Draft Report:
National Study on Financial Cooperatives in the Context of Financial Inclusion in India

Submitted by
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Abbreviations Used

ADWDRS	-	Agricultural Debt Waiver and Debt Relief Scheme
AFI	-	Alliance for Financial Inclusion
AGM	-	Annual General Body Meeting
AIRCS	-	The All India Rural Credit Survey
AP	-	Andhra Pradesh
ATM	-	Automated Teller Machine
B.R. Act	-	Banking Regulation Act, 1949
BC	-	Business Correspondents
BDP	-	Business development loan
BDP	-	Business Development Programme
BIRD	-	Banker Institute of Rural Development
BNZ	-	Bank of New Zealand
BOD	-	Board of Directors
BS	-	Bank Sakhi
BSBD	-	Basic Saving Bank Deposit
CAB	-	College of Agricultural Banking
CAMELS	-	Capital adequacy, Asset quality, Management efficiency, Earnings,
CBS	-	Core Banking Solutions
CCF	-	Central People's Credit Fund
CEO	-	Chief Executive Officer
CFE	-	Centre Financier Entrepreneurs
CGAP	-	Consultative Group to Assist the Poor
C-PEC	-	Centre for Professional Excellence in Cooperatives
CRAR	-	Capital to Risk (Weighted) Assets Ratio
CRBBI	-	Cooperative Rural Bank of Bulacan, Inc
CRR		Cash Reserve Ratio
DCCB	-	District Cooperative Credit Bank
DICGC	-	Deposit Insurance and Credit Guarantee Corporation
DID	-	Development International Desjardins
DIF	-	Deposit Insurance Fund
EDP	-	Exposure and Dialogue Programme

FD	-	Fixed Deposits
FI	-	Financial Inclusion
FIF	-	Financial Inclusion Fund
FIP	-	Financial Inclusion Plan
FITF	-	Financial Inclusion Technology Fund
FLCS	-	Financial Literacy Centres
FPO	-	Farmers' Producer Organization
FWWB	-	Friends of Women's World Banking
GESI	-	Gender and Social Inclusion
GIZ	-	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoI	-	Government of India
ICA	-	International Cooperative Alliance
ICM	-	Institute Cooperative Management
ICT	-	Information Communication Technology
IFAD	-	international Fund for Agricultural Development
IFC	-	International Finance Corporation
IIM	-	Indian Institute of Management
ILO	-	International Labour Organization
IMF	-	International Monetary Fund
IRMA	-	Institute of Rural Management, Anand
ISSC	-	Indian Society for Studies in Cooperation
IYOC	-	International Year of Cooperatives
JLG	-	Joint Liability Group
KCC	-	Kissan Credit Cards
LIC	-	Life Insurance Corporation
LT CCS	-	Long-term Cooperative Credit Structure
MACS	-	Mutually Aided Cooperative Societies
MIS	-	Monitoring Information System
MLAs	-	Members of the Parliament
MoU	-	Memorandum of Understanding
MSCS	-	Multi-state Cooperative Societies
MSCSA	-	Multi-state Cooperative Societies Act
MSRLM	-	Maharashtra State Rural Livelihood Mission
MT	-	Medium term
NABARD	-	National Bank for Agriculture and Rural Development
NABFINS	-	Nabard Financial Service Society

NAFCUB	-	National Federation of Urban Cooperative Banks & Credit Societies
NAFSCOB	-	National Federation of State Cooperative Banks Ltd
NBFC	-	Non-Banking Financial Company
NCARDB	-	National Cooperative Agriculture & Rural Development Banks' Federation Ltd
NCUI	-	National Cooperative Union of India
NEFT	-	National Electronic Funds Transfer
NGOs	-	Non-Governmental Organizations
NOC	-	No objection Certificate
NPAs	-	Non-performing Assets
NREGA	-	National Rural Employment Guarantee Act Scheme
NRLM	-	National Rural Livelihood Mission
OCC	-	Office of the Comptroller of the Currency
PACS	-	Primary Agricultural Cooperative Societies
PCARDB	-	Primary Cooperative Agriculture and Rural Development Banks
PCBs	-	Primary Cooperative Banks
PCFs	-	People's Credit Funds
PDS	-	Public Distribution System
POS	-	Points of Service
PSF	-	Price Stabilization Fund
PSL	-	Priority Sector Lending
RBI	-	Reserve Bank of India
RCPB	-	Reseau des*Caisses populaires*du Burkina
RCS	-	Registrar of Cooperative Societies
RD	-	Recurring deposits
RICM	-	Regional Institute of Cooperative Management
RIDF	-	Rural Infrastructure Development Fund
RMK	-	Rashtriya Mahila Kosh
RRBs	-	Regional Rural Banks
RSETI	-	Rural Self-Employment Training Institute
RTGS	-	Real Time Gross Settlement
SACCOs	-	Saving and Credit Cooperatives
SBV	-	State Bank of Vietnam
SCARB	-	State Cooperative Agriculture and Rural Banks

