



# Cooperation and Progress

Examining the Co-operative Movement in India

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# Executive Summary

As the International Labour Organization (ILO) has noted, co-operatives are a special type of enterprise (ILO, 2017). They compete in the commercial sphere, but their activities are motivated by furthering the collective social benefit rather than the individual corporate benefit. They operate based on a set of universally acknowledged principles (“the seven co-operative principles”) which ensure that they are run democratically, autonomously and with equal member participation. They seek profit, but do so by engaging in member activities, buying inputs at a ‘fair’ price and selling and distributing on behalf of members who do not have the economic capital to do so on their own. Co-operatives can offer good working conditions, create jobs, and provide extra services for their member-workers, such as educational scholarships. It is for these reasons that Indian government has sponsored the co-operative model as the gateway for economic development in India (Ghosh, 2007).

There are over 800,000 co-operatives in India consisting of 250 million members and covering approximately 97 percent of rural villages (NCUI, 2016). Despite their prevalence, co-operatives in India regularly meet with obstacles to achieving success. Success in this context is defined by achieving sustainable growth, both for co-operatives themselves and in enabling them to deliver on their development objectives for the communities they serve.

This report analyses the issues faced by co-operatives in India and considers factors that contribute to their success. The analysis is presented over four chapters:

- Chapter 1 provides observations, findings and analysis on the overall co-operative movement in India;
- Chapter 2 provides observations, findings and analysis on financial co-operatives in India;
- Chapter 3 provides observations, findings and analysis on workers co-operatives in India;
- Chapter 4 provides observations, findings and analysis on self-reliant co-operatives in India.

The introductory pages of this report outline the background to the co-operative movement in India and detail the objectives, methodology and analytical framework of this study. The methodology of this study applied a mixture of focus groups and interviews culminating in a qualitative analysis using three case studies, each focussed on a different sector of co-operative:

1. Financial co-operatives: **Telangana State Co-operative Apex Bank (TSCAB)**, Hyderabad, Telangana;
2. Worker co-operatives: **Uralungal Labour Contract Co-operative Society (ULCCS)**, Calicut, Kerala; and
3. Self-reliant co-operatives: **Karnataka State Souharda Federal Co-operative (KSSFC)**, Bangalore, Karnataka.

## What we found:



Co-operatives should look beyond the “seven co-operative principles” as the only measure for success; areas of co-operative performance such as leadership, economic viability, participation and women’s empowerment, are all important factors which contribute to success. An enabling legal and policy environment is also important;



The level of compliance with the seven principles varies across co-operatives, and in many cases, adequate compliance with all seven principles is not achieved;



Co-operatives can play a valuable role in helping to achieve development objectives, but in many cases, co-operatives consider their development mandates as a burden;



Leadership is a critical factor to the success of a co-operative, yet there is an overemphasis on leaders as individuals to progress the movement forward. There is also lack of incentives to develop leadership talent within co-operatives;



Co-operatives are an excellent vehicle to empower women, but there is weak women's engagement in the co-operative sector and an underrepresentation of women on co-operative boards;



Active and total participation, which includes both membership and participatory governance, is a key factor to the success of a co-operative;



Economic viability is a key factor to the success of a co-operative. Revenue generation, cost reduction, capital access and diversification are all key elements to achieve economic viability.



Government interference in the co-operative movement is systemic. Some co-operatives welcome government involvement in the form of subsidies and grants, others see it breaches a key co-operative principle of 'autonomy and independence'.

## Recommendations:

The factors that lead to a co-operative's success are not entirely captured within the seven co-operative principles. Whilst the seven principles are important because they serve as the foundation of a co-operative; for a co-operative to achieve sustainable success, it must look beyond the principles and achieve satisfactory capacity for leadership, participation, women's empowerment, and economic viability. The legal and policy environment must also enable success by bolstering the seven principles whilst simultaneously accounting for factors relevant to a co-operatives performance.

With this, the overarching recommendation is that a co-operative should focus on the sustainable factors for success, which include performance and a conducive legal and policy environment, rather than on a narrow view of compliance with the seven principles.

A list of detailed recommendations is outlined in the recommendations section of each chapter of this report.

# List of Acronyms

Co-operative Training Institute	CTI
District-Level Co-operative Central Bank	DCCB
Financial Co-operatives	FCs
Indian Farmers Fertiliser Cooperative Limited	IFFCO
International Co-operative Alliance (Asia-Pacific)	ICA-AP
International Labour Organization	ILO
Karnataka State Souharda Federal Cooperative Ltd.	KSSFC
Master of Public Policy and Global Affairs (UBC)	MPPGA
National Bank for Agricultural and Rural Development	NABARD
National Cooperative Union of India	NCUI
National Federation of Fishermen's Cooperatives Ltd.	FISHCOPFED
Primary Agricultural Credit Society	PACS
PACS Development Cell	PDC
Reserve Bank of India	RBI
Sustainable Development Goals	SDGs
Self-Regulatory Organisation	SRO
Telangana State Cooperative Apex Bank, Ltd.	TSCAB
Uralungal Labour Contract Co-operative Society	ULCCS
University of British Columbia	UBC

# 1. Background

India relies heavily on co-operatives to deliver goods and services that the government and the private sector cannot provide. Introduced by the British, co-operatives in India have become institutions of great significance in the development of the nation's vast agricultural and rural areas. Co-operatives can provide poverty alleviation, food security and economic empowerment within India.

There are two important reasons why the co-operative model can achieve this potential. The first is that co-operatives can provide a viable economic alternative to traditional capitalist firms; the second is that co-operatives can work as engines of development.

*Table 1. The Co-operative Structure*

Enterprise	Ownership	Objectives	Control	Market Attitude
Co-operative	Members	Service to members	Member users	Tendency to coordination
Public	Public	Serving state ends	State officials	Tendency to monopoly
Private	Private	Profit	Ownership basis	Towards competition

*Source: Chapter 2, Legal History of Co-ops, Title unknown, Author unknown*

## 1.1 Co-operatives as a viable economic alternative to traditional capitalist firms

Co-operatives are enterprises that are democratically controlled, equally owned and collectively operated by the members. This model of shared ownership, management and profit is a commercially efficient way of engaging in a market because it can provide economic benefits like reliable employment and decent income for its members and offer high quality goods and services to the community.

The co-operative's focus on delivering economic and social benefits to its members makes the model an attractive alternative to deliver what capitalist firms have failed to provide. Arguably, co-operatives can be feasible or even a superior way of doing business in terms of productivity and survival compared to conventional top-down firms.

## 1.2 Co-operatives as engines of development

The United Nations approved the 17 Sustainable Development Goals (SDGs) in 2015, and co-operatives have been cited as among the vehicles that can deliver results for such ambitious global agenda (ILO; ICA, 2015). Co-operatives address job creation, economic participation, women's empowerment and social inclusion, which are all in line with the SDG's key themes of poverty reduction, economic growth, gender equality and food security. Because sustainable development lies at the heart of the co-operative movement, co-operatives are already contributing both directly and indirectly to some of the major SDGs.

Worldwide, co-operatives cover approximately one billion people, contribute to about US\$2.1 trillion to the world economy, and employ about 280 million people (ICA, n.d.). This makes them well-positioned to support the

achievement of the SDGs through a much broader scale and with larger impact. Believing that “co-operatives can provide some hope and clarity of direction for citizens around the world,” (ICA, n.d.) the apex organization of co-operatives, International Co-operative Alliance (ICA), has partnered with the International Labour Organization (ILO) to identify the ways in which co-operatives can further their contributions to the SDGs.

Figure 1. Sustainable Development Goals



Source: United Nations Sustainable Development Goals

### 1.3 Reforming India's co-operatives

The success of co-operatives is not universal across a diverse country such as India. Some co-operative sectors such as fertilizer and dairy are thriving, while many others, including fisheries, artisanal and consumer co-operatives are struggling. The problems that the Indian co-operative movement faces are numerous:

- too much or too little government intervention;
- competition with capitalist firms;
- lack of effective leadership;
- prevalence of corruption;
- low levels of member participation;
- women and youth exclusion;
- inability to adopt to new technologies;
- lack of capital;
- unprofitability of business.

In 2013, 30 percent of India’s population (224 million people) lived below the \$1.90-a-day poverty measure (World Bank, 2018). Certainly, if the assumptions about the benefits of co-operatives in development are true, then co-operatives could play a significant role in lifting these people out of poverty and improving the lives of hundreds of millions more. This is why it is imperative to understand the challenges that Indian co-operatives face and to identify the appropriate corrective solutions to allow co-operatives achieve a greater rate of success.

### 1.4 The Seven Co-operative Principles

The seven principles of co-operation (“seven principles”) are universally acknowledged guidelines for co-operatives. These principles reflect the basic values of co-operatives: self-help, self-responsibility, democracy, equality, and solidarity (ICA, n.d.). These principles serve as the cornerstone of the co-operative economic institution through which members can cooperate and leverage their pooled resources.

Figure 2. The Seven Cooperative Principles



## 2. Objectives of the Study

### 2.1 Overall Objective

The overall aim of this study is to investigate the factors that contribute to the success of the co-operative movement in India. This includes three layers of the analytical framework, explained below in section of Analytical Framework. The first layer considers the seven co-operative principles as variables by which to measure success. The second and third layers can be roughly organised into the variables outlined in *Figure 3*.

This study used three case studies to investigate three separate co-operative streams: financial, workers and self-reliant co-operatives. The objectives of each stream are listed below.

### 2.2 Stream 1: Financial Co-Operatives

Given the essential role of financial co-operatives in rural financial inclusion and development and its very nature as a co-operative organization, it is vital for ICA and financial co-operatives and regulatory bodies to holistically evaluate the performance of financial cooperatives. However, existing studies on financial cooperatives focus on either a financial cooperative's nature as a microfinance institution, or otherwise as a general co-operative. The existing research has failed to capture the duality of financial cooperatives, i.e. financial co-operatives as both co-operatives and financial institutions (or more specifically, banks, in the case of India).

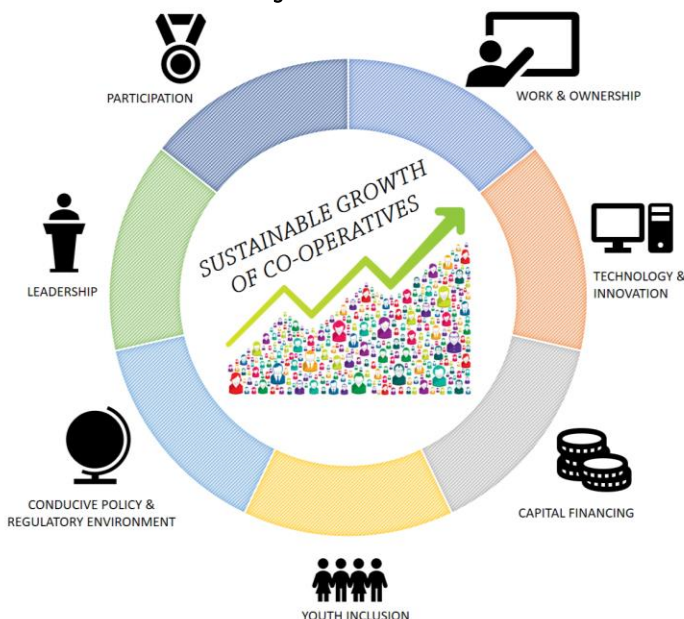
The **objective** of this stream is to provide policy recommendations for financial cooperatives in India to grow sustainably under emerging competition from other financial institutions while delivering their development goals as co-operatives to the communities they serve. **Telangana State Cooperative Apex Bank Ltd. (TSCAB)** in Hyderabad serves as a case study for this stream, along with two of its District Co-operative Central Banks (DCCBs): Karimnagar DCCB (KDCCB) and Hyderabad DCCB (HDCCB).

### 2.3 Stream 2: Worker Co-Operatives

Many of the world's successful co-operatives are worker co-operatives. However, the same cannot be claimed about worker co-operatives in India, where they face constant challenges to success.

The **objective** of this stream is to identify the factors that contribute to a successful worker co-operative in India. To achieve this objective, one of India's success stories—the **Uralungal Labour Contract Co-operative Society (ULCCS)**—was used as the case study to determine what a successful worker co-operative model in India could look like.

Figure 3. Variables



## 2.4 Stream 3: Self-Reliant Co-Operatives

The state of Karnataka is one of eight States in India to implement a “liberal” Self-Reliant Act which is based on the concept that there should be no government intervention in co-operative activities.

The **objective** of this stream is to investigate the current legal, regulatory, and policy environment within which self-reliant co-operatives exist in India. An implied offset of this objective is to determine the efficacy of such laws, regulations and policies within the context of achieving sustainable growth and increasing the success rate of the co-operative model.

The **Karnataka State Souharda Federal Cooperative Ltd. (KSSFC)**, which is the Federal body responsible for administrating the activities of self-reliant co-operatives in Karnataka, was used as a case study in this stream.

# 3. Analytical Framework and Methodology

## 3.1 Analytical Framework

The analytical framework of this study incorporates three criteria for measuring success:

1. The seven co-operative principles;
2. Performance of co-operatives;
3. The legal and policy environment.

This framework was developed for the purposes of this study. Traditionally, co-operative success is measured by compliance with the seven co-operative principles. However, these principles focus on the social capacity of co-operatives, and tend to ignore the financial and economic viability aspects. Thus, the layer of co-operative performance was added. In addition, factors external to co-operatives, such as the laws and policies that enable their success, also play an important role. Thus, the third layer of the legal and policy environment was added to the framework.

These three layers can also be looked at from a governance perspective. The first two layers, the seven co-operative principles and co-operative performance, relate to a co-operative's *internal governance*. These are factors within the control of the co-operative, such as who its leaders are, what its participation structure is and what services it produces. The outer layer, the legal and policy environment, relates to external governance. These are factors outside of the control of the co-operative, such as government regulations and laws which mandate what co-operatives can and cannot do.

## 3.2 Assumptions and Constraints

A main assumption of the study is that compliance with the seven principles contributes to the sustainable growth of co-operatives, as well as the social and economic progress for the communities which the co-operatives serve. The seven co-operative principles are well revered as the central feature of the co-operative movement and guide the mandate of successful co-operatives around the world.

A major constraint of the study was the sample selection process of the field study. The participants in this study were identified and contacted by the client, ICA-AP, or in the case of each stream, the local mentor. This process of sample selection was unavoidable given the cultural, geographical and time limitations of the project design. The results of this study should be read with this factor in mind. In addition, there are over 800,000 co-operatives in India that cover many sectors of society and the economy. Conclusions and recommendations from this research are not necessarily scalable to other types of co-operatives in India or elsewhere.

Figure 4. Analytical Framework



### 3.3 Methodology

The methodology used in this study utilises a qualitative analysis approach relying on data from a mixture of focus groups and interviews in the field. The data was collected over a two-week period in India by which one week was spent in Delhi interacting with high level co-operative federations as well as government and non-government co-operative oversight bodies, and one week was spent in three separate locations to gather data for each field stream.



This primary data is supplemented by desk research done by the team both prior to travelling to, and subsequent to returning from, the field. This approach was taken to ensure the research is comprehensive and robust enough to enable a substantive foundation by which creative and reliable recommendations to this complex policy problem can be generated.

The research consisted of three main stages (see *Figure 5*):

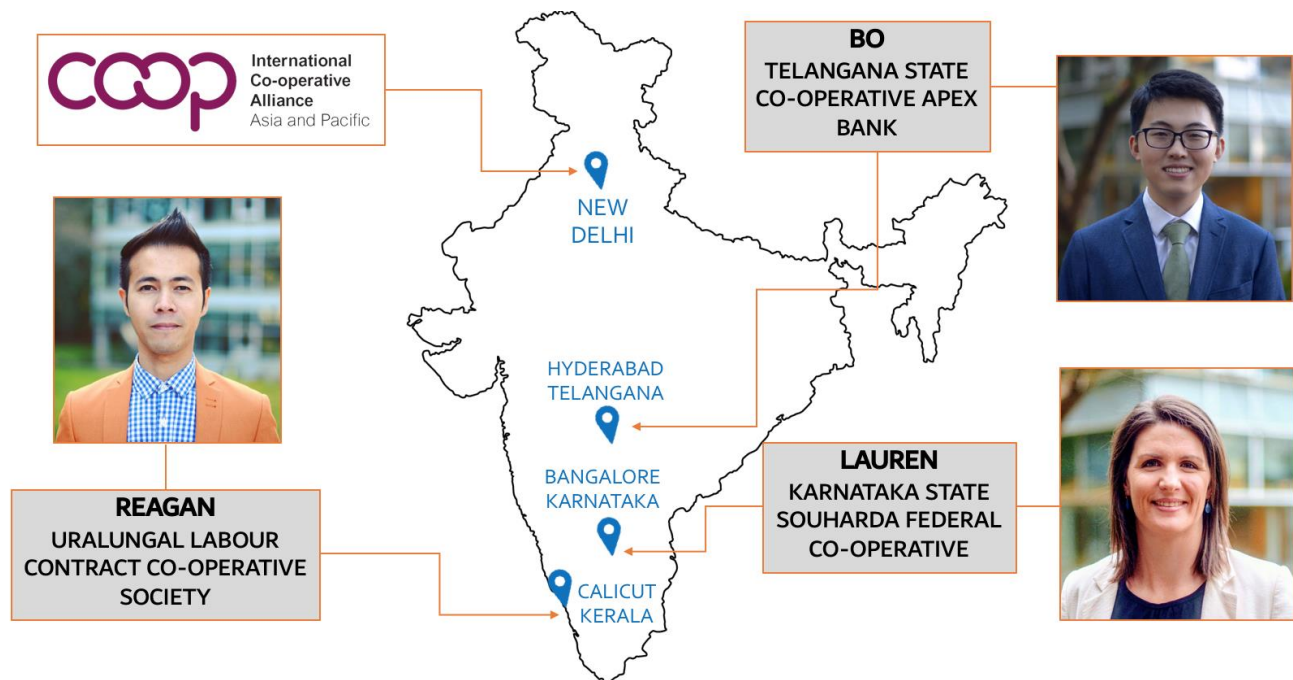
*Figure 5. Research Structure*



**Stage 1:** Initial contact with the primary client, ICA-AP, to be briefed about project purpose and expectations; Desk research on existing academic and grey literature on co-operatives in general and three studied types of co-operatives in particular, on the history and current challenges of Indian co-operatives and policy and regulatory environment that governs self-reliant, workers and financial cooperatives in India; Overall research design, including objectives, questions, and methodology.

**Stage 2:** A two-week field visit to India based on Stage 1 to conduct interviews with identified participants from different co-operatives, NGOs, and other stakeholders to collect primary data for the research.

- The first week was spent in Delhi interviewing various government, non-government, international and co-operative organisations to gather an overview of the co-operative movement in India;
- In the second week, the team was spread across three locations interviewing co-operatives and other organisations relevant to the three separate streams:
  - o Financial co-operatives: Telangana State Co-Operative Apex Bank (TSCAB), Telangana;
  - o Workers co-operatives: Uralungal Labour Contract Co-Operative Society (ULCCS), Kerala;
  - o Self-reliant co-operatives: Karnataka State Souharda Federal Co-Operative Ltd. (KSSFC), Karnataka.



**Stage 3:** Summary of findings during site visits in Stage 2; analyses of findings and data; report writing and refinements.

The majority of data came from in-depth interviews with stakeholders and focus groups, and observational studies that were conducted by each researcher and facilitated by a local contact person in the local organizations. See *Appendix 1* for a complete list of interviewees. Where needed, observational data and existing related secondary data were also considered in the analysis, such as co-operative statistics and information from cooperatives' annual reports.

# Chapter 1

## General Co-operative Observations



## 4.1 Chapter Overview

This chapter contains general observations of the co-operative movement from the study. Based on the underlying framework of sustainability and the Seven Principles, the findings and analysis are oriented by 'theme', or research variable. The analysis within each theme shares something different about the general co-operative movement in India. The themes presented in this chapter include participation, leadership, women's engagement, youth engagement, education and training, legal and regulatory environment, work and ownership, capital financing, technology and innovation, and competition with the private sector.

The observations are drawn from the research done in Delhi with multi-state co-operatives, central government representatives and national co-operative unions. The observations also contain information from the various field research in Telangana, Kerala and Karnataka where relevant.

This chapter contains:

- Government policy background;
- Findings on sustainability and the Seven Principles;
- Analyses and findings by theme
- Recommendations.

## 4.2 Government Policy Background

### 4.2.1 Government mandate for co-operative societies

The power to govern co-operative societies in India has traditionally been the authority of the state governments, rather than that of the central government. The first ever enactment of a co-operative law in India was by the *Cooperative Credit Societies Act 1904*, which was expanded in 1912 to include non-credit cooperative societies. The legal authority to legislate on co-operative matters was transferred to the states in 1919 under the *Government of India Act 1919*.

Considering the situation where a co-operative society is registered in multiple states, the central government legislated for the *Multi-Unit Cooperative Societies Act* in 1942. The old Act was repealed by the *Multi-State Cooperative Societies Act* in 1984 which was ultimately reformed into the *Multi-State Cooperative Societies Act 2002*.

Today, all co-operatives which operate in single state are governed by the relevant state law on co-operatives of their jurisdiction; whereas multi-state co-operatives are governed under the *Multi-State Cooperative Societies Act 2002* and accompanying *Multi-State Cooperative Societies Rules 2003*.

In addition to this, co-operative societies are listed under entry 32 of the State List of the *Constitution of India*, ensuring power of the state governments to legislate for co-operatives. The Constitution was amended in 2011 by

the 97<sup>th</sup> Amendment which now guarantees it the fundamental right of any Indian citizen to form a co-operative society (Constitution of India, 97<sup>th</sup> Amendment, Art. 19).

## 4.2.2 The development of co-operative policy in India

Co-operative societies were brought to India by the British in the latter half of the 19<sup>th</sup> Century. Meyer-Ueding states that British authorities first set up co-operatives in rural communities in response to “fierce famines and rural poverty credit” (Meyer-Ueding, 2012). Due to lack of indigenous uptake, a central Registrar was set up on behalf of the government and made responsible for registration & de-registration of co-operative societies, along with auditing and supervision. These powers far outstripped those given to similar institutions in Britain and Europe (Meyer-Ueding, 2012). The policy for co-operatives was laissez-faire up until independence in 1947, which sparked the beginnings of a new ‘planned economy’ for India under the first Indian Prime Minister, Jawaharlal Nehru (Government of India, 2002). The co-operative model suited Nehru’s mixed economy approach, combining socialism and capitalism (Meyer-Ueding, 2012), and Nehru carried through Gandhiji’s vision to use co-operatives as the economic gateway to development in India.

Following independence, the government policy on co-operatives has been heavily skewed to the top-down, government-heavy approach. Throughout the 1960’s, co-operatives became a vital mechanism by which rural communities could develop through increased agricultural production (Govt of India, 2002). The government heavily subsidized co-operative societies and created a platform by which co-operatives became an integral part of Indian economic development. Meyer-Ueding states that “Indian co-operatives did not develop in a competitive environment but in an artificially promotive environment.” (Meyer-Ueding, 2012, p 34).

