory requirements.
- To enhance skills in handling member grievances and

ensuring timely redressal.

- To promote best practices in the administration and management of cooperative societies.

These comprehensive training programmes empower CIOs to navigate the complexities of the amended MSCS Act, ensuring effective compliance, transparent operations, and robust grievance redressal mechanisms. All CIOs are well-prepared to meet the challenges and responsibilities of their crucial roles in the cooperative sector and support the Cooperative Ombudsman in maintaining a fair and efficient grievance redressal.

Appointment of Cooperative Ombudsman

Another significant provision is the appointment of a Cooperative Ombudsman by the Central Government. This measure provides a structured mechanism for addressing grievances of the members of cooperative societies. The Ombudsman will act as a mediator to resolve disputes, thus enhancing member confidence and ensuring fair practices within MSCS.

The new provisions ensure that member complaints and information requests are addressed promptly and fairly. The Cooperative Ombudsman plays a critical role in inquiring into complaints made by members regarding their deposits, equitable benefits, and other issues affecting their individual rights. The Cooperative Ombudsman serves as the Appellate Authority for any decisions made by the CIOs of the Multi-State Cooperative Society. Members have the option to appeal against these decisions using Form VII as provided in the MSCS Rules 2002.

In an effort to modernize the cooperative sector, the amendment includes a provision for the submission of applications, documents, annual returns, and fees in digital form. Additionally, certificates will now be issued digitally, promoting ease of doing business and reducing bureaucratic delays. This digital transformation is expected to streamline operations and improve efficiency across all cooperative societies.

Registration

The process of registering new MSCS has also been made more efficient. Previously, the registration period was set at four months; however, under the new amendment, this has been reduced to three months. Additionally, societies that need more time to rectify deficiencies in their applications can request an extension of up to two months. This change is intended to expedite the establishment of new cooperative societies and encourage more participation in the sector.

Representation of SC/ST & Women

In line with Article 243ZJ of the Constitution, which provides for reservation for SC/ST/Women, Sub-Sec (3) of Section 41 of MSCS Act, 2002 has been substituted with provision of one member from Scheduled Caste or Scheduled Tribe and two women in the Board of multi-state cooperative societies thereby following the principles of social justice, inclusivity, and unbiased participation in economic development of the country.

Financial Transparency & Accountability

To curb financial irregularities and ensure early detection of fraud, the amendment introduces the concept of concurrent audit. The Section 70A has been substituted relating to 'concurrent audit' for such multi-state societies with an annual turnover or deposit of more than the amount as determined by the centre. This provision allows for real-time auditing of MSCS, making it easier to identify discrepancies and take corrective actions swiftly. The auditors responsible for conducting these concurrent audits will be selected from a panel maintained by the Central Registrar for MSCS, ensuring the credibility and independence of the auditing process.

Further enhancing transparency, the amendment mandates that audit reports of Apex MSCS be presented in Parliament. This move will hold cooperative societies accountable to national oversight bodies and promote better financial discipline. Additionally, the Central Government has been given the authority to determine accounting and auditing standards for MSCS, thereby ensuring uniformity in financial practices across all cooperative societies.

Another important reform is the establishment of prudential norms by the Central Government for MSCS engaged in thrift and credit businesses. These norms will include liquidity requirements, exposure limits, and other financial regulations designed to maintain financial stability and prevent risks associated with mismanagement.

The amendment also strengthens governance by introducing additional grounds for disqualification of directors. These new criteria are designed to improve governance, enhance the recovery of dues, and prevent individuals with a history of fraudulent activities from holding influential positions within MSCS. To discourage members from acting against collective interests of the multi-state cooperative societies, the Sec 30 (Expulsion of Members) of MSCS Act 2002 has been, thus, amended and the minimum period of expulsion of an expelled member of a multi-state cooperative society has been increased from 1 year to 3 years. The stricter

eligibility requirements will help maintain the integrity of cooperative societies and foster responsible leadership.

To ensure safer investments, the provisions regarding the investment of funds by MSCS have been redefined. The amendment removes references to colonial-era securities and replaces them with more relevant and secure investment options. This change is expected to protect the financial interests of MSCS members and promote prudent financial management.

The amendment also mandates the creation of a Committee for Audit and Ethics within the board of MSCS. Sub-Section (1) of Section 53 of the principal act substituted with the provision for the board of society to constitute an 'Audit and Ethics Committee' and a 'Committee on prevention of sexual harassment at work place.' The former will be responsible for ensuring financial discipline and transparency, as well as upholding ethical standards in cooperative governance. The committee on 'Prevention of sexual harassment at work place' will foster a safe and respectful workplace environment. By introducing this committee, the amendment reinforces the importance of accountability and ethical leadership in cooperative societies.

Another crucial aspect of the amendment is the establishment of criteria for the appointment of the Chief Executive Officer (CEO) of MSCS. By setting specific qualifications and experience requirements, the amendment ensures that only competent and capable individuals are appointed to lead these organizations. A well-qualified CEO is essential for driving the strategic vision of a cooperative society and ensuring its sustainable growth.

Lastly, the amendment grants the Central Registrar the authority to conduct inquiries if there is information suggesting that a business is being conducted fraudulently or for unlawful purposes. This provision enhances regulatory oversight and acts as a deterrent against unethical business practices within MSCS.

In conclusion, the Multi-State Cooperative Societies (MSCS) (Amendment) Act & Rules, 2023 represent a significant step towards enhancing the governance, transparency, and accountability of cooperative societies. By introducing digital processes, ensuring timely elections, strengthening financial regulations, and enhancing audit mechanisms, these amendments create a more efficient and trustworthy cooperative ecosystem. The reforms are expected to boost confidence among members, encourage responsible financial management, and contribute to the overall growth and stability of the cooperative sector in India. □