SCB	-	State Cooperative Bank(s)
SEWA Bank	-	Self Employment Women's Association
SFRC	-	State Finance Regulatory Commission
SHGs	-	Self-Help Groups
SHPI	-	Self-Help Promoting Institutions
SIDBI	-	Small Industries Development Bank of India
SLR	-	Statutory Liquidity Ratio
SRC	-	Self Reliant Cooperative
STCCS	-	Short-Term Cooperative Credit Structure
SVB	-	State Bank of Vietnam
TAICO Bank	-	Tamil Nadu Industrial Cooperative Bank Limited
TDS	-	Tax Deducted at Source
TISS	-	Tata Institute of Social Sciences
TNCUI	-	Tamil Nadu Cooperative Union
TNFUCB	-	Tamil Nadu Federation of Cooperative Urban Banks
TNSCARDB	-	Tamil Nadu State Cooperative State Agriculture and Rural
TNSCB	-	Tamil Nadu State Apex Cooperative Bank
TOR	-	Terms of Reference
UBCs	-	Urban Cooperative Banks
UMLPCI	-	The Uttarakhand Microfinance and livelihood manage a cooperative Bank
UN	-	United Nations
UNDP	-	United Nation Development Programme
VAMNICOM	-	Vaikunth Mehta National Institute of Cooperative Management
WASSAN	-	Watershed Support Services and Activities Network
WOCCU	-	World Council of Credit Unions

Executive Summary

The study describes the enabling environment for financial cooperatives in India and identifies regulatory gaps, particularly within the context of financial inclusion. The first part of the investigation involves a review of the enabling environment: the historical background, the contemporary institutional structure, and the cooperatives laws and their implementation. The second part involves field studies in the four states of Karnataka, Uttarakhand, Maharashtra, and Assam to uncover information regarding: products and services, coverage, external linkages, governance, performance, capacity building, and technology. The study team has analysed secondary data, conducted interviews with a wide range of stakeholders, and documented the work of financial cooperatives. Through this process, we have identified issues, challenges and recommendations, which are briefly outlined in the following paragraphs.

The experiences of financial cooperatives in India sharply contrast those cooperatives in the broader international movement. Case studies of cooperatives in Vietnam, Germany and the Philippines illustrate their role as member-based and member-promoted entities. Instead, Indian cooperatives have historically been promoted by the government, which has supported the movement through policies, refinance and capital, often becoming a shareholder in cooperatives. This involvement by the government has resulted in political interference (promoting other agendas at the cost of the cooperatives' sustainability) and in the lack of a sense of ownership by the cooperative members. Further, government-announced loan waivers have hampered credit discipline, and frequent mergers and reorganizations of cooperatives by government authorities have transformed cooperatives into involuntary creatures – instruments of government for the public good rather than self-help organizations for the benefit of their members.

While the Indian government's high-level involvement in cooperatives has disadvantaged them, a case study of the cooperative movement in Haiti shows that the opposite side of the spectrum–no government intervention– is also dangerous. In this case, the government ignored suspicious fraudulent practices, leading to the collapse of the movement in 2002, affecting the credibility of the sector and leading to the loss of low-income depositors' savings. It is clear that the government should take a regulatory and supervisory role while members should manage the cooperatives' operations.

The learnings from international experiences have been crystallized in various studies, leading to internationally-accepted cooperative principles. These include: (a) Memberships should be open and voluntary. (b) Credit Unions that are largely self-managed are more successful and exhibit attention to member interests. (c) Cooperatives should be democratic institutions, controlled by the members, and should form their own policies. (d) Members should contribute equitably to the capital of the cooperative, as the capital is the common property of the members. (e) Education, training and information should be provided to the members, as that will help them make greater contributions towards the development of cooperatives. (f) Cooperation at the local, regional, national and international levels strengthens the entire cooperative movement. (g) Finally, cooperatives should work towards the sustainable development of their communities.