## 4.2.3 The impact of liberalisation on the co-operative movement

Given the coddled environment within which co-operatives developed in India, the impact of liberalisation of the Indian economy in 1991 on the co-operative movement was extensive. Opening up the economy brought with it a more open market, fiercer competition and less government support for co-operative societies. In this environment, co-operatives were forced to compete with private sector entities in a commercial space. Many co-operatives, such as those in the consumer sector, were unprepared and ill-equipped to handle the challenges of the new age and keep pace with private sector entities. As a result, many of them struggled for survival. Other sectors, such as agriculture and dairy, remained closely linked with government support given the necessities around securing food production and protecting essential commodities.

The true impact of liberalisation on the co-operative movement (that is, whether it has worked to strengthen or weaken the movement in the long run) is still being debated. Some commentators see liberalisation as an opportunity, providing the necessary means by which to equalise the inevitable income inequality that accompanies a liberalisation movement (Singh, as quoted in Meyer-Ueding, 2012, p 34). Others consider the damage that has been done to certain sectors, such as the consumer sector. One respondent in this study from a Consumer Federation in Delhi stated there are now just 50 of 700 wholesale societies active. Nonetheless, what is clear is that liberalisation has changed the path for co-operatives in India, and they are still now grappling with their place in aiding India’s economic development moving forward.

#### 4.2.4 Current policy approach on co-operatives

The current government policy approach towards co-operatives is a very much top-down approach. Despite movements in some states to enact a more liberal legislative framework by which co-operatives are free to choose *not* to take government financial assistance or support (which means no government control, either), the Central Registrar still involved in those co-operatives listed under the *Multi-State Co-operative Societies Act*, with the exception of a few unique cases such as the Indian Farmer's Fertiliser Co-operative (IFFCO). On the other hand, the government has taken steps since the ILO Recommendation 193, which was issued in 2002, to 'liberalise' the *Multi-State Act* and allow co-operatives further autonomy free from government control. The Government's National Policy on co-operatives states that:

*The regulatory role of the government will be mainly limited to the conduct of timely elections, audit of the cooperative societies, and measures to safeguard the interest of the members and other stake holders in the cooperatives. There shall, however, be no interference in the management and working of the cooperatives. The Government recognises the apolitical nature of cooperatives.* (Government of India, 2002).

Despite this, there seems no likelihood of a comparable liberal movement at the central level, given that the Central Registrar is not convinced of the success of similar movements which have taken place at the State level, for instance in Karnataka or in Andhra Pradesh. When asked about these self-reliant movements, the Registrar stated commented that his view is that it is not working because co-operatives in India need government assistance, especially for key sectors. He said there is no need to have a Central Federation of self-reliant organisations.

## 4.3 Findings on Sustainability & the Seven Principles

The notions of sustainability and the Seven Principles are critical to this study. Not only to they feed into the analytical framework, they feed into the 'end goal' of determining which factors contribute best to the 'success' of the co-operative movement. They are addressed in this section as "cross cutting themes" that provide the overlay upon which the observations are analysed by theme.

### SUMMARY OF FINDINGS - SUSTAINABILITY & SEVEN PRINCIPLES

- There is a tension for co-operatives between driving for profit and meeting social objectives. A sustainable approach includes both aspects;
- Co-operatives are naturally a good vehicle for achieving development goals, however the "co-operative social responsibility" mandate is lacking and social programs often remain disorganised;
- The degree of compliance with the seven principles varies across co-operatives and across sectors.

### 4.3.1 Sustainability

The traditional measure for “success” of co-operatives is compliance with the Seven Principles. However, what this study has indicated is there is more to consider above and beyond the Seven Principles if a co-operative wants to truly achieve a success which is sustainable in the long run.

The tension between a co-operative acting in a service provision capacity, and a co-operative acting to assure its financial viability, is at the heart of the notion of ‘sustainability’ as it has been defined in this study. Many co-operatives when asked whether they prioritise service provision over profiteering replied that they must focus on both. The respondent from one Delhi Co-operative Federation stated that the key to co-operative’s success is that it must be economically viable at the same time as servicing its membership base. Another co-operative in Karnataka stated that a co-operative needs profit to succeed because if there is no profit, the co-operative cannot run. This same respondent also commented that although profit is important, service delivery is the more critical element of the two.

On the other hand, a different co-operative, a co-operative bank, mentioned that profitability alone was not a very important factor in contributing to its success. The respondent mentioned that being profitable was important in the context of providing benefit to the members in receiving dividends because this allows membership to grow and thrive. This respondent believed that social capital (ie, employees and members) should first be preserved, and then financial capital will follow, which will ultimately translate into profit and growth for the co-operative.

### 4.3.2 "Co-operative Social Responsibility"

An adjacent theme that emerged from this research study is the idea of “Co-operative Social Responsibility.” A slightly different take on the more mainstream concept of “Corporate Social Responsibility”, Co-operative Social Responsibility is the idea that a co-operative can go above and beyond its obligation to its members and its activities in generating profit. It may seem obvious that a co-operative would necessarily be involved in these types of activities, but from this study and further research it is not taken for granted that a co-operative will have any more resources or time to spare to impact the local community than would any other firm competing in a free market.

For example, TSCAB and its DCCBs do not necessarily organise their activities towards fostering social development. Their social programs and activities remain unorganized and disoriented and the impact of those programs unmeasured. Even when such activities are led by board of directors themselves, they are often micro-managed by general body meetings, hampering the potential of co-operatives in delivering social goals for a broader community.

On the other hand, many co-operatives interviewed described the work they did in the community, from funding educational scholarships to water management activities (some funded by internal resources while others financed by development agencies). One respondent in Karnataka mentioned the co-operative played a vital role in incentivising school students of the employees in the co-operative to achieve good grades. The respondent in Kerala, ULCCS, has established a foundation in order to provide affordable housing, geriatric care and care to special needs kids and adults which is open to all members of the general community.

Most respondents considered the co-operative model as more conducive to these types of activities than other forms of enterprise. Many respondents mentioned the “concern for community” principle as critical to the co-operative identity.

### 4.3.3 Compliance with the Seven Principles

At the national level, the *Multi-State Cooperative Societies Act 2002* enshrines the Seven Principles in the way that the Central Registrar governs cooperative activity. Some State Co-operative Societies Acts require the Seven Principles to be incorporated in the co-operative bylaws before they can be registered. These principles serve as the cornerstone of the co-operative economic institution through which members can cooperate and leverage their pooled resources.

Across the three streams, researchers observed varying degrees of compliance with the co-operative principles. For example, TSCAB and two of its DCCBs, registered under the *Telangana State Cooperative Societies Act 2016*, performed reasonably well in the assessment against the seven principles, especially in terms of “**democratic member control**,” “**autonomy and independence**,” and “**education, training and information**.” TSCAB’s board of directors and senior management have taken the co-operative principles to heart and closely follow the co-operative bylaw. It is also remarkable that several board members of TSCAB and the studied two DCCBs are apolitical, potentially eliminating a major source of internal interference, conflict of interest between the board and the executives, and manipulation of politicians and politically ambitious board members for their political interests.

One key principle which was raised in the co-operative movement was that of “**autonomy and independence**”. From the discussion, the question was raised whether it is necessary for government to be involved in a co-operative when the co-operative deals with an important public good, or if the co-operative produces services or goods which are necessary to safeguard in the interests of the Indian population. Some respondents agreed that government support and involvement in sectors such as agriculture and dairy is necessary, for instance, seeing as these sectors provide essential commodities. The definition of an ‘essential commodity’ as outlined in the *Essential Commodities Act 1995* is critical to understand the argument regarding government involvement in co-operatives. Other respondents maintained that governments should not at all be involved in the co-operative movement, as it is a hindrance to the ‘autonomy’ principle.

In Kerala, the ULCCS is mostly compliant with the Seven Principles. The co-operative stated that it mostly uses the Seven Principles to gauge its success and concludes that it is successful because it follows the principles. One Director from the co-operative said that the seven principles have been an important guide in the work and processes of ULCCS since its conception. However, on reflection, the co-operative is not considering the contribution of other mechanisms that have had an impact on its success, including its financial success and its ability to operate robustly given it has wisely diversified its services. Upon observation, these are also key elements which have contributed to the success of the co-operative.

One other key element noticed in the ULCCS case study was that it emphasised the principle of “**cooperation among cooperatives**”. The co-operative receives loans from co-operative banks, by which it pays back the bank with interest on the loan. The respondents at ULCCS said that the relationship between the co-operatives is based on an understanding of trust and mutually shared prosperity whereby co-operatives are helping each other to grow and achieve success. In addition, ULCCS works with smaller cooperatives to help them develop their technological capabilities to better render their services. For instance, one respondent mentioned the work that ULCCS does with co-operative banks to help them develop their mobile banking applications.

## 4.4 Findings and Analysis by Theme

The research findings in this section are organised by theme. Each theme represents a significant component to co-operative success. The observations included in this section are from the field work carried out in Delhi, Telangana, Kerala and Karnataka.

In Delhi, the team met with ICA-AP, as well as five co-operatives, four of which are cooperative federations. The team also met with two government institutions and one international organisation (see list of interviewees in Appendix 1).

### SUMMARY OF FINDINGS - BY THEME

- **Participation** includes both membership and governance. Levels of participation vary across these aspects;
- **Leadership** is a key factor to success. Poor leadership can result in the breakdown of the co-operative model;
- Most co-operatives said they could do a better job of **empowering women** in co-operatives;
- **Youth engagement** in the co-operative model is key to ensuring long-term sustainability of the movement. Most co-operatives said they could do more to encourage youth to join co-operatives;
- **Education and training** play a crucial role in maintaining the level of competitiveness and service of a co-operative;
- **Legislation** can play a key role in enabling greater autonomy and success for co-operatives;
- The structure of a co-operative can strengthen compliance with the co-operative principles; some participatory structures support more **work and ownership** within a co-operative;
- By its nature, co-operatives face barriers to **capital financing**;
- Adoption of new **technologies** can be a key co-operative strategy for increasing youth engagement and successfully implementing diversification strategies;
- Many co-operatives face challenges in **competing with the private sector**, especially around market share and profits, as well as human resource talent.

### 4.4.1 Participation

Democratic member participation is the life blood of a co-operative. Without which, a co-operative is just like an investor-owned enterprise. Therefore, the ICA wants to “elevate participation within membership and governance to a new level” (ICA, 2013). In this analysis, the researchers looked at participation beyond the traditional narrow definition of membership and broadened the scope to include participation in a co-operative’s governance. The privilege of membership translates to rights within a co-operative; right to information, decision-making, right to vote and representation. The question is whether members exercise these rights, and how they exercise them. There is an argument that participating actively not just in membership, but more importantly, in governance through engagement, decision-making, day-to-day management and even dissent to policies, produces better outcomes and healthier in general for the entire organization.

The interviews conducted produced a variation of responses on participation. Some answers point to taking part in governance as a baseline for participation, while some believe participation in its narrowest definition of just holding membership is sufficient. Still, many think that their ability to say yes or no to certain projects or decisions, talk to management about ideas or concerns, or even influence/lobby fellow members are important aspects of active participation. This subject is discussed further in the next chapters, specifically, Chapter 3 – Worker Co-operatives.

## 4.4.2 Leadership

Informed and insightful leadership emerged from the field work as one of the most frequently cited factors contributing to co-operatives' long-term success. Most representatives on a board of directors are directly elected from members of a co-operative to represent them and their interests. Although day-to-day operations are often managed by management team and other employees hired by the co-operative, co-operatives rely on their board of directors to make critical decisions about co-operative strategy for their business going forward.

For example, the respondent from **IFFCO**, a well-known financially successful co-operative in India, stated that leadership and diversification of services have both played a key role in leading to their success. IFFCO is primarily a fertilizer co-operative which works to safeguard the interests of farmers in protecting their crops. However, other services that IFFCO has branched out to since its establishment in 1967 include energy, insurance, agri-business, international trade, telecommunication, and natural resources, particularly in overseas markets. When asked why IFFCO is successful, the respondent said it was because of “visionary leadership” to diversify into these services.

In addition, the respondent from the **Delhi State Consumers Co-operative Federation Ltd.** commented that leadership is the key to success, and that poor leadership has in the past contributed to the breakdown of co-operative structures in that organization. This respondent also commented that there needs to be a good infrastructure for building leadership, as it cannot depend only on one person. The infrastructure should include educational qualifications, developing good talent and providing good incentives. The **National Cooperative Union of India (NCUI)** also mentioned leadership as key to increasing the capacity of co-operatives to achieve success.

Further insights about leadership are explained in the following chapters.



*The research team with the IFFCO representative. Delhi, December 2017*

### 4.4.3 Women's engagement

Most interviewees reflected that their co-operatives could do a better job to engage and empower women. Most of the co-operative boards interviewed had at least two women included (out of a potential 15 to 21 total board members), as is sometimes mandated by the co-operative legislation. However, very rarely did the number of women on a board surpass the legislated quota. Of the six meetings held with co-operatives in Delhi (including NCUI), only one meeting involved a conversation with a woman who was speaking on behalf of the organisation. The respondent from the **International Labor Organization** commented that, of all the enterprises under the remit of the organisation, co-operatives are a useful development tool for meeting the SDGs including the empowerment of women. Benefits of the co-operative movement include voluntariness, furthering good governance, empowerment, and participation. The ILO respondent commented that targets and quotas, for example around women's engagement in co-operatives, can be a useful policy tool for strengthening organisational capacity.

Women's engagement with co-operative development does not confine to their economic participation as co-operative members. Women's presence in co-operative workforce is also essential to the empowerment of women. At one of our case study sites, **TSCAB**, the researcher observed that the senior management team of five has two women general managers, a ratio that is rather unusual among Indian co-operatives. In the Indian cultural setting, it is hard to attribute women's presence in higher echelons to their merits alone. It also reflects that TSCAB has a more progressive and merit-based human resources management. However, this trend is harder to find at lower level financial co-operatives, i.e. district-level banks and primary agricultural credit societies which the researcher also visited.

### 4.4.4 Youth engagement

Many respondents commented that one major challenge faced by the co-operatives is how to engage youth in the co-operative movement. Respondents from the **National Labour Co-operative**, as well as others interviewed, explained that young professionals in India are more enticed to take a well-paid, white collar job in a private firm where there is opportunity to learn new skills and to advance their career. Many co-operatives have the perception that they cannot offer this for the youth. Most participants said their co-operatives are underperforming when it comes to youth engagement, with figures of around 25% and under quoted as the total percentage of youth engaged in the co-operative in question. One suggestion which was discussed was the possibility of bolstering education and training activities which could entice more youth to join the co-operative movement.

It is posited from this study that the lack of youth engagement in co-operatives could be a threat to the sustainability of the movement. If co-operatives are not able to mobilise younger generations to be involved in future, then there is likely to be a large-scale lack of knowledge transfer and lack of sufficient skill level to develop capacity for future generations. This may have a huge impact on the development of the co-operative movement going forward.

### 4.4.5 Education and training

An overarching response from participants was that education and training played a crucial part in maintaining the competitiveness and level of service of co-operatives. What is equally important is that employees often benefit from these services and build up their own human capital, which significantly improves their employability and, in turn, living conditions for themselves and their family members.

In the case study of **TSCAB**, the researcher visited a training center called Co-operative Training Institute (CTI) owned by TSCAB, which is situated among the top research centers and institutes in Hyderabad, one hour's ride from the

TSCAB headquarters. With financial support from the state government of Telangana and National Bank for Agricultural and Rural Development (NABARD), the refinancing agency for financial co-operatives under India's central bank, CTI was able to provide free and need-based training programs for employees across the three levels of financial co-operatives. The institute is well facilitated and staffed with experienced professionals and professors. Employees within the TSCAB structure, from new recruits to senior managers, all have access to tailored courses based on their responsibilities and emerging changes in policy and regulation. Learning outcomes of participants are also measured and evaluated before and after the training sessions, ranging between two to 12 days. These training and education programs have enabled TSCAB to have competent personnel even compared to commercial banks.

#### 4.4.6 Legal and regulatory environment

Legislation that supports the growth of co-operatives is essential for the co-operative movement. In most cases, legislation will outline the minimum requirement, usually in alignment with the co-operative principles, for the establishment of a co-operative society. It will also lay out rights and obligations of relevant stakeholders, including members, board of directors, and government agencies.

Most of the co-operatives interviewed in Delhi are registered under the *Multi-State Co-operative Societies Act 2002*. Some respondents mentioned this was a good thing because the newer Act (the 2002 version which superseded the 1984 version) lessened government power over co-operatives. **IFFCO**, for instance, quoted the *Multi-State Act* as a key reason why and how it was able to return government shares in the co-operative and continue running via funding new capital through new members. Other co-operatives mentioned that the *Multi-State Act* is not necessarily conducive to co-operative success because it still provides for government support and control in some sectors. The respondent from the **Consumer Co-operative**, for instance, commented that the *Act* was not a good thing for consumer co-operatives because it creates too much dependence on government. Other co-operatives complained there is too much bureaucracy and inefficiency with having government involvement under the *Multi-State Act*, because many decisions of the co-operative need to be approved by the government before they can be implemented.

#### 4.4.7 Work and ownership

The concept of work and ownership in the co-operative model stems from the second co-operative principle of 'democratic member control'. This principle states that:

*Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.*

There was some variation in compliance of this principle among the co-operatives interviewed in this study. Most co-operative members interviewed commented that they are motivated to engage with the co-operative sector due to the fact that the co-operative priority is member benefit. However, some members, such as those interviewed from a co-operative bank in Karnataka, were not aware of their rights as members, particularly in the processes of decision making within the co-operative body. When these members were asked whether they participated in the decision-making process, they responded that they didn't. They said that they only participate if they have a grievance to be raised when they could raise it at the Annual General Body Meeting. Otherwise, the decision-making process for the co-operative would be carried out by the management of the bank.

The structure of ownership within ULCCS is also an interesting case study worth highlighting. The ULCCS has three ‘classes’ of membership:

1. Class A Members – Construction workers who have voting and ownership rights;
2. Class B Members – Government
3. Class C Members – Other members who do not have voting or ownership rights but are otherwise employees of ULCCS.

Essentially, Class C members are restricted from obtaining ownership of ULCCS, and thus do not participate in the democratic decision making of the co-operative. However, they are still classed as members and receive membership benefits in the form of dividends and other non-monetary staff benefits including sick leave, etc. When asked why the membership is structured in this way, the ULCCS respondents said that it is important that the workers of the core business function (ie, construction) are protected in the membership structure such that they obtain full ‘membership rights’. Given the condition that ULCCS finds itself in terms of being one of the most successful co-operatives in India, the question is whether this membership structure helps or hinders this success in the long run.

#### 4.4.8 Capital and financing

Most of the co-operatives who participated in this study faced varied levels of difficulties in capital and financing. Such is the nature of co-operative enterprises that they do not have access to investor capital and must therefore rely on their members’ contribution and funding from governments and government agencies. Some co-operatives can also raise capital by working with commercial and co-operative banks to obtain loans. As is the case for the majority of co-operatives in India, their members have a very limited amount of capital to contribute to the growth or even the daily operation of their co-operatives. Therefore, most co-operatives rely heavily on preferential financing and financial support from federal and state governments.

In some cases, trading control for governments’ financial support jeopardizes members’ independent and democratic decision-making over the co-operatives’ operations. That is the exact reason cited by the respondent from **IFFCO** which went to great length to return all government shares. Whereas in other cases, condition-free, usually development-oriented, funding or financing is not readily accessible to those co-operatives that are most in need. For example, the respondent from **FISHCOFED** mentioned the insufficient loans and subsidies from NABARD, which has been diverting significantly more resources toward agricultural co-operatives. Our respondents from **TSCAB** also reported that loan waivers programs, which are usually promised for political purposes by the federal or state governments but not often kept, had been disruptive to the finance of the financial co-operatives.

#### 4.4.9 Technology and innovation

Adoption of new technologies is another area of underperformance from the perspective of many of the co-operatives interviewed. Respondents stated that it was a challenge to achieving real success when it comes to adopting technologies. **IFFCO** mentioned technology as a key determinant of its success given that the adoption of new technologies has facilitated the transition in business practice for the co-operative in diversifying into international markets. The ability to constantly upgrade technology and keep pace with the private sector has also ensured IFFCO can remain competitive in these markets.

As India’s financial sector is rapidly developing and going digital, the financial co-operatives have been able to take advantage of that transition. For example, **TSCAB** has been receiving funding from the Reserve Bank of India (RBI)

to computerize daily operating activities and digitize banking services. The fully-funded program to adopt the Core Banking System is a good illustration of government support for co-operatives to adopt appropriate technologies.

#### 4.4.10 Competition with private sector

Another challenge commonly mentioned by the co-operatives was competition with the private sector. This includes competition for market and profits within a certain sector, for instance the financial sector, and also includes competition for human resource talent, particularly youth.

In terms of competition for market and profits, the respondent from the **Delhi State Consumers Co-operative** described the struggle that was faced by consumer co-operatives at the time of economic liberalisation of India in 1991. Until this time, there was a great deal of government support for consumer co-operatives due to the essential commodities framework. However, once liberalisation hit, there was no need for the government to subsidise the co-operatives in the same way. In that sense they were left to compete with the private sector for shares of the export market, and as a result they dwindled in the face of private sector competition. The respondent reported that today, there is just 50 out of 700 wholesale consumer societies in India that are active.

Another aspect in which competition is felt is in that for human resource talent. In the case study of financial co-operatives, the researcher observed that given the complexity and technicality of work at financial co-operatives, especially co-operative banks, employees have to go through national qualification tests to be employed in the banking sector. Most of them are also required or given the opportunity to enrol in training programs provided at a **TSCAB**-owned training institute. As a result of these rigorous selection processes, employees at co-operative banks are no less competent than their counterpart working in commercial banks. However, the salary offered by co-operative banks are usually lower, with the gap widening as the employee moves up to management. This income gap is driving many competent employees and managers to commercial banks, posing a long-term risk of human capital loss for financial co-operatives.

## 4.5 Recommendations

From the analysis of the findings, two overarching recommendations can be suggested for this chapter:

#### 4.5.1 Bolster education, training and technology development

The first recommendation is to bolster education and training and technology development in the co-operative sector. This can address issues of participation, youth and women's engagement. Education and training can act as a positive incentive to attract professionals, particularly where financial capacity of the co-operative is lacking. It will also provide co-operatives with the capacity needed to develop human resource talent and create good leadership practices. This will be key in competing with the private sector, for instance.

#### 4.5.2 Bolster autonomy within the legal and policy frameworks

The second recommendation is to bolster autonomy within the legal and policy framework. This can provide greater choice for co-operatives and allow them opportunity to diversify services, attain other sources of finance and implement structures of membership which encourage more work and ownership within the co-operative. This can also help to bolster the co-operative to ensure it can compete more effectively with the private sector.

# CHAPTER 2

## Financial Co-operative Observations



## 5.1 Chapter Overview

This chapter presents the research focusing on the Telangana State Co-operative Apex Bank Ltd. It is built on desktop research and the one-week fieldwork in Hyderabad conducted the researcher. This research aims to apply the mapping framework designed for this project to assess the co-operative's compliance with the Seven Principles of Co-operation and make policy recommendations for TSCAB and other financial co-operatives in India based on the assessment results and insights from interviews. Speaking to our definition of sustainable growth for the co-operatives, the researcher highlights the potential for financial co-operatives of aligning financial viability with development objectives to deliver broader benefits to the community.

This chapter contains:

- Background;
- Research Objectives;
- Methodology;
- Findings;
- Discussion;
- Recommendations.

### SUMMARY OF FINDINGS

- TSCAB's compliance with the Seven Co-operative Principles is generally satisfactory but not adequate.
- The level of compliance varies even within one co-operative structure of TSCAB.
- TSCAB and HDCCB do not derive opportunities for sustainable development from their development mandates as a co-operative organization but usually see them as a burden.

### KEY RECOMMENDATIONS

- In the short-term, TSCAB should set up a specialized social responsibility department mandated to conduct planning and evaluation activities;
- In the medium-term, TSCAB can align the objectives of co-operatives' social activities, programs, and investments with the UN SDGs to leverage funding and financing for development purposes;
- In the short-term, co-operatives can apply the mapping framework to conduct a stocktaking of the co-operative's compliance with the Seven Co-operative Principles and identify the weak points of compliance;
- In the medium-term, co-operatives should work with stakeholders to identify opportunities to align the co-operative's core business with the development needs of the community it serves.

## 5.2 Background

Financial co-operatives (FCs) include various forms of member-owned (as opposed to investor-owned) financial intermediaries, often referred to as credit unions, credit co-operative societies, cooperative banks, and other terms that differ across the world (Cuevas & Fischer, 2006).

FCs are set up to aggregate financial resources of the poor segment of the population so that they can gain access to financial services so that they can develop into prosperity. On the one hand, the theory of “adverse selection” in economics predicts that most small farmers and small- and medium-sized businesses will not have sufficient access to financial services, especially loans and credits, because the default risk of these individuals are too high. On the other hand, many developing economies do not have functional rural finance system. In a similar fashion, FCs in India have played an indispensable role in banking the “unbanked” population, mainly in agricultural and rural communities. Since as early as the beginning of the 20<sup>th</sup> century, FCs have been contributing the economic and social development in the country by promoting financial inclusion, with most of them receiving financial support from the governments.

Co-operatives, including FCs, are widely recognized as a tool for development around the world (ILO; ICA, 2015). In India, co-operatives reach 250 million people and cover 100% rural communities (Dey, 2016), therefore having great potential in bringing inclusive and sustainable development to the population that have been left out by the market economy. Operating the most extensive network of all co-operatives and mobilizing financial resources for the poor segment, FCs are meant to play a pivotal role in this process.

## 5.3 Objectives

Given the essential role of FCs in rural financial inclusion and development and its very nature as co-operative organizations, it is vital for the International Co-operative Alliance (ICA) and FCs and their regulatory bodies to holistically evaluate the performance of FCs. However, existing literature, according to the knowledge of the author, mostly focused on two siloed streams which separately reflects the duality of financial co-operatives, that is as a financial institution and a co-operative:

One stream studies FCs as a general financial institution, that is, a provider of financial services, usually a microfinance institution. Based on that classification, research is focused on their financial performance, their role in financial inclusion, and the regulatory context (Asher, 2007; Cuevas & Fischer, 2006; Krishna A. Goyal & Vijay Joshi, 2012; Milana & Ashta, 2012; Nayak, 2012);

The other, relatively smaller, body of research looks at FCs as a general co-operative organization, usually along with other types of co-operatives, focusing on either on their compliance with certain co-operative principles or commonly discussed social contributions such as poverty alleviation and financial inclusion (G, 2012; Sampark, 2015).

Based on these literature reviews, there was a clear gap where this report could potentially contribute to the existing body of research. Through a focused lens on financial co-operatives, this report aimed to capture the unique nature of FCs as co-operatives and its significant implications on the evaluation of FCs' holistic performance. With that objective, this research sought to look beyond financials and search for synergy between the financial, organizational, and social performance of FCs in India through an mapping assessment, with case studies focusing on the Telangana State Co-operative Apex Bank Limited (TSCAB).

It needs to be pointed out that this research acknowledges that good financial performance is the foundation for the short-term and long-term operation of FCs. Hence, the mapping assessment necessarily included criteria and indicators linking to financials. But the end objective of this research was to provide policy recommendations for FCs in India to grow sustainably under emerging competition from other financial institutions while delivering their development goals as co-operatives to the communities they serve.

## 5.4 Methodology

### 5.4.1 Focus on TSCAB

The banking industry in India is highly competitive. There are public sector, private sector and foreign banks as well as small finance firms competing with each other (Equity Master, 2016; Krishna A. Goyal & Vijay Joshi, 2012). Moreover, the State of Telangana, in particular, has a relatively well-developed financial sector compared to other states in India. Despite the fierce competition, TSCAB has been able to deliver strong financial results since its inception in 2015, with its operating profit doubled over its second financial year of 2016 to 2017 (TSCAB, 2017b). Its sound financial performance makes TSCAB an ideal study subject to investigate into potential synergy between financial, organizational, and social performance.

TSCAB was registered as the state co-operative bank in 2015 after the reorganization of the State of Andhra Pradesh and formation of the State of Telangana by the Indian government. It followed the three-tier structure of co-operative banking which was designed and widely adopted following the first legislation on co-operation in India in the early 1900s. The structure has primary agricultural credit society (PACS) at the grass-root level in rural communities, district co-operative central bank (DCCB) at the district level in cities, and state co-operative apex bank at the state level (TSCAB, 2017a). The financial resources of small and marginal farmers are aggregated through PACS so that those farmers will be able to access financial services through refinancing from the DCCB of its own district, which then gets refinance from the apex bank of the state (Venkatesh S. Katke, 2016).

TSCAB is a federation of nine DCCBs and serves as the apex co-operative bank of the State of Telangana. Its nine DCCBs work in the ten districts of the state, with a total of 789 PACS members serving rural communities (TSCAB, 2017a).

## 5.4.2 Mapping framework

Seven Principles of Co-operation (“Seven Principles”) are the universally agreed-upon guidelines for all co-operatives. These principles reflected the basic values of co-operatives: self-help, self-responsibility, democracy, equality, equity, and solidarity (ICA, n.d.). At the national level, Cooperative Societies Act, 1912 recognizes the Seven Principles as the foundation for establishing a co-operative society; Telangana State Co-operative Societies Act also requires the Seven Principles to be enshrined in the co-operative bylaws before they can be registered.

These principles serve as the cornerstone of the co-operative economic institution through which members can cooperate and leverage their pooled resources. However, there has been little attempt to put a financial co-operative to the test of the Seven Principles in systematic way. Considering the above, this research adopted the co-operative principles as criteria, then built on ICA’s interpretation (ICA, 2015) of each principle, and developed a principle-based mapping framework for the organizational performance of FCs, as is shown in *Table 2*.

*Table 2. Mapping Organizational Performance: Compliance with the Seven Principles*

Criteria		Variables	
1	Voluntary & Open Membership	1.1	Voluntary membership
		1.2	Open membership
2	Democratic Member Control	2.1	Elections
		2.2	Voting
		2.3	Decision-making
		2.4	Participation
		2.5	Leadership
3	Member Economic Participation	3.1	Input - Capital
		3.2	Benefits
4	Autonomy & Independence	4.1	Reliance on external capital
		4.2	Independent decision-making
5	Education, Training & Information	5.1	Education/training programs for members
		5.2	Funding
		5.3	Technical training
		5.4	Youth inclusion
6	Co-operation & Leverage	6.1	Co-operation
		6.2	Collective action / leverage
		6.3	Working with other stakeholders
		6.4	Geographical reach of co-operation
7	Concern for Community	7.1	Social impact
		7.2	Identification of issues

The structure of this principle-based mapping framework is illustrated in Figure 6. Based on the seven principles and 21 variables shown in the above table, around 40 semi-structured questions (depending on the individual interviews) are formulated to collect relevant data primarily from the field research, which is supplemented by review of co-operative documents.

### 5.4.3 Data source and collection

The majority of data used for the mapping assessment comes from interviews conducted and co-operative documents collected during site visits in Telangana State, India. With the facilitation by the local contact point from TSCAB, four organizations and 12 interviewees agreed to participate in this research, including TSCAB Headquarter, Hyderabad DCCB (HDCCB), Karimnagar DCCB (KDCCB), Uppariguda PACS, and Gattududdenapalli PACS (see *Figure 7*). The study focused on the first two tiers due to limited time and resources during the site visit.

In-depth interview is the primary method of data collection for this research, in addition to investigation into key documents collected and a small portion of researcher’s own observation in the field. Building on the findings from the desktop research, the researcher drafted seven categories of mapping questions following the co-operative principles framework.

Questions related to organizational performance, or compliance with the Seven Principles, were explicitly phrased and organized. Whereas, for interviews, questions related to the SDGs were implicitly framed into the seventh co-operative principle: concern for the community, given that awareness of the SDGs was also a dimension of measurement during interviews. Further desktop research was also conducted to investigate alignment of activities with the SDGs. All these questions were semi-structured and focused on key measurement questions of each category, allowing insights to emerge during the one-hour interview session. Interviews were conducted by the researcher in the offices of each interviewee. Refer to *Appendix 2* for the detailed mapping framework used for the interviews and data collection.

Figure 6. Principle-Based Mapping Framework

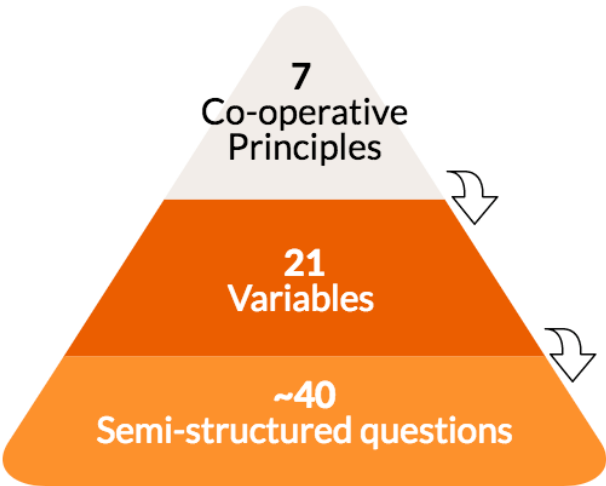
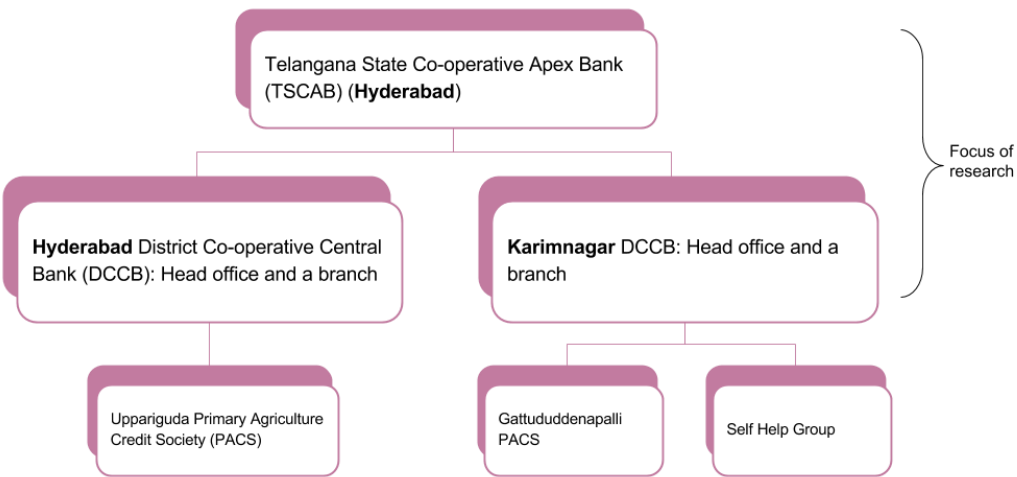


Figure 7. Participating Co-operatives



Potential interviewees were identified by the researcher and contacted with the help of the local contact person. All the participants selected were members of board of directors or senior management from each participating co-operative. With limited time and resources during the field research, the research relied on

interviews with board members and senior management because they were more likely to have a full picture of the co-operative’s operation, governance, and strategies compared with regular members or employees.

In most of the sessions, the local contact person was present and, in a few occasions, helped to clarify the researcher’s questions to the interviewee if requested. An interpreter assisted the interview at Uppariguda PACS. The complete list of interviewees can be found in *Appendix 1*; however, responses to questions (the primary source of research data) summarized in *Appendix 2* were not attributed to specific interviewees as per consent by participants before interviews were conducted.

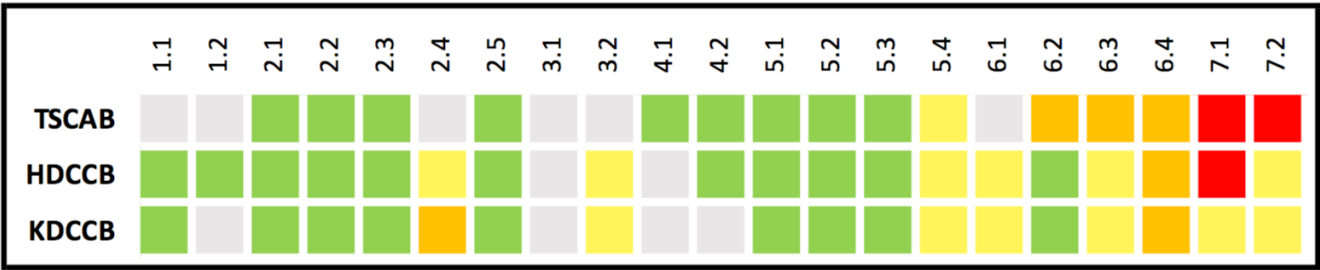
# 5.5 Findings

With regard to the FCs’ compliance with the Seven Principles, interviewees’ responses and information collected are summarized into three tables representing TSCAB, HDCCB, and KDCCB respectively. The mapping results are then visualized according to a color grading system and demonstrated in *Figure 8*. A five-color grading system was used: Green indicates compliance, red denotes major challenges or violations, whereas yellow and orange highlight that minor or considerable efforts are needed to reach compliance. For variables with multiple metrics, the grade labels represent the average performance in metrics for those variables. Variables with missing information or not applicable are labeled grey. Detailed responses or data to each variable and the corresponding grading label can be found in *Appendix 2*.

There are two points that should be pointed out before findings are presented. The first one is that with considerable information missing for *voluntary and open membership*, *member economic participation*, and *autonomy and independence*, the following discussion did not emphasize on those principles. This lack of focus does not imply these principles are in any way less important than other ones which are discussed in more detail. Readers can thus refer to the summary of responses in *Appendix 2* and use their discretion to judge whether conclusion of “satisfactory compliance” can be reached.

The second point is that for variables from 6.1 to 7.2, the grading also focuses on the management and governance aspects, rather than the results of relevant activities. Take 7.1: social impact for TSCAB as an example, the “red” assessment does not mean that there is *no* or *negative* impact associated with TSCAB’s social programs. The results only reflect the responses collected according to measurement questions.

Figure 8. Compliance with the Co-operative Principles



### 5.5.1 Compliance with the seven principles is not adequate at TSCAB and the level of compliance even varies within the same co-operative structure.

Looking at a higher-level, it is surprising for the researcher to find out from the initial mapping results that compliance with the seven principles also varies much within the same co-operative structure (TSCAB in this case). More specifically, it is evident that TSCAB and the two DCCBs have relatively satisfactory performance in the first five categories, i.e., *democratic member control*, and *education, information and training*. However, the three co-operatives have some or significant room to improve when it comes to *cooperation and leverage* and *concern for community*.

For education, training and information, for example, TSCAB and the two DCCBs have very strong performance because they have been receiving sufficient funding from national development agencies such as NARBARD. During our visit to the campus of their Cooperative Training Institute (CTI), interviewees said that the CTI offered tailored training programs for all employees (from new employees to senior managers) and board members. For adoption of online banking services, one interviewee at TSCAB head office reported that TSCAB and the DCCBs have been granted funding by the RBI to cover the majority of the costs.

On a different note, the three FCs are not complying well with some other principles. Excluding daily interactions between TSCAB and the two DCCBs, the three studied co-operatives have not made sufficient effort to identify opportunities for themselves and other types of co-operatives to thrive together. The situation with DCCBs can be slightly better given they serve PACS members and often have other types of co-operatives as their (B-Class) members as well, for example, self-help groups and waivers co-operatives in the case of KDCCB.

### 5.5.2 FCs within the TSCAB structure regard the social or development mandates as a burden to their business.

As is also shown by the mapping results, the biggest problem lies in the FCs' concern for community, which aligns with the researcher's observation that these FCs usually consider a burden their social or developmental mandates, which are integral to their co-operative identity.

During the interviews, one narrative stands out the most that their organization as a co-operative itself, or their very existence, has already been enough to benefit the community. Guided by that belief, most social activities in those co-operatives lack a clear and consistent objective, or the intention to track the "value for money" of their social programs. None of the three studied FCs has a corporate social responsibility department in its organization (with the exception of KDCCB, which has a PACS Development Cell (PDC) in charge of some similar activities). As a result, relevant decisions are either micromanaged by the General Body, or highly influenced by the preference of board of directors. What is worse, only one of the senior management interviewed was aware of the UN SDGs therefore it was not even on the longest list of agenda to align their social programs or investments with activities to implement the SDGs.

## 5.6 Discussion

In contrast with the mandatory philanthropic contribution for certain private companies in India, FCs, even though recognized as a tool for development, are relatively less (or less explicitly) committed to their social responsibilities. This tendency becomes evident in the research on the three-tier structure of TSCAB. Several respondents argued when asked about concern for community that FCs were already contributing to the community by promoting financial inclusion.

Why FCs should care about social responsibility? Why focusing on their mission of financial inclusion is not enough? First of all, functioning as both co-operatives and banks, the co-operative identity of FCs is essential for their existence. As co-operatives, they receive donations from development agencies and favourable refinancing from NABARD, both of which commercial banks do not have access to. FCs can demonstrate their concerns for the community, which is one of the seven pillars of a co-operative enterprise, through committing to social programs that give back to the people they serve. Secondly, focusing on providing financial services and credits alone does not guarantee rural development. For example, many communities in India that FCs operate in still lack basic water and sanitation infrastructure, to which FCs have great potential to contribute with development-oriented funding from lenders and donors.

Based on field and desktop research, the researcher is convinced that there is potential synergy between social performance and financial and organizational performance. All three studied FCs have previously completed and/or are currently implementing social programs, albeit to varied levels of planning, scope, and evaluation. KDCCB, among the three, is an excellent example of the potential of that synergy. For example, KDCCB has taken on the Umbrella Program for Natural Resources Management and the Watershed Development Scheme (targeting at improving access to potable and irrigation water) funded by NABARD. Its PDC, the most likely equivalent to a CSR department during the field research at three FCs, organizes priorities of the community and funding from the bank and NABARD (see *Figure 9*). Taking on these social programs not only did not undermine KDCCB's core operations but diversified its sources of financing and enabled the co-operative to better serve the local community when KDCCB served as a "policy bank." In contrast, its commercial bank competitors did not have a development focus.

Drawing lessons from KDCCB, TSCAB and its other DCCBs could also benefit from establishing or expanding a specialized department responsible for the management and strategic

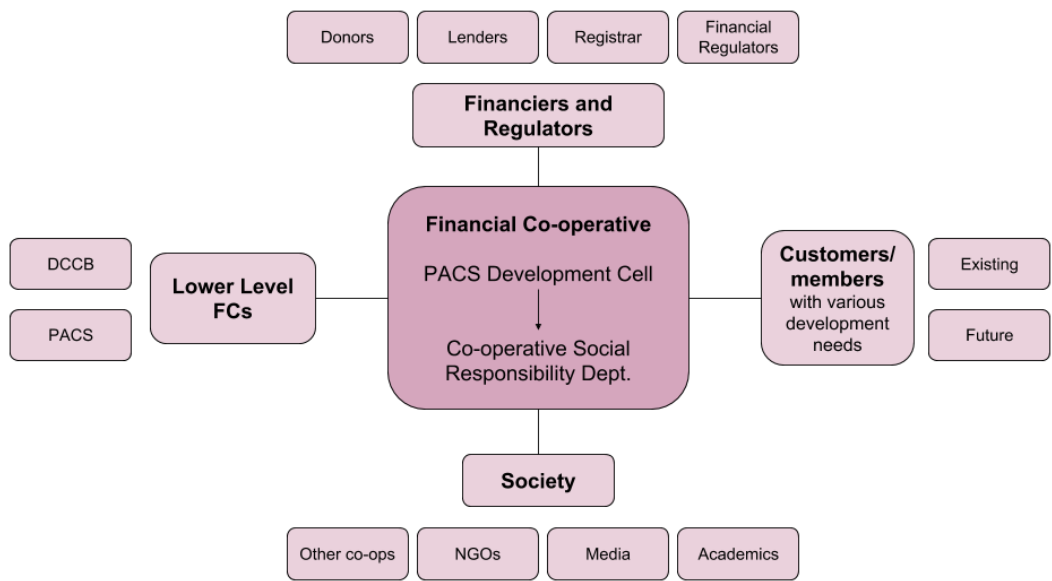
*Figure 9. PDC as a Bridge*



planning of social programs. Designed to accommodate the FCs’ characteristics as both co-operatives and a financial institution, the department should be able to deliver three major objectives: 1) strategic planning, which identifies and matches the needs of communities with available internal and external funding; 2) evaluation, which tracks and measures the “impact for money” of social programs undertaken; 3) stakeholder engagement, where the department connects the FC with internal and external stakeholders.

For TSCAB (see *Figure 10*), such a department may improve the understanding of development priorities of its communities and those of its DCCBs. In the meantime, as a co-operative, TSCAB could outcompete commercial banks and achieve sustainable development by taking advantage of more development financing from financiers (such as NABARD and the state government) because TSCAB could promise measurable impacts. If functioning properly, this social responsibility department could enable the positive feedback within the FC model to transfer TSCAB into a “policy bank” of the Telangana State. For a broader application, the SDGs framework, widely endorsed by development agencies, can serve as the overarching framework in the process of planning and measurement of social activities.

Figure 10. Stakeholders of TSCAB



Adapted from Milana & Ashta (2012).

# 5.7 Recommendations

This study started with the aim to capture the dual nature of FCs as both co-operatives and financial institutions, which has long been understudied according to the knowledge of the researcher. Despite the common argument that FCs should only focus on their core activities as a provider of credit and financial service, the researcher was in search for a potential synergy of FCs’ financial, organizational, and social performance.

A series of interviews with board members and senior management from TSCAB and two of its DCCBs was conducted using a mapping framework which consists of semi-structured questions to assess the organizational performance, that is, compliance with the Seven Co-operative Principles. After the initial mapping, “concern for community” was highlighted as a weak point where the FCs need to work on in order to achieve long-term sustainable growth. Based on the in-depth interviews, field observation, and desktop research, the researcher was able to formulate tailored recommendations (Recommendation 1 and 2) addressing the mapping results for TSCAB and argued for the potential of aligning financial, organizational and social performance for FCs. General recommendations for a broader application of the mapping framework to other types of co-operatives are also presented in Recommendation 3 and 4.

### **5.7.1 In the short-term, set up a specialized social responsibility department mandated to conduct planning and evaluation activities.**

- Enhance strategic planning, which identifies and matches the needs of communities with available internal and external funding;
- Undertake evaluation, which tracks and measures the “impact for money” of social programs undertaken;
- Engage stakeholders, where the department connects the FC with internal and external stakeholders to facilitate collaboration.

### **5.7.2 In the medium-term, align the objectives of co-operatives’ social activities, programs, and investments with the UN SDGs.**

This will offer two main benefits to TSCAB’s growth and the community it serves:

- As a co-operative with development missions, bringing sustainable development across economic, social and environmental aspects to the community;
- Increasing competency in the application for development-purposed funding and financing from domestic and international development agencies.