In India, significant changes have taken place over the past decade. The first breakthrough in the reform of cooperative legislation came from the Andhra Pradesh Legislature in 1995, with the passing of the AP Mutually Aided Cooperative Societies Act, 1995. The law allowed for greater autonomy of cooperatives and no financial support from the State for those cooperatives registered under this new act. Other states soon followed with similarly liberal laws. Further, the RBI and NABARD Expert Committees recognized and provided recommendations to simplify the complex and often conflicting regulations at the state and federal levels. Nevertheless, despite these improvements, cooperatives are still plagued with numerous challenges and issues: a lot of ground must still be covered to allow cooperatives to become fully autonomous and sustainable organizations.

An overview of the state of the cooperative sector reveals that the institutional arrangement of cooperatives in India is complex and creates several problems. The cooperative system is divided into rural and urban cooperatives. In most states, the former is further divided into the Short-Term Cooperative Credit Structure (ST CCS) and the Long-Term Cooperative Credit Structure (LT CCS). With some exceptions in a few states, the ST CCS is further divided into three tiers: primary agricultural credit cooperative societies (PACS) with farmers as their members at the base; district central cooperative banks (DCCBs) as the intermediate federal structure with PACS as principal affiliated members; and the state cooperative bank (SCB) at the apex in the state with DCCBs and other cooperatives as its principal members. In contrast to the rural federated structure, the urban cooperatives, popularly known as Urban Cooperative Banks (UCBs), operate independently. This system presents several problems to the sector. Firstly, the frequent competition between the tiers defeats the purpose of greater economies of scale with higher tiers providing wholesale services to lower tiers. The tiers are also redundant, increasing the transaction costs, and reducing efficiency and margins. Further, the distinction between urban and rural cooperatives is often blurred and the different regulatory treatments they receive only hinder fair competition.

The rationale for cooperative regulation is strong. As participants in other financial systems, borrowers and depositors of cooperatives need protection: the depositors need an assurance of the safety of their deposits, and borrowers need to have loan products and lending and recovery practices that are fair and non-exploitative. Further, cooperatives are of particular importance to financial inclusion because they reach low- to middle-income individuals and enterprises.

The regulation of cooperatives in India is complex and sometimes conflicting. The cooperative banks come under the purview of both the registrar of cooperative societies of the state (in which they are located) and the Reserve Bank of India. Critics of the sector believe that this dual regulation creates inefficiencies, and at the same time prevents prompt regulatory action.

The laws that apply to cooperatives include:

- **The relevant state's cooperative Acts.** In India, states have the jurisdiction to enact laws relating to cooperatives. As most state governments invested share capital in cooperatives, they also sought to take control of the management of cooperatives. The increased state control led to the passing to the self-reliant cooperatives acts in many states.
- **The Self-Reliant Cooperative Society Acts/ Mutually Aided Cooperative Society Act (MACS).** In some states, this act replaces the traditional act while in others it runs concurrently, giving the option to eligible cooperatives to register under either act. The self-reliant cooperative act has been promulgated in nine states (Andhra Pradesh, Karnataka, Madhya Pradesh, Bihar, Jharkhand, Odisha, Chhattisgarh, Jammu and Kashmir and Uttarakhand.
- **The Constitution (97th Amendment) Act, 2011** aims to standardize some systems and increase the democratic functioning of cooperatives. The Centre has asked state governments to amend their respective State Cooperative Society Act so that it is in tune with the Constitution (97th Amendment), 2011 before February 2013. Some states have not yet complied with this request and further, others face implementation issues.
- **The Multi-State Cooperative Societies Act, 2002 (MSCSA)** regulates cooperatives that operate in multiple states. While the 2002 amendment largely improves upon the earlier MSCSA to provide greater freedom from state control to the members of cooperatives, it is still wanting.
- **The Banking Regulation Act, 1949** was extended to cooperative banks from 1 March 1966, placing cooperatives' banking activities under the purview of the RBI.