### **5.7.3 In the short-term, apply the mapping framework to conduct a stocktaking of the co-operative’ s compliance with the Seven Co-operative Principles and identify the weak points.**

### **5.7.4 In the medium-term, work with stakeholders to identify opportunities to align the co-operative’ s core business with the development needs of the community it serves.**

There are also apparent limitations to the research given the project constraints. In terms of methodology, the mapping assessment would benefit from cross-verification if interviewees from different groups (senior management, employees, and members) were involved. The trend reflected by the mapping results would be able to be generalized should more FCs be studied. With regards to gaps of focus, the research was only able to argue for a synergy between financial, organizational, and social performance. It would be valuable to study whether a hierarchy of priority exists among the three components of sustainable growth for a co-operative.

# CHAPTER 3

## Worker Co-operative Observations



# 6.1 Chapter Overview

This chapter presents the research focusing on the Uralungal Labour Contract Co-operative Society (ULCCS). It is built on desk research and one-week of fieldwork conducted in Kerala by the researcher. The findings and analysis of this chapter centre around participation as a key aspect of worker co-operatives, as well as sustainable growth. The conclusion drawn from this chapter is that participation provides a key strategy for achieving worker co-operative advantage, which in turn leads to sustainable growth of co-operatives.

The contents of this chapter include:

- Background;
- Problem Statement;
- Case Study: ULCCS;
- Recommendations.

## SUMMARY OF FINDINGS

- Participation includes both membership and governance. Active and total participation is a criterion of performance which aids success;
- Collectivist motivations outweigh individual motivations in participation
- Economic viability is key to the success of a co-operative. This includes revenue generation, cost reduction, capital assets and diversification

## KEY RECOMMENDATIONS

- Facilitate the development of member-centric platform that will encourage more members to participate in the governance structure of worker co-operatives.
- Business strategies such as cost reduction, revenue generation, capital access and diversification should be incorporated in worker co-operatives' overall plans.

## 6.2 Background

Worker co-operatives are businesses that are equally owned, democratically controlled and collectively operated by the members. This shared control and shared profit model aims to provide employment for its members through operating an enterprise founded on the core co-operative principles and values. The primary goal of worker cooperatives is to provide reliable employment and decent income to its employees and offer sustainable goods and services to its community. Worker cooperatives have three distinct characteristics:

- The ownership of the business requires member-employees to buy initial shares, and members own assets jointly.
- The operation of the business follows the “one person, one vote” principle, therefore each member has equal control regardless of his or her investment in the business.
- The production input comes from the labor provided by the members who are paid wages, and the allocation of profit is shared among members based on their labor input.

There are five different worker co-operative models (Vieta et. al, 2015):

- **Share-capital model** requires members to purchase shares and allows only one vote per member. Share prices can be quite high in most successful co-operatives.
- **Share-capital with indivisible reserve model** requires a percentage of the co-operative’s asset value be collectively owned as an indivisible reserve. The reserve keeps membership entry fees affordable and serves as a safety net.
- **Mondragon model** starts as a group of worker co-operatives and then evolves into a mid-level transnational corporation that has multiple subsidiaries. A certain portion of the company follows a co-operative structure, while the rest follows a conventional business structure without the rights of membership.
- **Non-share model** prohibits equity investments by members and emphasizes strong democratic member participation and collectivist orientation.
- **Hybrid model** includes a worker co-operative within a business corporation or a multi-stakeholder co-operative in which the employees are among the several groups of individuals who are members.

Around the world, there are many success stories of worker co-ops that are performing on par, and sometimes better than their traditional capitalist-owned counterparts. Perhaps one of the few places where worker co-ops have gained tremendous success is in Europe. At least 25,000 can be found in Italy, about 17,000 (employing some 210,000 people) in Spain, and about 500 to 600 in the UK (Perotin, 2016).

In France, figures show that worker co-ops are more resilient than other type of enterprises. France’s 2,252 worker co-ops posted total turnover of almost €4 billion and employing about 45,700 people. Their survival rate after three years was 77 percent compared to 65 percent in other companies. They also registered a profit rate of 6.5 percent, which is on par with 6.3 profit rate of traditional French enterprises.

A robust analysis of the performance of worker-owned co-operatives in Europe, US and Latin America shows that co-operatives can be feasible or even superior way of doing business in terms of productivity and survival compared to conventional top-down firms. These evidences reveal that enterprises based on a model that is collective,

democratic, equal and socially responsible can thrive despite the challenges and pressures within a market-oriented environment.

## 6.3 Problem Statement

The success of many worker co-operatives, however, is not universal. One of the countries where the co-operative movement has grown significantly in numbers but has performed inconsistently is India. One of the key challenges facing Indian worker co-operatives is participation among their membership. Worker co-operatives generally have higher levels of member participation, which is tied to their success (Vieta et. al, 2015). Because the success of worker co-operatives depends heavily on active, dynamic and sustainable level of member participation, addressing members are not actively participating in the operation, management and decision-making is of utmost importance. Members own collectively their co-operative, but they individually have a voice in the overall day-to-day affairs of their enterprise through right to information and representation. The task is to identify how much participation within membership plays a role in a co-operative's growth or decay, and the necessary steps to improve active participation.

Another challenge facing co-operatives Like private businesses, co-operatives cannot function without capital. Unlike traditional firms, however, co-operatives do not have full access to various sources of capital. Co-operative funding comes mostly from members through share capital and from retained earnings or reserves through surplus revenues. Because members can only invest very limited amount and reserves take longer to build up, co-operatives often apply for loans from banks. The problem is that these loans are difficult to obtain because of reluctance of mainstream lenders to lend to cooperatives. To survive, co-operatives need capital that is constructive, stabilizing and restrained. Therefore, it is vital to quantify the extent in which lack of private capital leads to a co-operative's success or failure.

## 6.4 Case Study: ULCCS

Recognized as one of the most successful worker co-operatives in India, ULCCS is a construction cooperative located in Kozhikode in the northern part of the state of Kerala. It builds infrastructures such as roads, bridges, schools, and building complexes. It started in 1925 as a social reform movement that supported poor and unemployed people and stood up against the prevalent discrimination under the caste system. ULCCS currently has 1,925 members, 4,093 non-members, and employs about 6,000 individuals across the state. In 2016, its estimated turnover is almost \$80 million and total assets of \$153 million. Known for its quality of work and cost savings, ULCCS undertakes most its projects with the state government of Kerala and some with private clients. It obtains almost all of its capital funding for the projects from co-operative banks and some from the government.

Recently, ULCCS started diversifying into information technology and real estate. One subsidiary is UL Cyberpark, a building complex rented to technology firms, and another is UL Technology Solutions, which provides information technology services in banking, transportation, healthcare, mobile application and others. In addition, ULCCS

provides many types of social and community services through the ULCCS Foundation. Committed to improving the lives of many, especially those in need, ULCCS offers affordable housing, education, geriatric care and skills development.

## 6.5 Findings and Analysis

### 6.5.1 Participation

Participation is among the key priority areas for improvement for ICA, with the goal to elevate participation to a new level within the membership and governance of co-operatives across the world (ICA, 2010). The interviews with the members of ULCCS provided important insights into the questions of why and how members participate. In this analysis, we looked at participation as not only membership, but also broadened the scope to include participation in a co-operative's governance.

There is a strong evidence that participating actively not just in membership, but more importantly, in governance through engagement, decision-making, day-to-day management and even dissent to policies, produces better outcomes and healthier in general for the entire organization. Encouraging member participation can provide for an information rich environment and for trust relations to build up (Birchall & Simmons, 2001). The interviews with ULCCS members and observations of their behavior show that the level of participation is very high, not just in its most basic definition—membership—but more prominently in its broader and more holistic definition—governance.

The privilege of membership basically translates to rights within a co-operative—right to information, decision-making, vote and representation. When someone becomes a member, he or she is voluntarily accepting these responsibilities of membership (Vieta et al., 2016). In many cases, however, it is the failure of members to perform these responsibilities that creates the problem of weak or dormant membership, which could significantly impact the success of co-operatives. Generally, worker co-operatives have high levels of member participation, which is tied to its success (Vieta et al., 2016).

There is a strong sense of active participation among the membership in the governance of ULCCS or what Novkovic et al. (2015) call “total participation.” Members, regardless of their ownership status, actively engaged in the processes, structures and strategies of ULCCS. The members’ participation in the governance of ULCCS do so on their own will, and for the common goal of achieving success for the organization.

#### **a. Why do members participate? - Individualistic motivations**

The motivations for participation in co-operatives can be classified as individualistic or collectivist (Birchall and Simmons, 2004). The qualitative analysis of interviews and observations reveals that the collectivist motivations are more dominant than the individualistic ones, as what Birchall and Simmons found in their study.

There is a prominent level of total participation from members of ULCCS, and interviewees identified some of the strongest individualistic and collectivist reasons that motivates them to engage actively in the membership of the co-operative. The figure above lists these motivations.

Gaining financial benefits is among the most common answers members provided when asked why they participate. According to one A Class member, working for ULCCS provides members with higher financial rewards in terms of salary and benefits: *“I get paid more here than if I work for a private firm within the district or for the government.”* In addition to paying dividends, members receive non-traditional benefits such as home loans at low rates, monetary amount to cover wedding costs and gold for women members.

Another highly cited individualistic motivation for participation among members is the opportunity for a better career and job security. Most of the jobs available at the core business of ULCCS are related to construction such as labourers, engineers and project managers, and others are related to the daily operation and management such as finance, purchasing, human resources, and administrative support. However, the recent diversification of services

within ULCCS in information technology, education, and real estate offers new opportunities like software engineers, programmers, project managers and other management positions. For many members, working for ULCCS provides them with good jobs, a chance to build long-term careers, and ability to switch positions within the organization.

One interviewee from the engineering department shared the process of moving up the ranks—from an entry-level engineer to a senior manager—and the amount of positive support the ULCCS management provides during such transition. *“As long as a you have the determination and the required skills, you’ll find the right career here. ULCCS rewards hard work, quality work and commitment to service.”*

*“ULCCS gave me a chance to have a better career. I feel like my hard work is valued. I am happy and proud about that.”*

Similarly, another interviewee from the auto repair and welding department felt strongly about the opportunity to move up the ladder from a trainee to an assistant leader. *“ULCCS gave me a chance to have a better career. I feel like my hard work is valued. I am happy and proud about that.”* Another interviewee who is an A Class member shared the transition from being a road construction worker to a supervisor in of the co-operative’s blocks production sites.

Another employee in the finance department narrated how participating in ULCCS offers a sense of assurance and direction in terms career path in the long-term. Prior to joining the co-operative, the employee was working for a low salary in a private technology firm and was uncertain about the future until deciding to work for ULCCS. *“It was*

Figure 11. Motivations for participation



*the best decision in my life to join ULCCS. Being part of this organization provided me with a satisfying career and opened the door to many other great opportunities.”*

Respondents like the openness of the management when it comes to moving around the organization to experience and learn other aspects of the business. It does not only provide a more holistic perspective of the organization, but also an opportunity to participate actively in a peer-to-peer engagement. One interviewee from the data analytics group moved easily from the information technology business of ULCCS to provide technical and data support to the organization’s main construction business. *“ULCCS supports flexibility of your interests and skills and having the ability to move within different areas to learn and develop is great.”*

Another individualistic motivation to participate is professional development through education and training. According to interviewees, especially the younger employees, it is very important for them to gain the required knowledge and skills to perform well at ULCCS. The non-labour intensive positions in engineering, finance, accounting, technology and management involve technical knowledge that evolves constantly. For members, having the opportunity to attend formal trainings at no cost creates an incentive for them to participate actively in the co-operative.

There is plethora of available professional development trainings that are either area-focused for engineers, accountants, financial analysts and customer service, or more general for all members. In fact, the research team observed two training classes being conducted during the field study at ULCCS. One class taught new and young members how to dress and groom themselves professionally, while the other class taught those in the middle management roles the essentials of project management.

Another part of professional development that encourages member participation is the education that ULCCS offers to its members who want to switch career within the organization but do not have the necessary education and experience for the job. One interviewee talked about a member who started as a labourer and is now an engineer because ULCCS provided scholarship, internship and the continuing training to that member. The college education incentive is also a major motivator for the more senior members, who want such benefit not for themselves, but for their children. These long-time members have first-hand knowledge of the advantages of working for ULCCS, and they want their children to have the same chance by obtaining scholarship for them to go to college. As one senior A Class member eloquently put it: *“ULCCS takes care of us members, and ULCCS also takes care of our children.”*

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*“ULCCS takes care of us members, and ULCCS also takes care of our children.”*

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Another individualistic motivation that stood out from the responses is the sense of confidence and achievement that participation provides to some members. The ULCCS brand and its formidable reputation as a successful community-focused organization are notable across Kerala, and that becomes a source of immense pride among members. Conversations with some members centered on how ULCCS has transformed the state and how that shaped the public’s view of the co-operative as a *“prestigious place to work for within the Kozhikode District.”* So mere membership creates a sense of achievement because becoming part of an organization of hardworking individuals known for their dedication and high quality of work is a distinction in itself for some members. As one interviewee put it: *“You’re well respected by the people if they know you work for ULCCS. They know you are serving the public.”*

A very striking dimension of ULCCS membership as an achievement is that it somehow elevates a member's status. One C Class interviewee shared how ULCCS membership altered others' perception of him. Because this member did not have proper education and has been working as a labourer, his prospect of marrying someone, according to him, is not very promising. There is an apparent view that working for ULCCS is equated with working for the government as a civil servant or viewed in general as very good career path. The job security and the prestige that membership to ULCCS has brought make him now a "groom material" and improve his chances of being "liked by a woman and her family." This implies that some are motivated to become members because they see participation in ULCCS as a vehicle to improve their lives and gain status in the community.

## **b. Why do members participate? - Collectivist motivations**

The individualistic benefits of participation that are discussed above are all valued by members. However, as motivators, they are secondary to collectivist motivations, which play a dominant role in members' participation within ULCCS. All the interviews with members provided reasons that are consistent with the collectivist approach under the Mutual Incentives Theory of motivations to participate developed by Birchall and Simmons (2015). According to the collectivist approach, co-operative participation is motivated by three key variables: sense of community, shared values and shared goals (Birchall & Simmons, 2015). Almost all the interviewees touched on each of these reasons when asked about participation. For them, they joined ULCCS to strengthen its legacy as a catalyst for social change. ULCCS started as a social movement in 1920s against poverty, discrimination and the caste system. Such struggle for social transformation helped shape the philosophy of ULCCS that is based on democratic decision-making, social goals, and collective production. Building quality infrastructures over 90 years that have been instrumental to the development of Kerala state, members see ULCCS as a changemaker and wanted to be a part of the noble mission to improve their communities. They share the values of perseverance, integrity, hard work and care for others, which all act as a glue that bind members together. One member said, "The struggles and success of our founders inspire me to join ULCCS. For me, it's an honour to work with people who share the same values as our founders."

Members also talked about sense of community as a major motivator for them. According to them, one way that they see this sense of community is through ULCCS Foundation, which provides social and medical services to the most vulnerable members of the society like children and senior people. They said that the concern for community encourages them to work harder so ULCCS can reach more people in need. For them, "giving is a responsibility to the society not an obligation."

Finally, members are greatly motivated by shared goals of ULCCS to provide the needed quality infrastructures and other services that help many people of Kerala. Members believe that the goal of improving economic and social conditions is primary and their own personal motivations are secondary. They understand that achieving their shared goals would enable them to achieve their personal goals.

### c. Participation as governance

Figure 12. Participatory Governance

The individualistic motivations discussed above all address the basic definition of participation as membership. Members participate because they value all the benefits that come with their membership, and within worker co-operatives like ULCCS, membership is satisfied by working. However, some of the individualistic motivations address the broader and holistic definition of participation as governance by members. Participative governance is much more common in worker co-operatives because by definition, the workers (who are also members) own the entire business.



One of the dimensions of worker co-operative is the commitment of members to govern: manage the daily operation, make key decisions and look after the overall well-being of their organization. The figure above lists some of the motivations for members to become active in governing ULCCS. Unlike mere membership, governance is a higher level of participation because members are not seen as just simply workers but as important constituents who have a say in how their co-operative is run and who runs it. This is particularly the case with ULCCS, where there is significant level of participative governance.

One of the most notable motivation for participative governance is leadership opportunity within ULCCS. The governance structure of ULCCS is hierarchical but very democratic in which members elect their leaders, the directors. Each director oversees specific construction projects and the entire team that works under those projects. Under the directors are the project managers and team leaders. Although this tiered governance structure might have some disadvantages, two key advantages are: (1) there is collective control and management, and (2) governance is carried mostly by the members. This means greater opportunity for members to participate in the process.

One example that points to these advantages is the election of a member, who started as a construction worker, to the board of directors. Members see leadership as an opportunity and responsibility of membership regardless of rank, not as just an obligation of those in higher positions. One interviewee viewed this as beneficial to ULCCS: *"It should be based on your abilities and what you've done. More members will be encouraged to run for leadership positions."*

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*"She is hopeful that her leadership role would inspire others, especially women, to increase their participation in the governance of ULCCS."*

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Another success story about leadership opportunity is of an interviewee, who is both an engineer and a woman. Started as a project engineer, the member recently became a director. Construction is a male dominated field, and the rise of women engineers, and women in general, to the organization's leadership positions could be vital in changing this situation. The interviewee pointed out that she was drawn closer to the leadership role because she wanted to contribute further to the noble mission of ULCCS—changing the lives of Keralans through infrastructure development and social services. She is hopeful that her leadership role would inspire others, especially women, to increase their participation in the governance of ULCCS.

What sets ULCCS apart from other organizations is the high level of hands-on management of the operations and processes. There was a salient observation that managers and directors work so closely with their subordinates in the performance of their tasks and responsibilities. It resembled a very hierarchical structure that aim to institutionalized openness among upper and middle management and subordinates, but also to implement checks and balances in terms of responsibilities and expectations.

What is more striking is that not only the directors and managers participate in this exercise but remarkably the chairman of ULCCS as well. The lobby and hallways are empty during the day, but everyday starting around six in the evening, project managers from different construction sites start to congregate in the lobby adjacent to the office of the chairman, which is notably located by the entrance of the building. Some managers usually stay as late as 10 or 11 in the evening waiting patiently for their turn to speak to the chairman. One of the project managers explained why this had become a tradition rather than a mandatory event: *“ULCCS is known for its quality work, timeliness of project completion and cost savings. In order to maintain that, open communication is needed. And who doesn't want to spend some time with the chairman?”*

Ensuing conversations with other members clarified that such practice pressures managers to meet goals and deadlines related to construction projects. It also encourages them to talk about problems and how to mitigate them, and propose options if project costs or deadlines are not achievable. This type of management style seems to work well for ULCCS. In the words of its chairman: *“Everyone should maintain integrity and transparency of transactions. Be honest and be seen as honest.”*

Participation in the day-to-day management elevates governance because members are held accountable to what is expected of them, and management practices such as the one discussed above are institutionalized as standards that everyone measures their success against.

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*“Everyone should maintain integrity and transparency of transactions. Be honest and be seen as honest.”*

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Another major motivation related to governance that emerged from the interviews is the ability to participate in the decision-making process within ULCCS. Elevated levels of member participation usually take place within worker co-operatives, especially in the strategic direction of the organization (Vieta et al., 2016). Whether it is a policy change, disciplinary action, project approval or budget allocation, it was very clear that members actively participate in making decisions in every viable way they can.

Those A class members interviewed pointed out they regularly participate in key decisions taken by the management team by attending meetings and casting their votes if needed. In addition, some members said that they voiced their disapproval or concerns about certain decisions to either the chairman or directors. They stressed

that they never experienced any kind of retaliation from the management, which is what they like about the entire process.

#### **d. Which members participate and how?**

##### *Participatory governance varies across members*

ULCCS members actively participate through membership and governance, but the extent of participation varies across position and membership status. Membership consists of three classes: A for worker-owners who are either construction workers or engineers, B for shareholders from the government, and C for worker-non-owners. About 47 percent of the total members are A class members and more than half of the members are C class members. Most of the A class members started as non-members and went through a rigorous process before attaining a member-owner status. One A class member started as a non-member in 1998 and became member in 2003.

Among the members, A class members tend to participate more in the governance of ULCCS than the C class members, who mostly participate in work contribution, meetings, trainings, community service activities and social events. Those who participate in governance tend to be members who have been with ULCCS for significant amount of time, and thus, have considerable level of experience. For example, the directors have been working in construction before they were elected. Specifically, one of the directors has been working as a project engineer for about 10 years before deciding to take a leadership role. All the interviewees have been voting regularly, which is the most basic of participatory governance. They also mentioned some instances when they voiced their opinion against certain decisions by directly talking to the directors or the chairman.

In term of voting, only A class members have ownership and voting rights, but C class members receive almost the same benefits that A class members get. There is a concern within the co-operative movement that lack of ownership or voting rights might be impacting members' willingness to participate. In the case of ULCCS, however, the participation of C class members interviewed does not seem to depend on their membership status. When asked whether inability to own or vote affect their motivation to participate, the interviewees responded in the negative. They explained that they are motivated everyday to work and participate in any way they can to achieve the goals of ULCCS. One interviewee added: *"We don't see not able to own a part of ULCCS or vote as a problem. We know that our work helps a lot of people, and just able to contribute to that is already a motivation for us."*

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*"We don't see not able to own a part of ULCCS or vote as a problem. We know that our work helps a lot of people, and just able to contribute to that is already a motivation for us."*

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The benefits they receive, according to them, are much better than what they will get if they were to work for other organizations. So for them, the opportunity and the prestige of being part of ULCCS is enough to incentivize them to participate. They pointed out that even without a right to vote, they can always voice their issues or complaints to the directors and the chairman through the co-operative's open-door policy. It is widely known to everyone that any member regardless of his or her membership status can directly meet with the chairman himself to talk about concerns or even share their ideas.

Moreover, members talked about the sense of openness and inclusion within which ULCCS operates as a major motivator for them despite not having the legal or formal means of participating in direct governance. They take seriously the ways they can actively participate in decision-making and planning like attending meetings, talking to voting members and keeping themselves informed about what is going on within their organization. For them, this is as close as they can get to participatory governance.

### ***Participation through membership is at high level***

In a worker co-operative, membership is satisfied mainly by work contribution. Because the members are also the employees, output and productivity depend on the amount of labor input by members. Members are expected to commit more time than the normal job requirements (Vieta et. al, 2015), which is very true in the case of ULCCS. In fact, members tend to work over time a lot. One interviewee shared that on average, members work as late as ten or eleven in the evening, and even on weekends. Observation suggests that members value task completion strongly at all times even that means working longer than usual. They said that they were willing to sacrifice their family and social time to achieve their goals and responsibilities. According to them, their strong commitment and dedication to the noble mission of ULCCS is worth the sacrifice. *“Our families and friends understand that we work hard for the benefit of many people.”*

### ***Participation and professionals from the outside***

In theory, members of a worker co-operative are responsible for the firm’s governance (Hansmann, 1996). However, there is an increasing need for private industry professionals within successful co-operatives like ULCCS as they grow and strategize for the long-term. Typically, these professionals have the required education, managerial experience and business skills that are important to run an organization successfully. ULCCS delegated some of its key executive and managerial positions to professionals within the private industry. Basically, some individuals who are not members of ULCCS are contracted to become part of the governance structure. For example, the chief executive officers of UL Cyberpark and Sargaalaya are not from the ranks of ULCCS members, but from the outside industry. An adviser to the chairman is also a professional from the private sector.

The presence of outside professionals seemed more prominent in more technical areas like in the co-operative’s technology subsidiary, UL Technology Solutions. Advanced education and training are required in positions in technology, and some of software engineers, programmers and managers have private industry experience before moving to ULCCS.

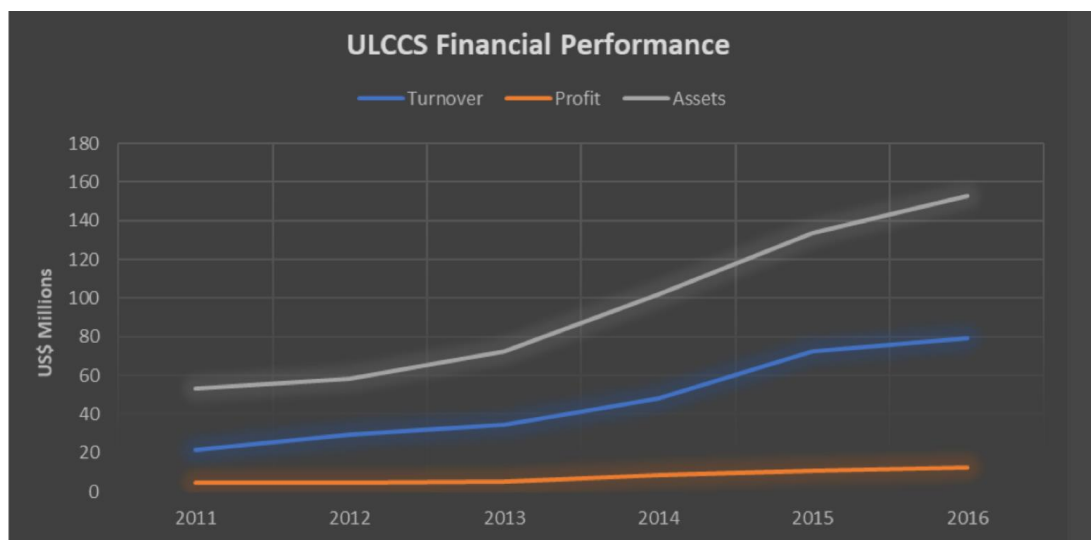
It is not clear whether delegating key positions within ULCCS affected participation rate among its members. What is sure, however, is that these leadership and technical positions involve many responsibilities and require competency and specific set of skills that may be only available from outside the organization. These professionals could be members while some are not, but regardless of their status, they take part in the governance of the organization and perhaps serve as instruments to the achievement of key goals.

## **6.5.2 Sustainable Growth**

Co-operatives are born out of the desire to improve the lives of their members and impact their communities. However, this can be difficult to attain if a co-operative is not economically and financially viable both in the short-term and long-term. Worker co-operatives need to break even if they were to survive and make profit if they were to prosper. The inability to generate sustainable revenues and earn profits due to various problems has become a major obstacle in achieving success within many co-operatives. ULCCS, however, has managed to be successful in fulfilling its core purpose of service—making the lives of its members better and developing its communities—

because it has built a capacity to do so by improving its economic and financial viability. It has achieved this by generating sustainable revenues, raising more capital, reducing costs and diversifying its core business.

*Figure 13. Financial Performance of ULCCS*



#### **a. Revenue generation**

First, ULCCS has consistently generated positive revenues in the last five years of its business operation as the graph above shows. The recent increase in the number of construction projects coupled with better contract negotiation and cost reduction are reasons one project manager cited for such financial performance of the co-operative. The management understands that profitability is not the main goal of ULCCS, but it recognizes that a stable stream of income is required to cover its operation costs, pay its members' salaries and its debts. At the end of the day, the financial needs of a co-operative are not that different from a traditional firm. A healthy bottom line is required to survive because member contribution is not enough to sustain a co-operative. ULCCS has successfully incorporated sound business practices and strategies that lead to positive revenues, which then lead to sustainable performance. One interviewee said, "ULCCS is more than about making profit. It is about our commitment to society. But we cannot achieve that if we don't have enough profit to cover costs and invest in our social services."

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*"... ULCCS gained a competitive advantage."*

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#### **b. Cost reduction**

ULCCS has also significantly reduced its variable costs by producing instead of buying most of the input construction materials that are used in its projects. Gravel, sand and stone are the main materials used in construction but their highly volatile supply and cost pose risks in terms of project completion and quality. To mitigate this risk, ULCCS decided to produce its own input materials. It started owning and operating quarry sites across Kerala to produce gravel, sand and stone.

## Ownership of production inputs reduces costs and risks



A visit to one of its quarry sites revealed an impressive efficiency of production, from mining the rocks from the mountains to refining them into different grades for various purposes. One of the site engineers interviewed believed that producing raw materials lowered costs significantly, and projects were no longer delayed due to supply shortages of construction materials. The quarry sites also provide jobs to many residents in the rural areas. In addition, ULCCS has been producing other construction materials such as blocks and woods. These materials are often sourced and purchased by a typical production firm from others, but ULCCS has managed to break the supply chain and eliminated the risks that come with reliance on the market for its raw materials. The chairman highlighted the tremendous benefits of such cost-effective strategy: *“Project completion and quality are no longer compromised by aggressive competition with other construction firms for raw materials. ULCCS gained a competitive advantage.”*

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*“We provide loans to ULCCS because of its strong credibility... and the transparency within the organization.”*

---

### c. Capital access

The constraint in capital availability, which is a major problem in all worker co-operatives, has pushed ULCCS to become innovative in obtaining required capital to fund its increasing projects. Currently, most worker co-operatives have only options to add capital by tapping into their profits or obtaining funds from their members. The perceived riskiness of co-operatives discourages most private banks and investors to provide capital to them. ULCCS found a way around this challenge by starting to work with district co-operative banks within Kerala and create a consortium with them obtain capital through loans with interest rates lower than those charged by private lenders.

This partnership is an evidence of the principle of “cooperation among co-operatives,” which calls for more collaborations among co-operatives that provide mutual benefits. A district co-operative bank manager said that the consortium is a win-win situation for all: ULCCS obtains loans to complete its projects and small farmers in the rural areas get an investment opportunity from their savings at district banks.

*“We provide loans to ULCCS because of its strong credibility in the community for the high*

*quality of its projects and the transparency within the organization.”* Moreover, this relationship between ULCCS and co-operative banks is further strengthened by the endorsement and backing from the state government.

### Diversification increases adaptability and competitiveness



#### d. Diversification

The desire for expansion of its core construction business has encouraged ULCCS to allow diversification into other services, which has become the trend for many successful co-operatives around the world. The rate and extent at which ULCCS diversified is impressive considering that co-operatives tend to have fewer means to diversify than private firms and are less likely to abandon their original mission to venture into entirely different industries (Hendrikse et al., 2007).

From only building infrastructures, ULCCS is now providing services related to information technology, real estate, education and management. These services are either not closely related or have nothing to do at all with construction as co-operatives have a tendency to diversify in unrelated products or services (Van Oijen and Hendrikse, 2002). Related or not, ULCCS recognizes the need to achieve sustainable growth if it were to strengthen its viability as a business in an increasingly competitive environment.

Currently, ULCCS has three major subsidiaries: UL Technology Solutions (ULTS), UL Cyberpark and Sargaalaya Arts & Crafts Village. UL Cyberpark is an expansive real estate building constructed by ULCCS that leases office space to technology firms, with the aim of attracting more entrepreneurs and companies to the district. Sargaalaya, on the other hand, is a sprawling village of art and craft shops managed by ULCCS, which aims to support local artists and encourage tourism.

ULTS provides a wide range of services such as networking, surveillance and mapping, application development and data analytics. An interview with several project managers and engineers within the subsidiary revealed that most of their clients are also co-operatives that are incorporating technologies into their businesses to become more competitive.

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*“Diversification is a smart strategy for growth. There is too much competition and many risks to just focus on one service or industry.”*

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For example, ULTS developed a tracking system for a milk co-operative that tracks temperature of its dairy products as they are transported across the state. It is also helping co-operative hospitals to have software infrastructures to electronically store medical records and provide pharmacy services. Similarly, ULTS is working with co-operative banks to provide their customers with e-banking, and with agriculture co-operatives to build agri-marketing and e-commerce platforms. These collaborations highlight “cooperation among co-operatives” principle and show how ULCCS is using its technological capacity to connect communities. As one interviewee mentioned, *“ULTS is helping and uplifting society through technology.”*

At present, ULCCS can only take projects within the state of Kerala. This limitation, in addition to the risks of market shocks, are the main reasons why diversification could prove beneficial to the co-operative. As one interviewee admitted, *“Long-term growth and success will depend on whether we compete and provide services in other sectors.”*

There is a positive attitude among ULCCS members toward diversification. When asked whether they approve providing services other than construction, all interviewees were very supportive of the decision to diversify. Most of them believed the decision as an opportunity to create more jobs for the people of Kerala and provide services, especially technology, that are lacking in key areas like education, healthcare and banking. Some of them viewed diversification as a strategy to achieve sustainable growth, which for them, is vital in securing the future of ULCCS. One interviewee cited the example of IFFCO, a large fertilizer co-operative in India, and its recent success in diversification. *“Diversification is a smart strategy for growth. There is too much competition and many risks to just focus on one service or industry.”*

Is diversification the future of worker co-operatives? If so, how can they achieve it? There are no certain answers to these questions at the moment, but what is certain is that co-operatives have to be economically and financially viable in the long-term if they were to sustain their commitments to their members and communities. The chairman of ULCCS said that the lack of capacity to withstand expansion is a big issue when asked about reasons for low success rates of many co-operatives. One way ULCCS is addressing the challenge is through diversification, and it has been working so far.

## 6.6 Recommendations

Recommendations were based on interviews with the key members and stakeholders, and on-site observations. The different individualistic and collective motivations behind participation within ULCCS were identified and discussed. Overall, ULCCS members tend to participate actively in both satisfying their membership requirements and in governance of the co-operative. Individualistic motivations such as financial benefits, better career and job

security, professional development and others are valued by interviewees. However, the qualitative analysis of interviews and observations reveals that the collectivist motivations are more dominant than the individualistic ones. There is a strong sense that participants are motivated more by sense of community, shared goals and shared values—areas that ULCCS is known for.

There is an increasing recognition that member participation provides a key strategy for achieving a worker co-operative advantage. In line with this, the following recommendations are proposed:

### **6.6.1 Facilitate the development of member-centric platform that will encourage more members to participate in the governance structure of worker co-operatives.**

This can be achieved by:

- Establishing more training programs for members that will teach how to become effective and successful leaders within their co-operatives.
- Improving communication between the leadership team and members about governance opportunities such as voting, available managerial positions, and other events that require member inputs.

### **6.6.2 Business strategies such as cost reduction, revenue generation, capital access and diversification should be incorporated in worker co-operatives' overall plans.**

This can be achieved by:

- Re-assessing the financial capacities of co-operatives in terms of revenues, costs and capital.
- Studying the economic and market conditions to identify the opportunities to diversify into other products and services.
- Employing the expertise of outside industry professionals with the required business acumen and management experience to lead the development of co-operatives' business strategies.

# CHAPTER 4

## Self-Reliant Co-operative Observations



## 7.1 Chapter Overview

In 2000, the Karnataka State government passed the *Karnataka Souharda Sahakari Act 1997* ('*Souharda Act*') which provided a pathway for co-operatives in the State to be registered as genuinely autonomous, self-reliant, and wholly-member-owned entities accountable to their members and completely free from government interference and control in such co-operative activities (Preamble of *Souharda Act*).

The legislation sits alongside the *Karnataka Co-operative Societies Act 1959* ('*Karnataka Act*'), which provides a more traditional pathway for co-operatives in the State to register as an entity that recognises government involvement in co-operative activities, government funding, and government participation in management (Preamble of *Karnataka Act*).

The liberal legislation was passed amidst the backdrop of a wider 'self-reliant' co-operative movement in India, among which nine States passed legislation based on a Model Co-Operative Law which shone a spotlight on the failings of the co-operative movement and attributed them to too much government interference and involvement in co-operative activities.

The eight States include Jammu & Kashmir, Uttarakhand, Madhya Pradesh, Andhra Pradesh, Bihar, Rajasthan, Chhattisgarh, Orissa and Karnataka (see *Appendix 3* for list of co-operative Acts in these States).

This research stream focuses on the State of Karnataka as a case study in the context of the wider self-reliant co-operative movement in India. The key policy question is whether the Souharda self-reliant co-operative model in Karnataka is effective and can be relied upon as a mechanism for strengthening the co-operative movement in India and contributing to the sustainable growth of co-operatives in the country.

This chapter contains:

- Overview of the Legal Landscape in Karnataka
- Background to the Self-Reliant Co-operative Movement
- Literature Review of Self-Reliant Co-operatives
- Findings and Analysis of Observations
- Recommendations

### SUMMARY OF FINDINGS

- Souharda model offers less government interference, increased efficiency and more autonomy. It also tends to engage youth and women better than under traditional legislation;
- The Souharda Act bolsters autonomy in the legal framework for co-operatives in Karnataka.
- Leadership is a key, if not the key, factor to success of co-operatives;
- There is an over-reliance on leaders in KSSFC to progress the self-reliant movement forward;
- The self-reliant movement is highly politicized. Progression of the movement depends largely on "political will".;
- Karnataka is the only State which has a Federal Body to oversee the self-reliant co-operatives;
- KSSFC does not have powers for registration or termination of co-operatives; this remains with the Karnataka Registrar;
- The ideal is that there is one Act, which incorporates both liberal provisions and the option for government support.
- There is scope for the Souharda model to be scaled to other States in India, but before this can happen attention must be given to building capacity within the model

## KEY RECOMMENDATIONS

- Strengthen the Federal Body to enable the model to be scaled to other States
- Build leadership capability
- Develop capacity around women's empowerment and youth inclusion
- Incentives for government and leadership to act scrupulously and build capacity within the co-operative movement for a sustainable future
- Incentives for co-operatives to migrate to Souharda movement
- Work towards one Act instead of two

## 7.2 Overview of the Legal Landscape in Karnataka

In 2000, the Karnataka State government passed the *Karnataka Souharda Sahakari Act 1997* ('*Souharda Act*') which provided a pathway for co-operatives in the State to be registered as genuinely autonomous, self-reliant, and wholly-member-owned entities accountable to their members and completely free from government interference and control in such co-operative activities (Preamble of *Souharda Act*).

The legislation sits alongside the *Karnataka Co-operative Societies Act 1959* ('*Karnataka Act*'), which provides a more traditional pathway for co-operatives in the State to register as an entity that recognises government involvement in co-operative activities, government funding, and government participation in management (Preamble of *Karnataka Act*).

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The eight States include Jammu & Kashmir, Uttarakhand, Madhya Pradesh, Andhra Pradesh, Bihar, Rajasthan, Chhattisgarh, Orissa and Karnataka (see *Appendix 3* for list of co-operative Acts in these States).

### 7.2.1 Relevant Legal Instruments in Karnataka

There are a number of relevant legal instruments which apply to co-operative activity in Karnataka. The main instruments include:

- *Multi-State Cooperatives Societies Act 2002 & Rules 2002*
- *Karnataka Cooperative Societies Act 1959 & Rules 1960*
- *Karnataka Souharda Sahakari Act 1997*

In addition to this, each Act provides for the creation of specific 'bye-laws' which are the responsibility of the apex organisation (ie, national level cooperative society, federal co-operative body or multi-state cooperative society) to create and implement in accordance with the Act and Rules which are applicable.

There are also some relevant provisions in the Constitution of India and from the International Labour Organization (ILO) which apply to the legal framework in Karnataka:

- Entry 32 in the State List of the Constitution of India;
- 97<sup>th</sup> Amendment to the Constitution of India, 2011; and
- International Labour Organization Recommendation 193, 2002.

### 7.2.2 Multi-State Legislation

The *Multi-State Act* and accompanying *Rules* apply to co-operatives with operations that are not confined to only one State of India, and whose members exist across multiple States in the country.

Seeing as operations of these cooperatives exist beyond one State, the multi-state framework is administered by a Central Registrar, which is part of the Department of Agriculture, Cooperation and Farmer's Welfare in the Government of India.

In Karnataka, there are 26 co-operative societies registered under the *Multi-State Act 2002* (Ministry of Agriculture and Farmers' Welfare, n.d.).

### 7.2.3 Karnataka State Legislation

There are two Acts in Karnataka under which a co-operative society can register. The *Karnataka Act* provides for registration which allows a co-operative to access government funding and subsidies and permits government members to sit on the co-operative's board or participate in the co-operative's management decisions.

The *Souharda Act* provides for registration which restricts government involvement in the co-operative, meaning that government members are prohibited from sitting on the co-operative's board and from participating in management decisions. The co-operative is also restricted from accepting funding or subsidies from the government. The main premise of the Act is that co-operatives who register under it are protected from government interference and control in the co-operative's activities.

In Karnataka, approximately 36,000 co-operatives are registered under the *Karnataka Cooperative Societies Act 1959*, and approximately 4,000 are registered under the *Karnataka Souharda Sahakari Act 1997* (Government of Karnataka, n.d.-b; Souharda Federal Cooperative, 2018).

### 7.2.4 The International Labour Organization

In 2002, the International Labour Organization issued recommendation 193 (ILO, 2002) encouraging governments to provide an enabling policy, legal and institutional framework to ensure the growth of the co-operative movement. The recommendation was intended to provide a universal standard to help enable cooperatives to fulfil their potential all around the world. The principles in the recommendation reinstated the co-operative values of "self-help, self-responsibility, democracy, equality, equity and solidarity" (ILO, 2002) and recognised the role of government to "provide a supportive policy and legal framework consistent with the nature and function of cooperatives and guided by the cooperative values and principles" (ILO, 2002).

Governments were urged to adopt the recommendation in their domestic laws. The Government of India recognised the recommendation by amending the *Multi-State Act* in 2002, strongly influenced by the conclusions of the recommendation (ILO, 2002).

The ILO is the international body for the technical cooperation within the United Nations for the advocacy and promotion of cooperatives worldwide.

### 7.2.5 The Constitution of India

Entry 32 in the State List of the Constitution of India provides States the power to legislate for:

*32. Incorporation, regulation and winding up of corporations, other than those specified in List I, and universities; unincorporated trading, literary, scientific, religious and other societies and associations; co-operative societies (Seventh Schedule (Article 246), n.d.).*

In addition, in 2011, the Constitution of India was amended to make it a fundamental right of all Indian citizens to form a co-operative society. The 97<sup>th</sup> amendment to the Constitution was accompanied by a directive principle in Article 43B, encouraging States to “promote voluntary formation, autonomous functioning, democratic control and professional management of co-operative societies” (Article 43B, 2012). Such a statement highlights the policy of the government to encourage segregated or more minor players in society, such as women, to become a more active part of the economy by engaging with the co-operative movement (The Hindu, 2012).

In 2009, the government introduced the *Constitution (111<sup>th</sup> Amendment) Bill* which is intended to safeguard co-operatives further from government interference in their activities. The Bill seeks to amend the Constitution to insert guidelines for running co-operative societies and add a new Directive Principle of State Policy in line with that under Article 43B above. The amendment passed in parliament in 2011 but has not been enacted (PRS Legislative Research, 2018).

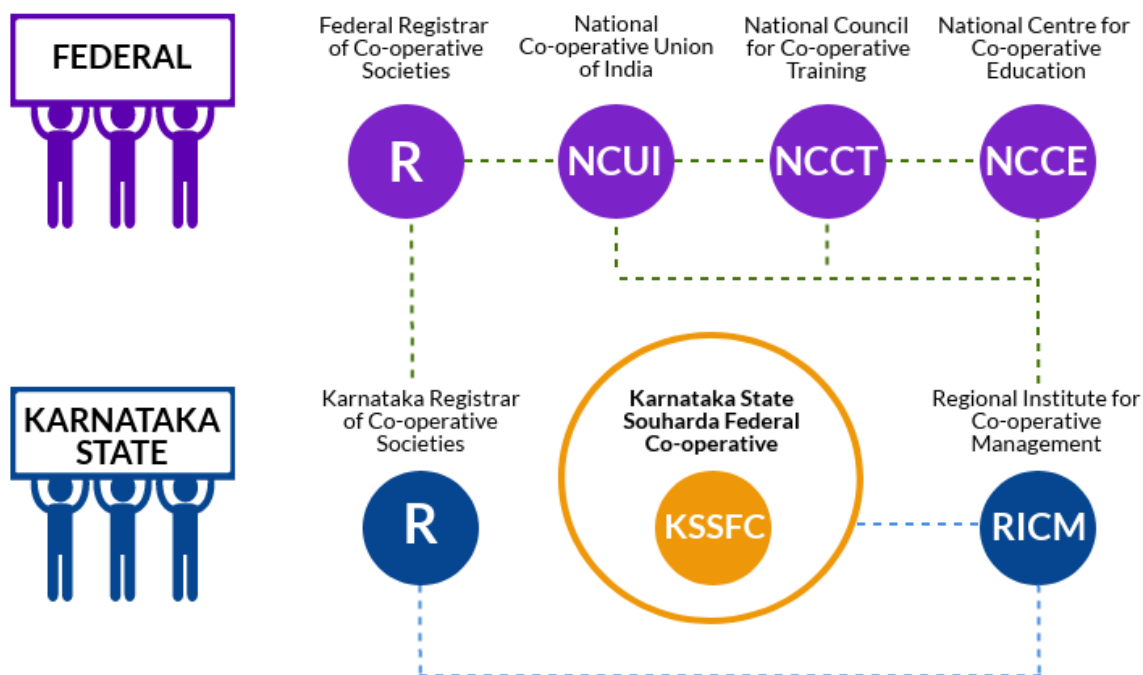


*Members of the RICM Co-operative Management training, December 2017*

## 7.2.6 Institutional Overview

The major institutional players in the cooperative sphere fall roughly into two camps: the first is at the federal level and the second is at the state level. The major players include are outlined in *Figure 14*.

Figure 14. Institutional Overview



**Federal Registrar:** Arm of Federal Govt. responsible for registration, administration and cancellation of co-operatives under the *Multi-State Act*.

**NCUI:** Apex organisation representing the cooperative movement in India. Members include National and State Federations, Multi-State Co-operative Societies, State Cooperative Unions, State Co-operative Banks. Member of ICA-AP.

**NCCT:** Constituted under the NCUI and Federal Govt. Responsible for organising, directing, monitoring and evaluating cooperative training for cooperative personnel around India.

**NCCE:** Constituted under the NCUI and Federal Govt. Responsible for organising cooperative education in the cooperative sector.

**Karnataka Registrar:** Arm of the Karnataka State Govt. responsible for registration, administration and cancellation of co-operatives under the *Karnataka Act*. Responsible for the registration and cancellation of co-operatives under the *Souharda Act*.

**KSSFC:** Apex Federal body of co-operatives registered under the *Souharda Act*. Responsible for co-ordinating and supporting member co-operatives.

**RICM:** Affiliate of NCUI responsible for conducting training for co-operative personnel within Karnataka. Conducts programs for co-operative personnel from co-operatives registered under both the *Karnataka Act* and the *Souharda Act*.