- **The Deposit Insurance and Credit Guarantee Corporation Act, 1961.** The deposits made in eligible cooperative banks are protected by The Deposit Insurance and Credit Guarantee Corporation (DICGC), an organization set up in 1961 by the RBI. This act does not extend to PACS, which are considered societies rather than banks.

Regulatory gaps include overlapping regulation, deficient supervision and excessive control from the government. Several writers on the cooperative sector have made recommendations for streamlining and strengthening regulations. Some regulations are not consistent with others, and this report provides a compilation of the recommendations, stating the apparently contradictory ones as well. Broadly, the recommendations are the following: remove overlapping regulation, strengthen the state-level supervision structure, improve transparency, create access to the Credit Bureau, improve accountability, improve management, integrate cooperatives with markets, ensure effective member control and maintain oversight of cooperatives with the RBI and NABARD.

An overview of Indian financial cooperatives exposes the lack of consistent and reliable centralized data and the need to improve the regulatory environment in which cooperatives operate. Cooperatives can be strengthened by developing (even outsourcing the development of) sophisticated products and services. Finally, in order for there to be financial inclusion, there needs to be a focus on individuals rather than households, and gender-disaggregated information on bank accounts need to be monitored. Civil society needs to take a greater interest in cooperatives in order for them to be able to continue to provide agricultural and rural finance to small holders and landless and excluded people, and for these people to be a part of the larger financial system.

The study team analysed a broad range of cooperative types: traditional as well as self-reliant cooperatives, banks and societies, urban and rural, primary and secondary. While the range of responses by cooperatives was also broad, the study team identified a few common patterns.

The most common financial services offered by cooperatives are savings and loans products, and less frequently also insurance through a private collaborator. Some cooperatives also specialized in offering only particular services – such as micro-insurance or pension schemes. Some cooperative banks also offer remittance services by taking the support of payment gateways from commercial banks like Axis Bank. Only in rare cases, also the societies provide remittance services. Cooperatives also provide non-financial services to their members. These include training to SHGs, PDS services, educational support, fertilizer distribution, and marketing. Some cooperative banks also provide non-financial services through separately established entities, including day care services, hostels for women, and health services. Depending on the state, cooperatives offer services to non-members (in Uttarakhand, this group made up the vast majority of clients).

The study team found that good governance, management, human resource and capacity building, and market adaptability are conducive to strong financial performance. For example, the board of directors of successful cooperatives are elected by the members and meet regularly. Some cooperatives even employ scientific processes to identify products and services by conducting market surveys and analysis (though this unusual). Some primary cooperatives have identified the needs of their clients through close interactions and, in response, introducing specialized financial and non-financial services, such as seed production and loan services to the transport sector. Successful cooperatives also use typically use management information systems.

The study team noted various issues and challenges of cooperatives. Geographical attributes, such as mountainous territory, can create a constraint on scale and therefore profitability of cooperatives affecting outreach. Women leaders are a minority and their agency is often subdued by the male leaders. Government interference and control is still high in some states, damaging the cooperatives autonomy. At the same time, federations of cooperatives and government agencies often show a lack of support of the cooperatives. Another issue is the misuse of regulatory exemptions and positions of power for the benefit of a few individuals.

The field-level findings and the secondary review of data and analysis yield a set of recommendations to improve the enabling environment. First off, membership reform is required to ensure that memberships are open to all segments of the population (without making distinctions of income-level, gender, or occupation). Particular technical skills should be required for nomination to the board of directors. To improve efficiency, cooperatives should be encouraged to centralize particular operations at the national-level. Human resource staff should be hired based on technical qualifications. Innovations in products and services would also help the cooperative movement. For example, SEWA successfully offers loans for life cycle requirements such as Children's education, festivals and family functions, health, and emergency loans. Quicker adoption of IT, in particular Core Banking Solutions, is also essential. The role of government must also change toward less management interference and increased oversight and regulation. The many issues with cooperative regulation should be resolved (for example, the fact that Self-Help-Groups cannot be members of cooperatives and that panels of approved auditors have not been published in most states). Finally, cooperatives require formal recognition as agents of financial inclusion.

1 PART 1: Introduction

1.1 Background and Rationale of the Study

Financial cooperatives are important players in the world banking system, which reach the poorest people and have a substantial economic impact. They serve over 857 million people worldwide, including 78 million living on less than $2 a day, and represent 23 per cent of all bank branches. Financial cooperatives include cooperative banks (based mainly in Europe) and credit unions (set up originally in North America and developing countries), as well as banks owned by agricultural or consumer cooperatives. In Europe, there are 4,200[1] cooperative banks active in 20 countries, with 50 million members, 780,000 employees, $6.3 trillion in assets[2] and an average market share of 20 per cent. There are over 49,330 credit unions that operate in 97 countries, with 183 million members and $1.4trillion in assets[3](as of 2009).

It is a fact that financial cooperatives were the first microfinance institutions in the world. Today's financial cooperatives that include credit unions, thrift and credit cooperatives, primary agriculture credit cooperatives (PACS), rural and urban cooperative banks, etc., are in one way or another based on the lessons drawn from well-known models promoted by Raiffeisen, Shultze–Delitzsch, Dr. Wollemborg, and Desjardins and Rochdale pioneers. In the context of inclusive development, cooperatives are critical institutions for both social and financial inclusion. Whereas social inclusion is addressed by sub-sectoral and service cooperatives, savings and credit cooperatives function as intermediaries of inclusive finance. Cooperatives play a significant role globally in the provision of microfinance services to the poor, an example being Rabo bank, which is also recognized as one of the world's safest banks. Further, cooperatives are known to be resilient financial service organizations in times of crisis, and they remain financially sound and trusted.[4]

A recent report on financial inclusion in India says that the cooperative movement was the first effort towards financial inclusion.[5] The Indian financial cooperative system is also the largest in the world, in terms of the number of people served; it serves about 270 to 390 million people.[6] Although the cooperative sector has been plagued by problems leading to failure of some cooperatives, there have been sweeping changes in the regulations, which have provided for greater standardization of systems and improved oversight, while also safeguarding the democratic processes within cooperatives. There has also been experimentation with new types of financial cooperatives, including the Self Reliant Cooperatives (SRCs) and Farmers' Producer Organizations (FPOs). These organizations exist in a confusing regulatory environment, where the SRCs are marginalized by the traditional cooperatives now re-engineered under the 97th Constitutional Amendment, and the FPOs are collectives that operate under the Companies Act but with a cooperative philosophy.

The state of the current enabling environment for cooperatives has been discussed in recent forums, including the Microfinance India Submit 2013 and the United Nation Development Programme's (UNDP's) knowledge sharing forum on microfinance, the Microfinance Community of UN Solutions Exchange, where members highlighted the need to carry out an in-depth study of financial cooperatives in India. A subsequent e-discussion helped to develop the detailed Terms of Reference (TOR) for the study. The study is intended to analyse the current regulations and identify the

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[1]http://www.un.org/esa/socdev/egms/docs/2009/cooperatives/eacb.pdf
[2]http://www.eacb.coop/en/cooperative_banks/key_figures/last_key_figures.html
[3]http://www.woccu.org/about/intlcusystem
4 ILO, 2013
[5] CRISIL, 2014
[6]Grace, 2008

regulatory gaps that need to be improved in order to enable the financial cooperatives to contribute significantly to the financial inclusion agenda. The study will also document the work of successful financial cooperatives. The UNDP has commissioned the study of financial cooperatives in the context of financial inclusion (FI) in India, and after a rigorous tendering process, assigned the investigation to Sampark.

The first part of the investigation involves a review of the enabling environment for cooperatives in India. The second part involves field study in four States (Karnataka in the South, Uttarakhand in the North, Maharashtra in the West and Assam in the North-East) covering 15 case studies of cooperatives of different types.

The flow of the report is thus: part I includes the background and rationale of the study, followed by the purpose, scope and methodology; part II gives a historical background of the cooperatives development and talks about the enabling environment giving the legal aspects, and institutional structures; part III deals with the results of the field visits and the case studies analysed and part IV derives conclusions and makes necessary recommendations for creating an enabling environment for the financial cooperatives.

1.2 Purpose and Scope of the Study

The **purpose** of the study is to **understand the state of financial cooperative sector in India and identify factors that enable these cooperatives to contribute to the effective financial inclusion drive**.