## 7.2.7 Registration of Co-operatives in Karnataka

Responsibility for registration of *all* co-operative societies in Karnataka falls with the Karnataka Registrar. That is, registration of co-operatives under both the *Karnataka Act* and the *Souharda Act* must apply to the Karnataka Registrar of Co-operative Societies for registration. The same goes for termination of co-operative societies.

Registration is governed by chapter 2 under both the *Karnataka Act* and the *Souharda Act*. Termination is governed by chapter 10 of the *Karnataka Act* and chapter 8 of the *Souharda Act*.

**SNAPSHOT**


**Nilenso Software Co-operative, Bangalore, Karnataka**




Nilenso is an employee owned software organisation based in Bangalore.

It is not technically registered as a co-operative, but it would like to be.

Their ideal state is to register as a 'technology co-operative'. This would incorporate the criteria by which they currently work, including:




Ability to sell products interstate and overseas



Have essential business as services, not products



Have no restrictions on employee count



Allow membership & ownership by foreign residents



Have remote offices interstate and overseas



Invest excess funds back into the business

*Nilenso does not fulfil the criteria of a co-operative under the current Indian laws because they are a knowledge-based group producing services as well as online products which are not tangible, do not adhere to physical distribution channels and can easily transcend geographical borders.*

Nilenso was founded in 2013 and have 20 employees based in Bangalore. It is currently registered as an Limited Liability Partnership (LLP).

Nilenso would like to register as a 'technology co-operative', but there is no such thing in India.

The Indian co-operative laws focus heavily on the agriculture and dairy sectors, which rely on manual labour and the promotion of physical goods through distribution or export channels. Indian co-operative law does not accommodate a trans-border membership base.

Despite this, Nilenso views itself within the co-operative framework. They see the ability of a software co-operative to redefine the seventh principle of co-operatives: concern for community.

In a technologically-dominated world, communities can exist online, and work can be shared more easily across borders. Open sourcing can make a substantial community impact to democratize the industry and create momentum for a "silent revolution" of technology co-operation.

## 7.3 Background to the Self-Reliant Co-operative Movement in Karnataka

The background to the general co-operative movement in India was explained earlier in this report in Chapter 1. This section outlines the background to the Souharda self-reliant movement in Karnataka State, the implementation of a Model Act in 1991 under the Central government, and the eventual passing of the 1997 Karnataka Bill on an autonomous, self-reliant co-operative structure for Karnataka, which culminated in the *Karnataka Souharda Sahakari Act 1997* and the establishment of the Karnataka State Souharda Federal Co-operative Limited (KSSFC).

### 7.3.1 State power to legislate for co-operatives

Since the *Government of India Act* in 1919 made the “subject of co-operation” a state government power, not a central government power, the responsibility to legislate for co-operatives has essentially been held by the State government. This is enshrined in entry 32 of the State List of the Constitution of India (Government of India & Ministry of Law and Justice, 2015).

After India gained independence in 1947, various States began to implement specific co-operative laws based on national policy. To further community, economic and political development, the post-independence policy of the Indian government was that every village would have a Panchayat, a school, and a co-operative society. The *First Five Year Plan* (1951-56) of the Indian Government highlighted the vision of the government to use cooperatives as the preferred entity for economic and political development (NCUI, n.d.).

In Karnataka, the focus of this case-study, the government passed the *Karnataka Co-operative Societies Act 1959* and accompanying *Rules* in 1960. To this day, the *Karnataka Act 1959* still governs the majority of co-operative societies in Karnataka (approximately 36,000 in total) and the Karnataka Co-operative Registrar is the governing body responsible for the administration of those co-operative societies.

### 7.3.2 The problem of government involvement

There were some challenges to co-operative development after independence in 1947. A report commissioned by the Reserve Bank of India in 1954 by the *All India Rural Credit Survey Committee* stated, among other things, the co-operative movement was failing due in part to the fact that co-operatives were not present in a large proportion of rural India. Even in areas where cooperatives were present, approximately 75% of the population’s credit requirement was met from other sources (NCUI, n.d.). The Committee also found that governance in cooperatives was unstable, as the democratic board tended to promote its own interests and displayed nepotism in advancing and recovering loans (“Co-operative Law and Democratic Management” n.d.). The government responded to the Committee’s findings by upscaling government involvement in cooperatives, in particular by encouraging government buy-in of cooperative shares as well as the appointment of government nominees on cooperative boards and government involvement in cooperative management (NCUI, n.d.).

By 1959, such government control was codified in the *Karnataka Act*. Sections 121 and 30B give the government power to act in any manner they see fit within a co-operative registered under the Act. Sections 29 and 53 also give the government power to nominate the majority of the Board within a co-operative and provide financial assistance to co-operatives registered under the Act.

Government involvement in cooperatives continued for the following three decades, until demand from Co-operators advocating for a more autonomous law began to take flight in the mid 1980s. The Central Planning Commission, an entity of the Central government responsible for the planning of co-operation in India, set up the *Committee on the Democratization of Cooperatives and Professionalisation of Management* in 1985 under Sri Ardhanareeswaran to investigate this autonomous movement further. The Committee delivered their report in 1987 which attributed the failure of the co-operative movement in India in part to the excessive interference from governments in co-operatives (“Co-operative Law and Democratic Management,” n.d.). The Central Planning Commission then established a *Committee on Model Cooperatives Act* in 1991 under Sri Brahm Prakash intended to draft a Model Co-operative Law to overcome some of the shortfalls inherent in the existing legal framework which allowed for such excessive government interference. The Committee released the Model Co-operative Law in 1991 and encouraged all States in India to adopt it.

### 7.3.3 The development of a liberal co-operative law

The context of the time in 1991 was one in which governments were looking for ways to address the challenges faced by co-operatives as a result of liberalisation of the Indian economy. Governments sought to 'level the playing field' for cooperatives in competing with the private sector in a free-market economy. The *Eighth Five Year Plan* (1992-1997) of the Indian Government recognised that the growth of cooperatives had been stunted in India mainly by "control of cooperatives by dominant vested-interest groups, poor management, dependence of cooperatives on higher tiers and government for financial assistance and limited range of business activities. (Planning Commission (India), n.d.)" In recognising this, the plan emphasised the need to promote the cooperative movement as autonomous, self-managed, self-regulated and self-reliant (Planning Commission (India), n.d.). Thus, the Model Co-operative Law, which emphasised autonomous, democratic and voluntary co-operative action guided by less government involvement in the activities of co-operatives, provided the apt solution for Co-operators looking to embolden the co-operative movement.

The key problem at the time was, however, the fact that not all governments were willing to give up control of the co-operatives they had been involved in, and in some instances, benefited from politically and economically. Two respondents interviewed in this research study who were involved in the drafting of the *Souharda Act* in 1997 commented that this was a key challenge to many States in India adopting the Model Law and, most likely, the reason why only a few states decided to take it up in the end. Karnataka, through altruistic leadership, political alignment and some luck, managed to adopt the model law and incorporate it into a new piece of legislation which passed in the Karnataka Legislative Assembly in 2000. This was the birth of the *Souharda Act*, and the beginnings of the self-reliant co-operative movement in Karnataka.

### 7.3.4 Parallel Laws

Instead of replacing or amending the existing law, the *Karnataka Act*, the Karnataka government decided to implement the *Souharda Act* alongside the *Karnataka Act*. This is extremely significant given the context and evolution of the movement because it created the structure whereby co-operatives in Karnataka can, even to this day, choose whether to register under the *Karnataka Act* or the *Souharda Act*. In effect, the two Acts work in parallel, despite there being differences in governing bodies and requirements for establishing and operating under either Act.

### 7.3.5 A Federal Body

A key element of the *Souharda Act*, which is different from similar Acts in other jurisdictions in India, is that it established a Federal body responsible for promoting and organising its co-operative members, as well as framing bye-laws, providing training, organising auditing and inspection as well as other activities mentioned in s 53(7) of the *Souharda Act*. Souharda Federal is akin to the role of the "friend, philosopher and guide" commonly assumed to be the role of the Karnataka Registrar under the *Karnataka Act*. KSSFC does not have the power to register or terminate co-operatives. The power for co-operatives who wish to register under the *Souharda Act* remains with the Karnataka Registrar. It is worth noting that the *Souharda Act* (Section 52) requires any co-operative registering under the Act to become an automatic member of the Souharda Federal body.

### 7.3.6 Recent Amendments

Since the inception of the *Souharda Act* in 2000, the government of Karnataka has passed amendments to the Act which, perceived from the point of view of KSSFC, could be an attempt by the government to gain back control of

these autonomous co-operatives (The Hindu, 2014). The major amendments relate to liquidation, elections, and auditing and inspection, and are detailed as follows:

- Act 21 of 2004 in Karnataka amended s 26(2) of the *Souharda Act* to give the Registrar the power, instead of the Federal Body, to appoint an Administrator in the case where the Board has not held an election before the term of Directors has expired (see s 16 of Act 21 of 2004).
- Act 21 of 2004 amended s 36 to give the Registrar the power of inquiry over self-reliant co-operatives in the context of the “power to summon and examine persons and documents” (see s 20 of Act 21 of 2004).
- Act 21 of 2004 amended Chapter 8 of the *Souharda Act*, with regards to liquidation. This amendment transferred the power for liquidation from the Federal Body to the Registrar (see ss 24-26 of Act 21 of 2004).
- Act 4 of 2013 amended s 33 of *Souharda Act* to replace the audit section. This amendment replaced an auditor selected by the Federal Body to a Panel of Auditors which includes one government auditor (see s 23 of Act 4 of 2013).

## 7.4 Literature Review: Self-Reliant Co-operatives

The **International Labour Organization** (ILO) has published many resources on co-operative societies given it is the leading international institution under the UN dealing with the co-operative movement worldwide. Of particular relevance is the literature surrounding Recommendation 193 which was issued by the ILO in 2002. A Report on the Promotion of Cooperatives by the ILO in the 89<sup>th</sup> Session of the International Labour Conference in June 2001 (International Labour Conference, 2001) details the ILO’s stance on the changing nature of government involvement in co-operative activity. The ILO recognised that “many cooperative members and the general public still often perceive cooperatives as being state-controlled or state-sponsored, economically inefficient and socially defunct organizations, which put the interests of either the State or paid professional managers before those of their members” (International Labour Conference, 2001).

This is a view recognised by entities who work within the co-operative sector particularly in India. Indeed, there have been a number of **Government Committees on Co-operatives** which have concluded that government officials should not be involved in the management or decision-making processes of co-operatives. Such Committees include the Working Group on Cooperative Policy (1959), the Committee on Cooperative Administration (1963), the Review Committee of the National Cooperative Union of India (1969), the Committee on Cooperative Law for Democratisation and Professionalization of Management in Cooperatives (1987), and the Brahm Perkash Committee (1991) which eventually developed the Model Cooperative Law (“Design and Execution of the Study,” n.d.).

Government interference in co-operative activity is even acknowledged by the Government of India itself in its **National Policy on Cooperatives**, published in 2002, which states that:

*“the regulatory role of the Government will be mainly limited to the conduct of timely elections, audit of the cooperative societies, and measures to safeguard the interest of the members and other stake holders in the cooperatives. There shall, however, be no interference in the management and working of the cooperatives. The Government recognises the apolitical nature of cooperatives.”* (Govt of India, National Policy on Co-operatives, 2002. Ch 7, Para 4)

Another question is that of the significance of having a Federal Body in the self-reliant cooperative structure. It is well recognised that apex organisations can help coordinate and strengthen the co-operative movement by promoting autonomy and self-sufficiency. This is a view supported by the ILO (International Labour Conference, 2001) and also by **Mohan Mishra**, a former Director with the National Co-operative Union of India and a well-known personality within the cooperative sphere in India (Mishra, n.d.). He states that, “federations can play a very important role in the areas of good governance and business development”, and argues that capacity building should be done within Federations so that they can play a role in boosting the efficiency of the cooperative sector and strengthen the movement (Mishra, n.d.).

**Jennifer Meyer-Ueding** of Humboldt-University in Berlin, Germany, published an insightful study in 2012 into the self-reliant cooperative movement in India and the principle of autonomy. She used the *Andhra Pradesh Mutually Aided Cooperative Societies Act 1995* within the city of Hyderabad as a case study to conclude that the existing legislation (*Andhra Pradesh Cooperative Societies Act 1964*) did not afford autonomy to its registrants and the principles inherent within the Act contradicted the co-operative principles, “showing shortcomings in participative governance... [which] go along with shortcomings in their capabilities” (Meyer-Ueding, 2012).

Generally, the idea of the self-reliant co-operative structure is welcomed by commentators of the co-operative model who advocate for co-operatives to be autonomous and independent from government control. There is, however, a grey area when it comes to defining what is meant by ‘government control’. Even though co-operatives should be encouraged to be self-sufficient, self-reliant and self-help entities, this does not preclude them from interacting with government in all facets. In their Guidance Notes to the Cooperative Principles, the **International Co-operative Alliance** points out:

*“Independence from government and the importance of creating a level playing field for co-operatives do not exclude governments from recognising the value of co-operatives and supporting their development. This can be done by legislation and policies that promote the development of co-operatives while preserving their independence and autonomy. Co-operatives are inherently useful to governments wishing to develop their national economies in ways that are economically, socially and environmentally sustainable.” (ICA, 2015)*

On the issue of leadership, **Dr Daman Prakash**, Senior Consultant of IFFCO Foundation in New Delhi, has written on the importance of co-operative leadership to “ensure maximum economic advantages to the producers and to ensure that the cooperatives are member-centred” (Prakash, 2008). More than this, he argues there is a fundamental lack of managerial skills in the cooperative sector due to inadequate training support from within the movements. He argues for greater capacity building around leadership, particularly in education and training for personnel within co-operatives, to ensure that co-operatives can respond to the challenges of a free-market, globalised environment and build efficiency (both “price-efficiency” and “technical-efficiency”) to remain competitive and work towards success (Prakash, 2008).

Finally, the information available specifically on the Karnataka model is limited. There is a short study by **Professor M. Indira** of the University of Mysore in Karnataka, entitled “The Impact of Liberalisation of Cooperative law on Governance in Cooperative Societies: Experiences from Karnataka State, India” (Indira, n.d.) which argues that the Souharda model has achieved some success relative to non-Souharda co-operatives in the sense that the ‘co-operative spirit’ is improved, there is more member control in initiatives from the Souharda cooperatives, there is better participation in meetings and greater member engagement, and the Board is more responsive to member’s concerns. She attributes this to Souharda having a Federal Body which plays an important role in “mentoring and guiding the cooperatives in all aspects” (Indira, n.d.).

There is also another study by prominent academic **Dr. Yashavantha Dongre** of Mysore University which examines the empowerment of women through the Souharda co-operative structure. By looking at five women's co-operatives who are members of the Souharda Federal Body, Dr. Dongre's study concluded that economic empowerment is facilitated by the Souharda model, and there is some evidence that this has ramifications for social and political empowerment as well (Dongre, n.d.).

Another prominent academic in the region, **Dr T. Paranjothi**, Vice-Chair of the ICA-AP Research Committee, has also recently conducted a study comparing self-reliant Acts in different Indian States and analysing the performance of co-operatives under the self-reliant model. His preliminary conclusion on the Souharda model is that it has achieved some success, yet there is a need to revisit promotional and planning activities of the Federal Body to attract societies from other sectors outside of credit and multipurpose, which make up the bulk of the Souharda membership base (Paranjothi, n.d.).

## 7.5 Findings and Analysis

The findings and analysis for this case study are broken up into four parts:

- Findings regarding KSSFC
- Findings regarding compliance with the 'Seven Co-operative Principles'
- Findings regarding performance
- Findings regarding the 'scalability' question

### 7.5.1 Findings re. Karnataka State Souharda Federal Co-operative (KSSFC)

#### SUMMARY OF FINDINGS IN PART 1

##### 1.1 Overview of KSSFC

- Only 10% of co-operatives who are Souharda members converted from the *Karnataka Act*;
- Section 53(7) of *Souharda Act* outlines the functions of KSSFC
- Credit co-operatives are the dominant sector of membership of Souharda

##### 1.2 KSSFC Members

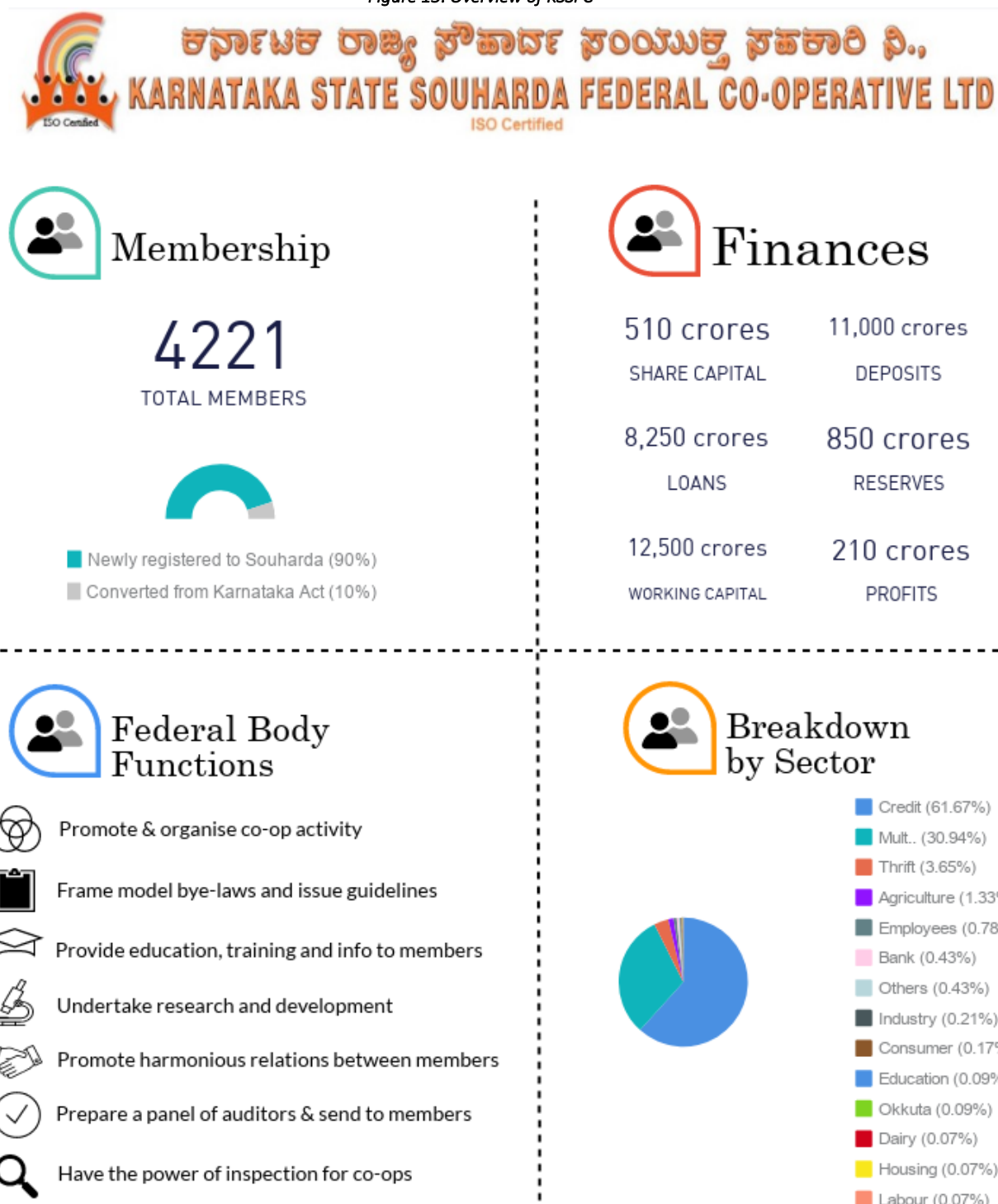
- Less government, increased efficiency and more autonomy were key reasons for co-operatives to convert to Souharda;
- Auditing processes appear more efficient and more transparent under Souharda;
- Souharda co-operatives seem to engage more youth and drive more engagement in education and training;
- Co-operatives are not the first career choice for young professionals because of job security concerns and lower compensation relative to other options.

##### 1.3 KSSFC Shortcomings

- The dominance of credit co-operatives in KSSFC could lead to systemic problems where Souharda favours a dominant sector (eg, credit) and Karnataka favours another dominant sector (eg, agriculture). This prevents the growth of KSSFC;
- Linkages in supply chains of co-operatives is a key reason why many co-ops are prevented from converting to Souharda;
- There is an over-reliance on leaders to sustain the Souharda Federal Body.

## a. Overview of KSSFC

Figure 15. Overview of KSSFC



## b. Findings from KSSFC members

A large proportion of the research done in this stream considers the viability of the KSSFC as a Federal Body. Of the seven member co-operatives of Souharda Federal Body interviewed in Bangalore, all expressed a preference to be registered under the *Souharda Act* rather than the *Karnataka Act*. Five of the seven had previously been registered under the *Karnataka Act*, and then switched to the *Souharda Act* when it came into operation. Across these five co-operatives, respondents stated that reasons for **converting** to *Souharda* included:

- Increased efficiency of processes;
- Less government interference;
- Independence in financial dealings;
- Autonomy in implementing co-operative's own schemes;
- Support and guidelines from the Souharda federation.

Respondents also raised improvements in the **auditing process** in response to this question. One co-operative stated that under the *Karnataka Act* there were often auditing clearance processes from the government which caused delays. Another co-operative stated that they were confronted with some corruptive practices where a government auditor was assigned to audit the co-operative's activities. In the latter case, under the *Souharda Act*, a panel of auditors is appointed, one by the government and the rest by the Souharda Federal Body. The respondent stated this is the preferred approach seeing as only one member of this panel is a government auditor, and there are others to provide a balance.

In addition, some co-operatives expressed that the **processes for approval** under the *Karnataka Act* for activities was cumbersome. For example, one credit co-operative explained that if they wanted to provide a loan to a member, the government needed to approve the loan under certain circumstances. Under the *Souharda Act*, the co-operative only needs to have the loan approved by their own management and the only obligation to the Souharda Federal Body is that they inform them, not ask for their permission.

Another response from the co-operatives was that they appreciated having 2% of their profits being administered by the Federal Body to be used for **education and training**. This is afforded for under section 10(2)(b) of the *Souharda Act*. However, this is not different under the *Karnataka Act* as s 57(2A) provides for the same amount to be put towards the Co-operative Education Fund administered by the Karnataka State Co-operative Federation Limited (Karnataka Co-operative Societies Act 1959, n.d.).

Despite these being relatively identical provisions, there was a general feeling from the respondents that the Souharda Federal Body did a better job of administering the training fund and carrying out the training. The respondents from the Regional Institute of Cooperative Management, an arm of the NCUI responsible for co-operative training activities in the region, stated that the Souharda members were more engaged in the training activities, generally because they tended to be younger. They said people who attend the training from *Souharda Act* societies are between 30 and 40 years of age, whereas people who attend training from *Karnataka Act* societies are mostly over 45 years of age.

This is a view confirmed by leading academic, Dr. Dongre of Mysore University, who stated that member training is more effective and engaging under the Souharda model than under the traditional Karnataka model because the Souharda model allows training for all levels of personnel within the cooperative, not only training for Board members, for instance.