The **scope** of the assignment is **to:**

- **Review the Enabling Environment:** Review the existing Cooperative Acts in different States, and recommend changes that will enable cooperatives to take an active part in the financial inclusion drive in India, and to emerge as sustainable, transparent and accountable member based financial organizations. The macro level analysis will also review the various networks, promotional institutions, NGOs, Government, knowledge platforms and federations in terms of their role in supporting financial cooperatives.
- **Document and analyse different types of financial cooperatives**, where success is defined by profitability, governance, management and livelihoods activities;
- **Analyse all micro-financial services** offered by financial cooperatives, e.g. savings, loan, insurance, pensions, remittance and leasing, from both demand and supply perspectives; and
- **Identify, study and recommend innovative products and services** that will aid financial inclusion.

The study was conducted in four states with different types of cooperatives and cooperative law in each of the states.

1.3 Conceptual Framework of the Study

Three study conceptual frameworks have been used in the study:

1. The Gender Equality and Social Inclusion (GESI) framework by Lynn Bennett (2009) enables as understanding of a cooperative as a member based organisation, that enable raising resources and creating assets for the members. In this framework, the theory of change envisaged is that greater access to resources and assets, combined with increased voice through collectives, provides the strength to influence policy change in favour of the

excluded groups. The framework outlines three domain of change: 1) the rules of the game 2) voice, influence and agency, and 3. assets and services . An application of the GESI framework to the study of financial cooperatives is envisaged as follows:

- **Assets and Services:** Cooperatives enable members to pool their small savings, and therefore augment the resources available to them. They also augment the resources by enabling them to access external resources, such as revolving loan funds from NGOs, cooperatives banks, and Non Banking Financial Companies (NBFCs) such as Ananya Finance or NABARD Financial Service Limited (NABFINS), etc. The availability of assets and resources enables women to take loans, meet social or productive needs, and increase their household incomes. Economic benefits are an important enabler of change.

  Voice, Influence and Agency: The framework allows the analysis of the cooperative institutional form as one where the members have space to raise voice and influence for better financial services according to their needs. Member based organisations such as Cooperatives allow women/ members to make financial products based on own needs. For instance, loan products have interest rates, repayment periods and instalment intervals based on the needs and preferences of members. Similarly, loans can be taken for purposes that the members decide, including for education, health and other social expenses, and enterprises. Further, women take management roles, taking critical decisions for the cooperatives, and leading their own organisations. These attitudes also permeate their home spheres, with an increased participation in decision making at home, resulting in greater voice, agency and empowerment of women.

- **Norms and Institutions:** understanding the macro level perspective of institutional policies and legal constraints and opportunities for financial cooperatives to offer effective financial services. The wider enabling environment has a very important role to play in determining gender equality and empowerment of women. For instance, women are able to reduce gender based violence, stop child marriages, improve accountability of schools, etc. when they come together in collectives. In this way, greater access to resources, and collectivisation enables greater agency, and also enables and empowers women to change the norms and institutions that shape their world.

  Equally, the existing laws, institutions and norms which shape and circumscribe the enabling environment in which cooperatives work. If laws are enabling, cooperatives would flourish. If laws are ambiguous or give little space to cooperatives, then their functioning and growth would both be constrained. The study will conduct a scoping of the environment in which financial cooperatives exist in India today. As cooperatives are a state subject, the issues at state and national level will both be analysed.

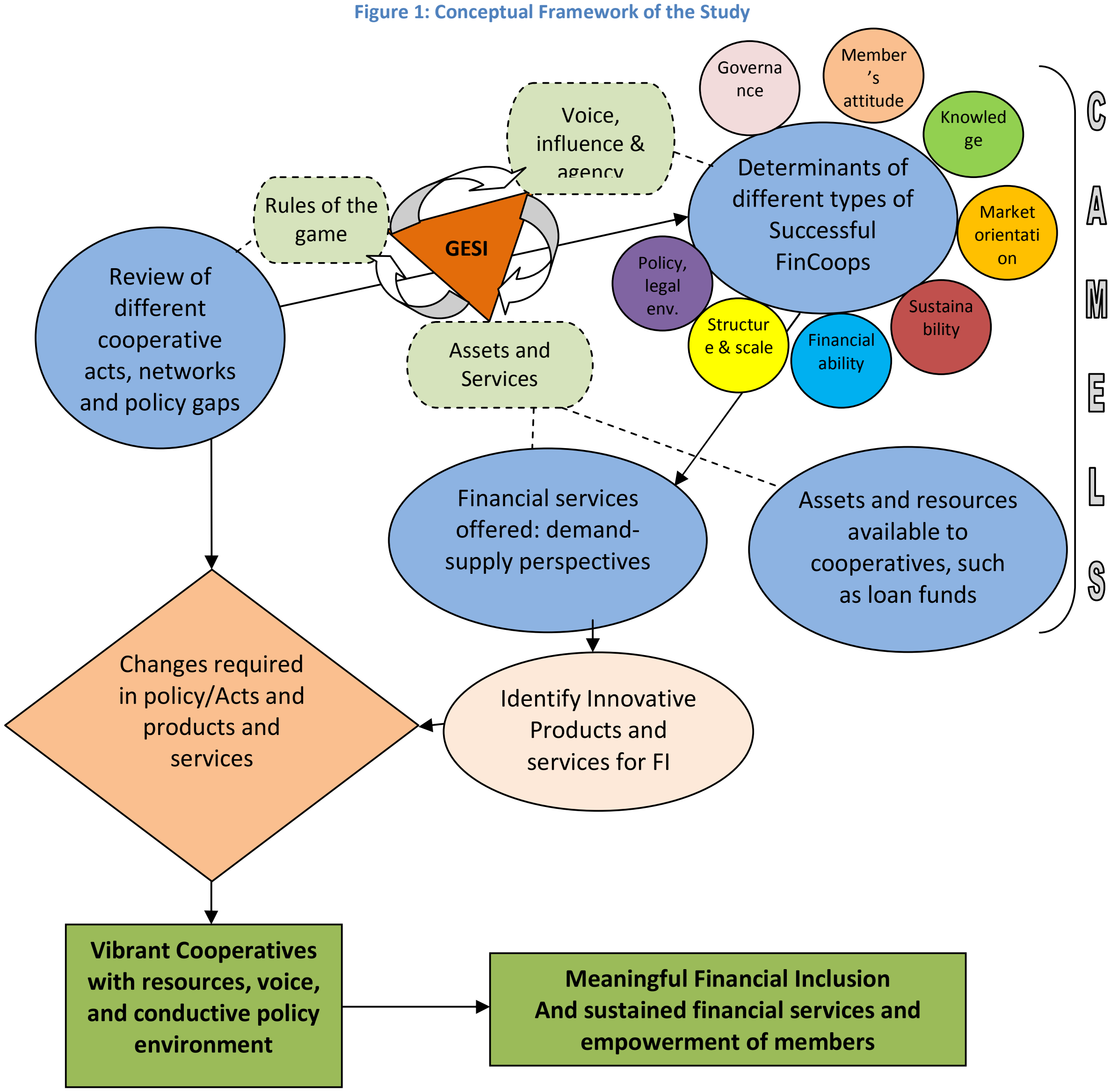
The GESI framework is useful to understand the financial cooperative sector, analyse the strengths and constraints faced by the cooperatives and look at a way forward so that cooperatives can empower the poor and socially marginalised people by providing resources, enabling agency and creating a conducive environment.
In addition to using the GESI framework, the team will use two sets of criteria for assessing individual cooperatives. The CAMELS model[7] analyses six aspects of a cooperatives to rate it as a financial

[7] The CAMELS (Capital adequacy, Asset quality, Management efficiency, Earnings, Liability and Sensitivity to market risk) Model was developed by the Federal banking supervisors of the U.S (the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) in 1970s, and RBI has introduced in 1998 for assessing the overall condition of the banking services. The CAMELS model is an approach mainly used for analysing the performance of financial institutions.

organisation. These include capital adequacy, asset quality, management efficiency, earnings, liability and sensitivity to market risk.

This set of financial indicators is supplemented with the determinants analysis of cooperatives by Hans Groeneveld (Rabobank, 2012)[8]. The determinants that can be studied include: governance, structure and scale, knowledge, members attitude and commitments, policy, legal environment, financial abilities, market orientation and sustainability. The determinants used by Groeneveld to assess the success of cooperatives in financial services to poor households and draw strength and constraints for improving or replicating the cooperative services.
The use of these frameworks is elaborated in Figure 1 below:

Figure 1: Conceptual Framework of the Study



Integrated from: Bennett, Lynn's GESI framework (2009), Groeneveld, Hans (Rabobank)'s determinants analysis (2012) and CAMELS model (1970s.)