The **employees** from the Souharda Federal Body interviewed, who included mainly mid level officers of the Federal Body, stated that part of their motivation for working at the Federal Body over other types of organisations was that they are required to attend two compulsory training sessions per year. The employees also said that the Federation acts in the spirit of “friend, philosopher and guide”, and that this is a key reason why it is so successful. Member cooperatives of Souharda who were interviewed also commented that the guidance from the Federal Body was a key benefit for being registered under the *Souharda Act*. One cooperative bank commented that they see benefit from their membership fees under Souharda including administrative guidelines and other supportive activities from the Souharda Federal Body.

When asked whether working in a co-operative is preferred over working in other types of organisations, the employees said a co-operative was not their first choice. This is because of the instability of the Board in the sense that Board Members can change frequently, and this can impact job security. They also mentioned that compensation in the co-operative sector is lower than that elsewhere. When asked about whether they receive a raise in compensation which is commensurate with performance, they said they don’t. They mentioned that they operate according to the “service rules” which are spelt out in s 61 of the *Souharda Act*.

This raises other aspects of the self-reliant model, being how it enables fringe groups such **youth members** to be more involved in the co-operative sector. A common response from the Souharda members interviewed in the study was that they were challenged to promote the model to youth members in the community and to attract youth members to be part of the co-operative. A multi-purpose cooperative in Tumkur commented that they would like to have more youth involved in their cooperative, but it is too expensive for youth members to join. In addition, they commented that youth are not “service minded” and instead they are more incentivised by higher income in other sectors.

### c. Shortcomings of KSSFC

Despite favourable accounts of the Souharda Federal Body, there were some shortcomings noticed by respondents. The main shortcoming is that the majority of members of the Souharda Federal are **credit co-operatives**. The Karnataka State Registrar, as well as prominent academics, Dr. Dongre from Mysore University and Dr. T Paranjothi, Vice-Chair of ICA Research Committee, all commented that this was a problem for the Federal Body. Further diversification into other sectors would allow the body to attract more membership and choose a more integrative approach for the self-reliant model. The risk of having too many co-operatives in one sector is that it cements the divide between the Karnataka model and the Souharda model, making it more difficult for co-operatives outside the credit sector to convert to the *Souharda Act*.

All in all, the majority of co-operatives in Karnataka are registered under the *Karnataka Act 1959*. Of the roughly 40,000 co-operatives in Karnataka, approximately 10% are registered under the *Souharda Act*. The Legal Director of Souharda Federal, who was involved in drafting the *Souharda Act 1997*, stated that **linkages between co-operatives**, especially with regard to the fifth co-operative principle of co-operation among co-operatives, make it difficult for co-operatives in agriculture or dairy to convert to the new Act. Because of the restrictions with regards to government funding placed on co-operatives under the *Souharda Act 1997*, a co-operative registered under the *Souharda Act 1997* cannot necessarily ‘co-operate’ with other co-operatives who receive government assistance. This is especially tricky for co-operatives who are involved in elaborate supply chains with other co-operatives, such is the case in the dairy and agriculture industries. Such co-operatives are restricted from registering under the *Souharda Act 1997* because the members can receive indirect benefit from the government via the link in the supply chain.

The sectoral divide between the two Acts highlights a broader key issue within the movement, which is that of the government role in co-operatives. The literature is mostly clear on the point that governments have been intimately involved with the co-operative movement ever since the *All India Rural Credit Survey* in 1954, and likely even before that time. Even though there is a trend towards recognising less government involvement, most notably recognised by the ILO in Recommendation 193 (International Labour Conference, 2001, cl. 3.3.2), co-operatives in India now compete in a relatively free market where they are subject to the same **government regulations and stipulations** as other entities who operate in that same space. Complying with government regulation is not, per se, an undermining of the principles upon which the *Souharda Act* has built, nor is it a breach of the Act. The line is clearly drawn in the “statement of objectives and reasons” and s 17 of the *Souharda Act* which states that the co-operative cannot accept government assistance or support, or allow government interference or control except for registration and cancellation.

Many respondents, including those from Souharda Federal Body, claimed that co-operatives in agriculture and dairy, essentially primary industries producing and distributing **public goods**, rightfully rely on government support and they should continue to do so. The Directors of the Souharda Federal Body stated that “government needs societies, and societies need government.” The Karnataka Government also agree this is the case. The argument behind this is that government has an role in safeguarding the interests of the members who rely on these primary goods and services, given that they are closely tied to the public good. The research team at the University of Mysore supported this argument to an extent in saying that there is no evidence really to show that there is a positive association between efficiency of process (ie, no government involvement) and no misappropriation of funds. A counter to this argument, however, also put forward by the research team, is that politicians have proven to be concerned with themselves and not necessarily with the interests of society, thus it is reasonable to remain sceptical about government involvement in co-operatives.

Another shortcoming of the Souharda model is the **over-reliance on leaders** to sustain the Federal Body. The Karnataka Registrar commented that the Souharda model is more susceptible to breaking down due to the fact that there is no authoritative entity who can assume the role of watchdog if leaders of the movement are prone to misappropriation. Presumably this refers to potential misappropriation within the Souharda Body itself. This view was supported by the research team at the University of Mysore in the sense that the structure of governance of Souharda Federal allows for too much reliance on one ‘Governor’ for leadership and, ultimately, for success. In addition, the research team commented that there was not enough change in the Board at Souharda Federal. The team stated that changing leadership is important for diversity and ultimately for achieving success.

## 7.5.2 Findings re. compliance with the 'Seven Co-operative Principles'

### SUMMARY OF FINDINGS IN PART 2

- Automatic membership to KSSFC contradicts the principle of voluntariness. However, this is for a ‘systematic favouring of all self-reliant co-operatives’, so as to avoid political favouring;
- The *Souharda Act* bolsters autonomy in the legal framework for co-operatives in Karnataka.

## d. The Principle of Voluntariness

Section 53 of the *Souharda Act* grants the mandate for the Souharda Federal Body and states that “all co-operatives registered under this Act shall be the members of such Federal Co-operative.” (Karnataka Souharda Sahakari Act 1997, n.d.) By this, a co-operative who chooses to register under the *Souharda Act* will automatically become a member of the Souharda Federal Body. *Prima facie*, this section fundamentally contradicts the 1<sup>st</sup> co-operative principle of ‘voluntary and open membership’. ICA’s guidance notes on the co-operative principles state:

*The statement that ‘co-operatives are voluntary organisations’ reaffirms the importance of people choosing voluntarily to participate in and make a commitment to their co-operative. People cannot be made to be co-operators. It is a voluntary act to join and to be involved with others to achieve shared economic, social and cultural needs and aspirations. (ICA, 2015)*

When asked about why membership to the Souharda Federal Body was made compulsory, the Legal Director of Souharda, who was involved in the initial drafting of the legislation, said it was intentionally drafted this way so that there would be a systematic favouring of the Federal Body towards all co-operatives who wanted to join the movement. If they had made membership optional, for instance, then there would be a risk of “political favouring” towards certain sectors within the Federal Body.

The reasoning behind the policy to enact automatic membership makes sense, and in some way it strengthens the 4<sup>th</sup> co-operative principle, ‘autonomy and independence’. By creating a structure whereby the members of the Federal Body are protected from the risk of the institution turning non-democratic, the legislation enables the co-operative principles even further. In addition, in this case the co-operatives in Karnataka have the choice between two Acts which in itself encourages voluntariness and open membership at the level of the Federation. It would be a different scenario if there was only one Act and only one Federal Body, and automatic membership of that Federal Body was insisted upon within the legislation. However that is not the case in Karnataka and is not the case with the Souharda Federal Body.

## e. The Principle of Autonomy

The principle of autonomy is enshrined in the preamble of the *Souharda Act 1997*. Point 2 of the *Statement of Objects and Reasons* says that the Act provides for:

(2) removing all kind of restrictions that have come to clog the free functioning of the co-operatives and the controls and interference by the Government except registration and cancellation;

It is clear that the Act bolsters the 4<sup>th</sup> principle of autonomy and independence by restricting government influence in the activities of any co-operative registered under the Act. Many respondents stated that the disassociation from the government is a key reason why they are registered under the *Souharda Act 1997*. Some respondents told stories of government interference in their co-operative when they were registered under the *Karnataka Act 1959*, in particular in auditing and management decision making processes.

In the interaction with the research team at the University of Mysore, the team stated that it is difficult to quantify the concepts of ‘freedom and autonomy’. The team believe that in strict terms, the liberal legislation makes very little impact in the operation of the co-operatives, but what it does allow for is Souharda co-operatives the scope to do what they had always wanted to do, but were unable to do, under the *Karnataka Act 1959*. In a sense, the liberal Act enables autonomy, which provides for greater flexibility, and in turn, efficiency, creativity and innovation.

The ICA in the Guidance Notes to the Co-operative Principles, speaks to the value of increased autonomy in the co-operative movement:

*Engaging with government on legal and policy matters does not however mean compromising the autonomy and independence of co-operatives and the ability of members to democratically manage their organisations without government interference. This 4th Principle of Autonomy and Independence means that members of co-operatives are entitled to make decisions about their co-operative without undue influence from government beyond a wider policy environment that impacts equally on other forms of economic organisation (ICA, 2015).*

### 7.5.3 Findings re. performance

**SUMMARY OF FINDINGS IN PART 3**

**3.1 Leadership**

- Leadership is a key, if not the key, factor to success of co-operatives;
- There is an over-reliance on leaders in KSSFC to progress the self-reliant movement forward;
- The self-reliant movement is highly politicized. Progression of the movement depends largely on “political will”.

**3.2 Women's Empowerment**

- The *Karnataka Act* mandates for one woman on a co-operative board, the *Souharda Act* mandates for two women. Neither quota is enough to enable women’s influence through boards;
- The *Souharda Act* appears to engage women in the co-operative movement more effectively than under the *Karnataka Act*. There seems to be greater scope for establishing women’s only co-operatives under *Souharda Act* than under *Karnataka Act*, given the flexibility of the KSSFC management to establish such co-operatives.
- Women’s only co-operatives can be an effective mechanism for empowering women.

**3.3 Capital Financing**

- Channels for capital financing of self-reliant co-operatives is not made clear;
- The majority of co-operative members interviewed stated that they obtain their financing from membership fees.

#### a. Leadership

In almost all cases when asked about what makes a Souharda co-operative successful, the participants responded “leadership”. This was true of Souharda members as it was of Souharda Federal participants and commentators on the *Souharda Act*.

One co-operative bank, a member of Souharda, commented that “leadership is 100% a factor to success” in their co-operative. The respondent went on to say that the ability of the bank to find good leaders depends on the community and the chance of whether good leaders are available. When asked about why leadership is so important, the respondents said that leadership provides “efficiency in decision-making” which contributes to the success of the bank.

The Regional Institute of Co-operative Management (RICM) provides training in leadership and management at their Bangalore campus. The RICM emphasised that leadership was an important focus of their training program, and that they train co-operative leaders from all around the State. The RICM offers MBA (Master of Business Administration) and MCA (Master of Computer Application) programs for members of the co-operative sector, for co-operators from both the Karnataka Act and the Souharda Act.

The leadership at the co-operative governance level, however, seems to be more embroiled with politics. One co-operative commented that co-operatives are the “path to politics” in India. They mentioned that 80%-90% of political leaders are or have been associated with co-operatives, and that co-operatives are a way for political leaders to establish and keep control of the electorates. This view was supported by government officials and academics who recounted the story of how the *Souharda Act 1997* passed.

The dominance of strong political leadership, as well as low member participation in co-operatives at the time the *Model Act* passed through the Central government, tilted the scale in favour of the political leaders. The research team at the University of Mysore recounted that there was about 15%-20% member participation in the co-operatives at this time, and Members didn’t realise they were supreme. Politicians and government officials were able to capitalise on this, and in response, there became a need to emphasise the autonomy of co-operatives which the *Souharda Act 1997* captured. The research team commented that even though the Souharda structure has no government funding or control, it can still be innovative in the way it goes about things. The research team stated that there is “no point in giving freedom if you can’t use it”. Essentially the team said much of success of the movement boils down to “good leadership”.

In addition to this, the Former Minister of Co-operatives in Karnataka, as well as the Legal Director of Souharda, both involved in the drafting of the *Souharda Act*, said that leadership – both at the political level and at the co-operative level – was *key* in getting the Act passed. When asked how the Act passed with so much government opposition at the time, the Former Minister said that there was alignment between important Ministers within the Parliament at the time. He commented that if the same situation were to arise again today, it is unlikely the Act could pass.

This brings to the fore an important question on the difference between *good leaders*, and *good leadership*. Leadership is a construct which can involve a more than one person utilising a skill or a piece of knowledge for the common good. Capacity to lead can be built and leadership can be institutionalised such that an entity may have a good propensity towards leadership. A leader, on the other hand, is an individual who utilises their own skills and knowledge in any given situation. A leader can be sought out or come by, but a leader is not institutionalised and as such has no greater benefit to the organisation than that which is the legacy he or she leaves at the end of their tenure. A leader is therefore a ‘sunk cost’ for an institution.

In the Souharda model, it is clear that leadership is a key, if not *the key*, factor to success. However, there is an over-reliance upon the current leaders to ensure the structure works in the way it was intended, that being free from government control. The Karnataka Registrar commented that there is a propensity for the Souharda model to breakdown if there is a compulsion of one or more of the leaders to side with a political party. The research team at Mysore University also commented that a shortfall of the Souharda Federal Body is the over-reliance on the leaders they have in the Federal Body currently to keep the organisation working smoothly. It is clear that the capacity to develop leadership in this context is essential to the long-term survival of the Souharda Federal Body and of the greater self-reliant co-operative movement at large.

A key recommendation of this report is to further develop leadership, not just at the Federal Body level, but throughout the entirety of the self-reliant co-operative movement. As the research team at Mysore University commented, the focus of the model should be empowerment “from membership to leadership”.

## b. Women's empowerment

One area in which it is generally recognised that co-operatives align with the Sustainable Development Goals is in **empowering women**. In this study, it was also generally recognised that the self-reliant movement reinforces this aspect. Section 28A(3)(ii) of the *Karnataka Act* ensures that primary societies registered under the Act must reserve one seat on the Board for a woman to be elected. In contrast, s 24 of the *Souharda Act* allocates two seats on the Board for women to be elected. However, from the observations of meeting with co-operatives in Bangalore, most Boards consist of between 15 to 21 members. Having two members on the Board who are women is not enough to influence the directive of the Board. In addition, from observations of meeting with these Boards, women were often in the minority and did not substantially contribute to the conversation or information being exchanged.

The exception to this was the example of the ***Veerarani Channamma Mahila Souh Cr Sahakri Niyamit Women's Co-operative*** in Tumkur, Karnataka. The co-operative is a credit co-operative, run by women, whose members are all women, and operating for the benefit of women who would otherwise find it difficult to get a loan for their own entrepreneurial activities. Aside from daily activities, the co-operative operates to educate women on financial capital of their businesses and works to give women financial independence. One of the most empowering statements made in this interaction was that registering under the Souharda framework was important for them because Souharda is free from government interference. The respondents said that having autonomy and the ability to make their own decisions is important for women and important in furthering the goal of the co-operative. What's more, the respondents stated that the Souharda Federation requested the co-operative to form because the Federation noticed there was a distinct lack of women's co-operatives in their membership base.

The Veer arani women's co-operative in Tumkur is a credit co-operative which provides loans to women who would otherwise find it difficult to get loans. In India, men mostly control the finances in the household.

The co-operative was set up in 2011, has 923 members, over half of which would be classified as "poor". The co-operative prides itself on its ability to:

- 1) educate women on financial capital for their businesses; and
- 2) give women financial independence.

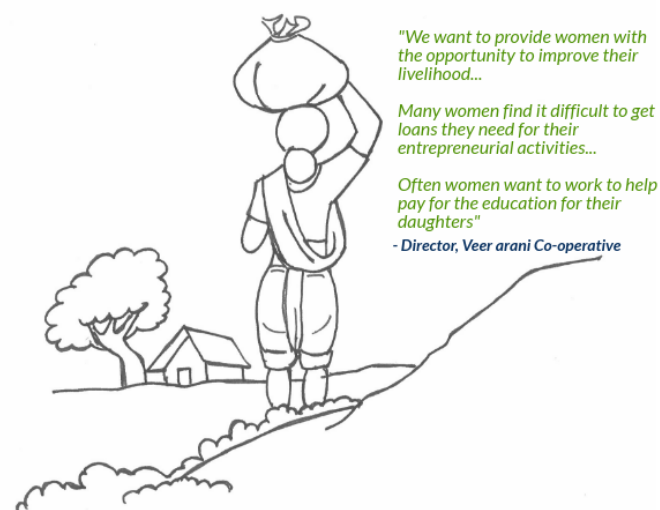
The co-operative sometimes struggles with participation at AGB meetings, given that many members are homemakers and find it difficult to leave the house. Having women involved in financial activities can also bring shame on their families.

Nonetheless, by extending credit to their members, the co-operative is empowering women to improve their livelihoods within the community.



### SNAPSHOT

*Veer arani Channamma Mahila Souharda Cr Sahakari Niyamit, Women's Co-operative in Tumkur, Karnataka*



### c. Capital Financing

A key question that inevitably comes up in a study about self-reliant co-operatives is, if they cannot receive government support, how do they obtain their capital finance?

Section 5 of the *Souharda Act* sets out the application for registration of a Souharda member co-operative. Section 5(2)(e) requires that a co-operative registering under the Act must have documents to show that the co-operative “has not received any share capital and any loans or guarantee by the government”. In addition, s 17 provides that “a co-operative shall not be eligible to receive any loan, subsidy, grant or financial aid in any form from the government or any guarantee by the government”.

KSSFC, acting as the apex body for the co-operatives registered under the Act, can obtain an initial loan from the government for the purposes of the “Federal Co-operative Fund”, which is specified for in s 62 of the Act. This is seemingly the only mention by which a co-operative under the Act may receive funds from the government, but even this is an initial loan which is repayable to the government within a ten-year period.

When asked how Souharda members obtain their capital finance, respondents replied predominantly through membership fees. Five out of the seven member co-operatives interviewed were already set up as co-operatives registered under the *Karnataka Act* before they converted to the *Souharda Act*. Thus, it is reasonable to assume that they may have obtained government financing in the past. It is difficult to determine the financial viability of all the member co-operatives of the Souharda Federation without a more detailed study analysing financial records of each member co-operative.

However, understanding that co-operatives often work in poorer communities, and for the benefit of their members in those communities, it is difficult to comprehend that all co-operatives wishing to register under the *Souharda Act 1997* are able to raise the initial amount of capital funding purely through membership fees. The Act does not restrict co-operatives from obtaining loans from commercial banks, or through other means of finance which are not government owned or government supported. This is a viable channel by which co-operatives can obtain the necessary capital to set up a co-operative society.

## 7.5.4 Findings re. the 'scalability' question

### SUMMARY OF FINDINGS IN PART 4

#### 4.1 Is a Federal Body necessary?

- Karnataka is the only State which has a Federal Body to oversee the self-reliant co-operatives;
- KSSFC does not have powers for registration or termination of co-operatives; this remains with the Karnataka Registrar;
- One option is for KSSFC to be a “Self-Regulatory Organisation” (SRO); further research is needed to ascertain the viability of this option.

#### 4.2 One Act or two?

- The question whether there should be one Act or two is debated; there are persuasive arguments on both sides;
- The ideal is that there is one Act, which incorporates both liberal provisions and the option for government support.
- Strong protection against politicization of the Act would be needed for the one Act solution to be sustainable in the long term.

#### 4.3 Is the model scalable?

- There is scope for the Souharda model to be scaled to other States in India, but before this can happen attention must be given to building capacity within the model and implementing recommendations with regards to leadership, capital financing and women’s empowerment.

### a. Is a Federal Body Necessary?

Some respondents spoke of the benefit of having the Souharda Federal Body involved as a “**Friend, Philosopher and Guide.**” The term is one used by the Government of Karnataka Department of Co-operation in their Citizen Charter 2015-2016 which states that it is a commitment of the Department “to be a friend, philosopher & guide to the co-operative movement” (Government of Karnataka, n.d.-a). The term is also used by the Souharda Federal Body in stating that “the objective of the organization is not to control the members but to act as friend, philosopher and guide to the members in discharge of their fiduciary functions.” (Souharda Federal Co-operative, n.d.) The term is used to refer to a higher, administrative, apex body – such as that of the Karnataka State Co-operative Federation under the *Karnataka Act*, or that of the Souharda Federal Body – in discharging their functions to its member organisations, and it is specifically intended to negate the influence of government in member activities.

Karnataka is the only State in India to have implemented a Federal Body to oversee the self-reliant co-operatives. All other States who have liberal legislation default the administration of the co-operatives to the Government Federation for Cooperatives, or the Registrar, in that State. A study recently undertaken by Dr. T. Paranjothi comparing self-reliant Acts across States, found that the Souharda Federal Body was instrumental in planning, organizing and continuously improving a variety of needs-based training programs for Souharda members (Paranjothi, 2017).

Souharda Directors believe it is necessary to have a Federation for the model to be scaled up to other States effectively. Officers at the Souharda Federation stated that the Federation is essential because it is a platform in which views of the co-operatives can be considered in policy making. Most members interviewed recognised education and training as the primary benefit provided by the Federation.

The benefits of having a Federation are well noted in the literature. Dr. T. Paranjothi recognises the benefits of a Federation in his article entitled, “The Role of Cooperative Federations in Preservation of Cooperative Identity”,

published by ICA-AP (Paranjothi & Ravichandran, n.d.). Mohan Mishra too concludes that Federations and Apex organisations are vital in the well-functioning of co-operatives (Mishra, n.d.) However, the literature does not distinguish between Federations that are government run and those that are independent. There is also little literature to expand on the role of Souharda Federal Body specifically working in its capacity under the *Souharda Act 1997*. Leading academics Dr. Dongre and Dr. Paranjothi both agree there needs to be a considerable amount of time, perhaps 15-20 years, before a true assessment of the Souharda model can be made.

In the meantime, the benefits of the Souharda Federation have been noted. When interviewed for this study, the former Co-operative Minister of Karnataka stated that the Federal Body should have taken even more initiative at the time of passing the *Souharda Act* to acquire more power for registration. Currently, the power for registration and termination of Souharda cooperatives sits with the Registrar in the Karnataka government. The Legal Director, however, stated that it was not possible for the Federal Body to acquire this power as there needed to be a legal authority by which power for registration could be granted. Having this requirement, the power for registration necessarily must sit with the government as the legal authority with the right to grant such directions.

This begs the question, can a Federal Body ever be in a position where it will have all the same powers as the government Registrar, or is it always restricted to relying on the government? One option is for the KSSF to consider being a “Self-Regulatory Organisation” (SRO). Further research will need to be done to comprehend the benefits and risks involved in using this structure.

## **b. The Future of the Karnataka Souharda Model - One Act or Two?**

At the time the *Souharda Act* was being debated in the Karnataka parliament, there was an ideological divide in the various political factions of Karnataka. One camp advocated for passing the Act alongside the existing *Karnataka Act*, so there would be a choice for co-operatives to register under either Act. This view was strongly rooted in politics, meaning that politicians who came from the co-operative movement, as many of them did, would still be able to retain control under the *Karnataka Act*. The other camp advocated for only one Act, as having two Acts would mean two Central Registries and therefore extra bureaucracy. This view was strongly rooted in efficiency, meaning that bureaucratic processes caused delays and challenges and one Act would ultimately be more efficient than two.

The decision was taken to implement two Acts, and this has been the case since 2000 when the *Souharda Act 1997* passed. The question as to whether to have two Acts or one Act going forward is still being debated in Karnataka. Souharda Directors believe there should be two Acts, to preserve the right of those societies who wish to obtain government funding, either because they financially need to or because they produce commodities essential to the public good. On the other hand, leading academics in Karnataka believe there should eventually be only one Act, and the Act should be based on the ‘liberal’ Act. Such an Act would allow the co-operative societies to choose to receive government support or not.

One argument put forward in favour of the ‘one Act solution’ is that it would lessen the risk of creating an ideological divide between the two Acts. What could happen is that political parties may take favour with either Act, and as such the self-reliant co-operative model would eventually construct itself within an ideological divide. One argument put forward in favour of the ‘two Act solution’ is that neither body – the Karnataka Government nor the Souharda Federal Body – would need to compromise on the current structure. This may be particularly advantageous for the Souharda movement given there could be a risk that the ‘liberal’ provisions could be diluted if amalgamated back under the *Karnataka Act 1959*.

The Karnataka Registrar commented that the two Acts are not in competition with each other. The Registrar stated that there can be improvements made in both Acts, for instance in boosting participation levels in both Acts.

Interestingly, the State of Jammu and Kashmir has recently amalgamated the traditional Act into the Self-Reliant co-operative Act. This case study will be an interesting predictor of whether such a move can work. The details around the powers of a Federal Body in this situation, as well as what the impact is on the self-reliant movement, can be examined through further research.

### c. Is the Model Scalable?

There is some evidence from this study to show that the Souharda model is successful as a self-reliant co-operative model. The aspects that contribute to its success include:

- Good leaders;
- Strong education and training capabilities;
- More efficient processes for member co-operatives;
- Less government interference and therefore more autonomy;
- Greater ability to include women and engage youth in the co-operative movement;

There are, however, also some weaknesses in the model that need to be highlighted before recommendations can be made. These include:

- The model is too dependent on 'leaders' not 'leadership';
- There is a lack of capacity to deal with co-operatives who are prevented from converting to the new Act due to linkages with suppliers or other co-operatives who are reliant on government support;
- There is a lack of capacity to convert co-operatives from the agricultural and dairy space;
- The registration process is integrated with the Registrar services, potentially compromising the model of self-reliance.

The ILO has recognised the multi-faceted benefits that a self-reliant legislative model can bring. One policy which it highlights is the isolation of State functions to regulation only. It comments:

*The new laws separate promotional from control functions and prevent the public administration from interfering in the internal affairs of cooperatives in any way, except in cases where the public interest is concerned ... In many countries the adoption of new, liberal cooperative laws has led to a sharp decline in the number of government officials responsible for cooperative supervision, and sometimes to the pure and simple disappearance of entire administrative structures. (International Labour Conference, 2001)*

It is clear that government interference in the co-operative structure is a systemic problem and the self-reliant model, such is the case with the *Souharda Act 1997*, is a step in the right direction to solving this problem.

There is certainly scope for the Souharda model to be scaled to other Indian States, but for the recommendations made in the following section. These recommendations focus on building capacity within the model to ensure the scaling is sustainable and impactful in the long-run.

## 7.6 Recommendations

The following recommendations are proposed:

### 7.6.1 Strengthen the Federal Body to enable the model to be scaled to other States

The Federal Body structure is a necessity. Not only does it provide value in administration, it also provides the opportunity for co-operatives to build coalitions. When a co-operative operates in a coalition it becomes stronger than when it acts on its own. Powers for administration and termination could be given to the Federal Body under the *Souharda Act*. Considering the Body as a Self-Regulatory Organisation (SRO) is an option. Capacity needs to be built within the Federation to strengthen leadership and autonomy structures, and linkages between the models need to be strengthened before the model can be effectively scaled.

### 7.6.2 Build leadership capability

The movement should focus on bolstering education and training programs to develop future leaders. This is – leaders for the member co-operatives as much as leaders for the Souharda Federal Body. Ensure that paths to leadership are communicated effectively to co-operators, and that transition processes to leadership positions are transparent and achievable for young leaders. The focus should be less on enticing outside professionals to join the movement (although this is also helpful), and more on building capability within the movement.

### 7.6.3 Develop capacity around women's empowerment and youth inclusion

The Souharda model has made good inroads to empowering women and including more youth in the co-operative movement. The KSSFC should build on this with further opportunities for women and youth to thrive in the self-reliant co-operative system. Co-operative mentorships could be set up for youth. More leadership positions could be made available for women to fill, particularly on co-operative boards. 10% or 20% does not equate to adequate representation. The goal should be 50% or more. An advantage in the movement is the ability of the Federal Body to be flexible with decision-making. Establish more women's only co-operatives and encourage coalition building through the Federal Body. Invest in programs which emphasise diversity, particularly within co-operative leadership. Re-structure incentives so that good performance is adequately compensated for.

### 7.6.4 Incentives for government and leadership to act scrupulously and build capacity within the co-operative movement for a sustainable future

The co-operative movement benefits the broader community and society at large. The systemic challenges inherent within the structure of the co-operative model that have developed over time are no doubt a threat to the model's ability to deliver on these broader social and economic goals. The availability of government support to the co-operative movement and the close alignment with political positioning over time has influenced the model and, in some instances, has skewed the incentives toward personal political gain over collective welfare gain. Incentives within the structure must be aligned to a more sustainable outcome. An autonomous, self-reliant legal framework

is one step in the right direction to achieving this, but if left un-noticed or unattended, this model too could be susceptible to breakdown in the same way the traditional movement has been.

### 7.6.5 Incentives for co-operatives to migrate to Souharda movement

One of the greatest challenges to the survival of the movement is the ability to grow and develop. The KSSFC cannot grow if it is restricted from obtaining more membership from the traditional co-operative sector. The inability to successfully convert large numbers of agriculture or dairy co-operatives into the Souharda model will prevent growth and success in the long run. Restrictions on government support within the supply chain could be reformed in the *Souharda Act*, to make it easier for these co-operatives to convert. Capacity building procedures and support should be provided to these co-operatives and the conversion should be managed in a staged approach so as not to risk the financial failure of the co-operative altogether. The IFFCO model is a good model to study for an example of a successful co-operative who relied on government support but then strengthened its own capacity to now be independently and autonomously functioning.

### 7.6.6 Work towards one Act instead of two

Having two Acts cements the political patronage between the models and undermines the purpose of the self-reliant model. One Act is a better alternative than two separate Acts, yet it will take some time for the self-reliant Act to impose itself as a staple in the legal framework. Thus, there must be a substantial period of time by which the Acts remain parallel to solidify the self-reliant movement. Once this has been achieved, one Act should be the desired goal to increase efficiencies and ensure equity of access to all co-operatives within the framework.

## RECOMMENDATIONS and CONCLUSION



## 8.1 Summary of Recommendations

The following graphic provides a summary of the recommendations across the four chapters in this report. More detail around the recommendations is covered in the “recommendations” section of each chapter.

Figure 16 Summary of Recommendations



## 8.2 Conclusion

This study highlights India's co-operatives and their tremendous potential as vehicles for development. However, they still face enormous challenges that prevent them from achieving long-term growth. The findings in this report show that co-operatives should look beyond the Seven Co-operative Principles in measuring their success and move to a more holistic approach that is centered on sustainable growth. To achieve this, a framework for success is proposed that integrates three key levels: co-operative principles, economic and social performance, and legal and policy. It is argued that these three equally reinforcing dimensions will lead to sustainable growth, which is paramount to co-operatives' survival and success, and their ability to fulfill their responsibilities to their members and communities.

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# Appendix 1: List of Interviewees

## Interviewees in Delhi

Organization	Position/s	Location
International Co-Operative Alliance Asia and Pacific (ICA-AP)	Adviser	Delhi
Indian Farmers Fertiliser Cooperative Ltd. (IFFCO)	Dy. General Manager (Coop Relations)	Delhi
International Labor Organization (ILO)	Enterprise Development Specialist	Delhi
National Federation of Fishers Co-operatives Ltd. (FISHCOPFED)	Managing Director	Delhi
National Labour Cooperatives Federation of India Ltd. (NLCF)	Managing Director Assistant Director	Delhi
Delhi State Consumers Co-operative Federation Ltd.	Managing Director	Delhi
Jai Shree Sharda Cooperative Urban Trade & Credit Society Ltd.	Co-operative Representative	Delhi
National Cooperative Union of India (NCUI)	Chief Executive Officer Deputy Director Deputy Director	Delhi
Federal Registrar of Cooperatives, Department of Agriculture, Cooperation and Farmers Welfare	Additional Commissioner	Delhi

## Stream 1: Financial Co-operatives

Organization	Position	Location
Telangana State Cooperative Apex Bank Ltd.	Managing Director / Chief Executive Officer	Hyderabad
Uppariguda Primary Agriculture Cooperative Society	Chief Executive Officer	Uppariguda
Uppariguda Primary Agriculture Cooperative Society	President	Uppariguda
Hyderabad District Cooperative Central Bank Ltd., Ibrahimpatnam Branch	Branch Manager	Ibrahimpatnam
Hyderabad District Cooperative Central Bank Ltd., Head Office	General Manager	Hyderabad
Karimnagar District Cooperative Central Bank Ltd., Head Office	President	Karimnagar
Karimnagar District Cooperative Central Bank Ltd., Head Office	Chief Executive Officer	Karimnagar
Gattududdenapalli Large Sized Co-op Credit Society Ltd.	Chief Executive Officer	Gattu Duddenapally
Mulkanoor Cooperative Rural Bank & Marketing Society Ltd.	President	Mulkanoor
Telangana State Cooperative Apex Bank Ltd.	General Manager	Hyderabad
Telangana State Cooperative Apex Bank Ltd.	Chief General Manager	Hyderabad
Telangana State Cooperative Apex Bank Ltd.	General Manager	Hyderabad

## Stream 2: Worker's Co-operatives

Organization	Position	Location
Kozhikode District Co-operative Bank	General Manager	Kozhikode
Q Burst	Senior Architect	Kozhikode
UL Cyberpark (ULCCS)	Secretary	Kozhikode
ULCCS	Executive Assistant	Kozhikode
ULCCS	Manager	Kozhikode
UL Cyberpark (ULCCS)	Chief Operating Officer	Kozhikode
ULCCS	Financial Analyst	Vatakara
ULCCS	Engineer	Vatakara
ULCCS	Engineer	Vatakara
UL Cyberpark (ULCCS)	Director	Kozhikode
UL Cyberpark (ULCCS)	Manager	Kozhikode
ULCCS	Manager	Vatakara
ULCCS	Director	Vatakara
Sargaalaya (ULCCS)	Chief Executive Officer	Iringal
ULCCS	Site Leader	Vatakara
ULCCS	Site Worker	Vatakara
ULCCS	Site Worker	Vatakara
ULCCS	Accountant	Vatakara
ULCCS	Chairman	Vatakara
Kozhikode District Government	Collector	Kozhikode
ULTS (ULCCS)	Engineer	Kozhikode
ULTS (ULCCS)	Engineer	Kozhikode
ULTS (ULCCS)	Project Manager	Kozhikode
ULTS (ULCCS)	Programmer	Kozhikode
UL Cyberpark (ULCCS)	Analyst	Kozhikode
ULCCS	Project Engineer	Kozhikode
ULCCS	Project Manager	Kozhikode
ULCCS	Quarry Site Engineer	Mukkam/Kuttiady
ULCCS	Quarry Site Manager	Mukkam/Kuttiady
ULCCS Foundation (ULCCS)	Chief Operating Officer	Kozhikode

### Stream 3: Self-Reliant Co-operatives

Organization	Position/s	Location
Regional Institute of Co-operative Management (RICM)	Training Officer Director Chairman	Bangalore
Sree Charan Souhardha Co-operative Bank Ltd	CEO, Vice Chairman Director	Bangalore
Udaya Souharda Credit Co-operative Ltd.	Directors Officers Staff Members	Bangalore
Dr. Nandeesh V. Hiremath	Indus Business Academy & Techno Management Consultant.	Bangalore
Nilenso	Partner Staff Member	Bangalore
Fairtrade Asia Pacific	Partnerships Lead	Bangalore
Leladevi R Prasad.	Former Minister, Karnataka	Bangalore
Souharda Federation	Board of Directors Staff & Officers	Bangalore
Sree Siddagnga Education Society Employees Souharda Credit Co-operative Ltd	Professor & Chairman - Dept of Studies and Research in Commerce 9 other Directors	Tumkur
Tumkur Lorry Owners Consumers Souharda Sahakari Niyamita	8 Directors	Tumkur
Sri Gurukala Vividoddesha Souharda Sahakari Marketing Co-operative	8 Directors	Tumkur
ShivaShree Souharda Credit Co-operative Ltd	Directors; 3 Members	Tumkur
Veerarani Channamma Mahila Souh Cr Sahakri Niyamit (Women's co-op)	Board of Directors, Chairman	Tumkur
University of Mysore	M. Indira Professor Economics  Dr. M. Meera Assistant Professor Institute of Development Studies	Mysore
KSSFC, Mysore Division Office	Legal Director	Mysore
Dr. T. Paranjothi	Vice-Chair ICA AP Research Committee	Bangalore
Karnataka Registrar of Co-op Societies	M.P Majunatha Asst. Registrar of Co-op Societies 5 Registrar Officers	Bangalore
S.S. Patil	Former Co-operative Minister, Karnataka	Bangalore

## Appendix 2: Measurements and Responses for Co-operatives' Compliance with the Seven Principles

### Semi-structured interview questions - Measurement

- 1.1 Is the financial co-operative (FC) voluntary to join?
- 1.2 Does the FC have appropriate (reasonable) eligibility standards (conditions) for membership?
- 2.1 What is the frequency and purpose of elections within the FC?
- 2.2 Voting power of members equal? Information accessibility (informed votes)?
- 2.3 Matters and process: general body meetings and board meetings
- 2.4 Participation rate in general body meetings (striking difference among different groups)?
- 2.5 Board of directors' compliance with co-operative bylaw; board of directors' influence for their own (political) purpose (internal interference)?
- 3.1 Distribution of members' capital contribution (members with and without voting power, government/agencies, other)?
- 3.2 Dividends or equivalent forms; access to credit and banking services from the FC?
- 4.1 Reliance on government capital shares?
- 4.2 Freedom from external (government) and internal (board of directors) interference?
- 5.1 Types, participation, and results evaluation of training programs?
- 5.2 Funding for training/education programs? Support from government/agencies?
- 5.3 Progress of computerization? Online/mobile banking adoption?
- 5.4 Programs to promote financial inclusion for youth?
- 6.1 Member loyalty (member patronage)?
- 6.2 Coalition/partnership/contracts with other co-operatives?
- 6.3 Work with stakeholders in the society (such as NGOs) on various levels?
- 6.4 Cooperate with other types of co-operatives at local/state/national/international level?
- 7.1 Programs other than daily operations to deliver social goals? Integration of social objectives into investment portfolio? Existence of a CSR department? Measurement of impact?
- 7.2 Work with community to identify their needs?

### 1. TSCAB

Variable	Response/Result (Source: Interviewee response [IR]; Document/material: [DM]; Observation [OB])	Grade Label
1.1	Do not apply (members are DCCBs instead of farmers)	Grey
1.2	Do not apply (members are DCCBs instead of farmers)	Grey
2.1	IR, DM: Elections are held regularly in annual general body meetings	Green
2.2	IR, DM: Members each have one vote; information disclosed according to bylaw	Green
2.3	DM: 11 board meetings and 3 general body meetings were held in FY 2016-17; decision making is informed by various board committees	Green
2.4	IR, DM: The general body consists of 10 people	Grey
2.5	IR: Board members comply with bylaw; the President is apolitical	Green
3.1	Do not apply (members are DCCBs instead of farmers)	Grey
3.2	Do not apply (members are DCCBs instead of farmers)	Grey
4.1	IR, DM: Reliance on external capital is minimal. State government share is fixed at 0.77%.	Green
4.2	DM: 1/10 in general body, 2/14 in board of management from government agencies (required by law)	Green

5.1	IR, DM: Co-operative Training Institute to provide need-based training program for free to all employees from TSCAB, DCCBs, and PACSs; ran 102 programs in FY 2016-17; learning outcome measured with tests	Green
5.2	IR, DM: Sufficient funding from TSCAB and NABARD for CTI and training programs	Green
5.3	DM: Technical training on online banking platform provided by CTI; TSCAB is taking up PACS computerization project with NABARD and State support	Green
5.4	DM: Promote youth financial literacy and access through a joint campaign with NPCI and NABARD; mobilized around 15,700 accounts; no information about further impact	Yellow
6.1	IR, DM: Members are DCCBs; DCCBs rely on TSCAB for refinance.	Grey
6.2	IR, DM: Little co-operation/partnership with other co-operatives	Orange
6.3	IR: Worked with state government for scheduled status of the bank; sought support from state government during demonetization; daily interactions with DCCBs and NABARD; little engagement with other stakeholders	Orange
6.4	IR: Little co-operation with co-operatives and NGOs of co-operatives other than NAFSCOB	Orange
7.1	IR, DM: Not conscious about social impact; No CSR department; philanthropic activities irregular and not measured or tracked; Did not consider impact of investments	Red
7.2	IR: No department/personnel to work with community to identify their needs	Red

## 2. HDCCB

Variable	Response/Result (Source: Interviewee response [IR]; Document/material: [DM]; Observation [OB])	Grade Label
1.1	IR: Membership is voluntary	Green
1.2	IR: Reasonably low membership fee for individuals; society members in the local community are also eligible to join	Green
2.1	IR: Elections are held regularly in annual general body meetings	Green
2.2	IR: Members each have one vote; information disclosed according to bylaw	Green
2.3	IR: Board meetings and general body meetings were held regularly; decision making is informed by various board committees	Green
2.4	IR: Total participation rate around 70% (bylaw requires a minimum of 10%); Statistics about participation rate of different types of members not available	Yellow
2.5	IR: Board members comply with bylaw	Green
3.1	Missing information	Grey
3.2	IR: 25% of net profit was given as dividends (compared with bylaw requirement of 15%)	Green
4.1	Missing information	Grey
4.2	IR, DM: 18/23 board members are elected; 5/23 are special invitees from NABARD, TSCAB, and government (as required by law)	Green
5.1	IR: Co-operative Training Institute to provide need-based training program for free to all employees from TSCAB, DCCBs, and PACSs; Offer 90 financial literacy programs: Go Digital (30 completed)	Green
5.2	IR: Have free access and need-based training from CTI of TSCAB	Green
5.3	IR: Technical training on online banking platform provided by CTI; All branches of the DCCB has fully implemented computerization project with support of NABARD and TSCAB	Green
5.4	IR: Included youth in financial literacy programs; no information about impact of the programs	Yellow
6.1	IR: Members are loyal customers to DCCB; Respondent claimed 100% satisfactory rate from members	Yellow
6.2	IR, DM: DCCB relies on TSCAB for refinance from NABARD; A minority of members are other types of co-operatives and self-help groups	Green
6.3	IR: Daily interactions with TSCAB; some engagement with NABARD in local development programs; little engagement with other stakeholders (such as ICA or other NGOs)	Yellow
6.4	IR: Only interact with local society members	Orange
7.1	IR: No CSR department; Irregular philanthropic activities such as giving furniture to local schools (value of around CAD \$100); Impact not measured or tracked	Red

7.2	IR: Decisions of philanthropic programs have to be made in general body meetings	Yellow
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### 3. KDCCB

Variable	Response/Result (Source: Interviewee response [IR]; Document/material: [DM]; Observation [OB])	Grade Label
1.1	IR, DM: Membership is voluntary; members are PACS (A Class, 127) and other co-operative societies (B Class, 34)	Green
1.2	Information missing	Grey
2.1	IR: Elections are held regularly in annual general body meetings	Green
2.2	IR: Members each have one vote; information disclosed according to bylaw	Green
2.3	IR, DM: Board meetings and general body meetings were held; decision making is informed by various board committees	Green
2.4	IR: Participate rate of B Class members is higher than that of A Class members (PACS), who have more at stake in the governance of the DCCB	Orange
2.5	IR: Board members comply with bylaw; the President is apolitical	Green
3.1	Missing information	Grey
3.2	DM: Issuance of different types of loans grew significantly since 2016; no information about dividends	Yellow
4.1	Missing information	Grey
4.2	Missing information	Grey
5.1	IR, DM: Co-operative Training Institute to provide need-based training program for free to all employees from TSCAB, DCCBs, and PACSs; ran 102 programs in FY 2016-17; learning outcome measured with tests	Green
5.2	IR, DM: Have access to free and need-based training from CTI of TSCAB	Green
5.3	DM: Technical training on online banking platform provided by CTI; DCCB has fully implemented computerization project with support of NABARD and TSCAB	Green
5.4	DM: Implemented youth financial literacy programs; no information about impact of the programs	Yellow
6.1	IR, OB: Members are loyal customers to DCCB; DCCB is facing increasing competition in semi-urban areas	Yellow
6.2	IR, DM: DCCB relies on TSCAB for refinance from NABARD; A minority of members are other types of co-operatives and self-help groups	Green
6.3	IR: Daily interactions with TSCAB; some engagement with NABARD in local development programs; little engagement with other stakeholders (such as ICA or other NGOs)	Yellow
6.4	IR: Only interact with local co-operative (B Class) members	Orange
7.1	IR, DM: No CSR department; a full range of philanthropic activities such as watershed development, Integrated Farming System, Crop Development Fund, Financial Literacy Centers, facilitating purchase of life insurance, and PACS Development Cell; Some programs regular while others not; Impact not measured or tracked;	Yellow
7.2	IR: Board of management took the leadership in identifying the need of the local community (most board members are from local community)	Yellow

## Appendix 3: List of Self-Reliant Co-operative Acts in India

State	Name of Self-Reliant Co-Operative Act
Karnataka	<i>The Karnataka Souharda Sahakari Act 1997</i>
Jammu & Kashmir	<i>The Jammu &amp; Kashmir Self-Reliant Cooperatives Societies Act 1999</i>
Uttarakhand	<i>The Uttaranchal Self-Reliant Co-Operation Act 2003</i>
Andhra Pradesh	<i>The Andhra Pradesh Mutually Aided Cooperative Societies Act 1995</i>
Madhya Pradesh	<i>The Madhya Pradesh Swayatta Sahakari Adhiniyam 1999</i>
Chhattisgarh	<i>The Chhattisgarh Swayatta Sahkarita Adhiniyam 1999</i>
Bihar	<i>The Bihar Self-Supporting Co-operative Societies Act 1996</i>
Rajasthan	<i>The Rajasthan Self-Reliant Co-operative Societies Act 2002</i>
Orissa	<i>The Orissa Self-Reliant Co-Operative Societies Act 2002</i>

## Appendix 4: List of legislation cited

*The Constitution of India*

*Cooperative Credit Societies Act 1904*

*Essential Commodities Act 1995*

*Government of India Act 1919*

*Karnataka Cooperative Societies Act 1959*

*Karnataka Cooperative Societies Rules 1960*

*Karnataka Souharda Sahakari Act 1997*

*Multi-State Cooperative Societies Act 2002*

*Multi-State Cooperative Societies Act in 1984*

*Multi-State Cooperative Societies Rules 2003*

*Multi-Unit Cooperative Societies Act in 1942*

*Telangana State Cooperative Societies Act 2016*