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[8]Groeneveld, Hans (2012). Cooperatives and Rural Financial Development: Great Opportunities and Surmountable Difficulties. The Netherlands: Rabo Bank

The CAMEL framework will enable an analysis of cooperatives as a financial institution. The Rabobank framework will broad base the assessment of cooperatives to include more broad based indicators of cooperatives as organisations for outreach to the poor. The GESI framework then extends the analysis further to suggest a theory of change that also incorporates two directional impacts: That of cooperatives on the environment, and that of the environment on growth of cooperatives.

1.4 Methodology

The team followed a participatory approach for documenting and analysing the financial cooperatives by consulting all the relevant stakeholders.

The following sections outline the sample coverage and a detailed methodology that was followed to complete the assignment.

1.4.1 Sampling

The study required covering 15 different types of financial cooperatives. It used **mixed sampling** procedure to select the states and the cooperatives. For selecting states and unique cooperatives societies, P**urposive Sampling** was applied. However, for selecting other cooperatives like Urban Cooperative Banks, PACS functioning as SHPIs, SHG federations registered under thrift and Credit Cooperatives/Multipurpose Cooperatives, **Stratified Random Sampling** was attempted in a few states, to be able to coverless successful cooperatives along with successful ones.

The states for sample study were identified using the following criteria:

- Geographical location, to get representation of the northern, eastern, western and southern states in India;
- Different types of Cooperatives Acts in the States[9]; and
- States offering innovative and good practice examples of different financial cooperatives to analyse success/failure factors, and potential for replication.

Considering the time available for the study and cost efficiency, **four states** were selected for in depth micro level analysis of various financial cooperatives. However, **two** additional states (Gujarat and Madhya Pradesh) were covered to get lessons from special cases. The macro level environmental assessment was made at the all India level.

The states that were selected for the study are given in Table 3:

Table 1: Selection of States

Region	States
North	Uttarakhand (Uttaranchal), Madhya Pradesh
South	Karnataka
West	Maharashtra, Gujarat
North-East	Assam

[9]Except the state that has 'only self-reliant cooperative act' as there seems to no state with only self-reliant cooperative act exists.

Following the regional criteria as main, Uttarakhand (Uttaranchal) was selected for the Northern region as the Self-reliant Cooperatives (SRC) Act has been enacted and the state also has cooperatives registered under the state cooperative society act. This would provide a perspective on how cooperatives can work for financial inclusion in a hilly/mountain region.

Karnataka was selected for the Southern region as it has both the SRC Act (Souharda Act) with SHG federations registered under that Act and also the traditional cooperatives act with urban and rural cooperative banks registered under it. It has both government and donor promoted cooperatives, to get comparative perspectives.

Maharashtra has re-engineered the traditional cooperative act and multi-state cooperative act. It also offered the opportunity to study both government and donor promoted cooperatives. The study team also covered some of the special cooperative cases such as VimoSewa Multi-state Cooperative from Gujarat that provide insurances services and SEWA Bank from Gujarat and Pratigya Samanvit Vikas Sakh Sahkarita Maryadit, from Madhya Pradesh. This would add value in terms of how such cooperatives are effective and sustainable in delivering special financial services.

Assam was selected to cover the state that has the traditional cooperative act. Assam was also selected for getting the perspective of the North-Eastern region, and issues of financial cooperative sector in the mountain/ hilly region. The socio political situation of Assam provides a contrast to the mountain region, of Uttarakhand.

Having first done a geographical selection based also on the different types of cooperative acts in the States, other criteria were then superimposed, and they are as follows:

1. Location of the cooperatives: closeness and remoteness to town
2. Age of the Cooperatives; <5 years, more than 5 years
3. Size of the cooperatives; memberships, volume of financial operations
4. Composition of the cooperatives (mixed, women, men, socially excluded categories, etc.)
5. Activities of the cooperatives – engaged in financial and non-financial services
6. Donor/NGOs promoted and government programme promoted
7. Cooperatives linked with external agencies like banks and government programme and cooperatives not linked

Considering the criteria of selecting the states and cooperatives, the following states and number of cooperatives for in-depth case study analysis, are presented in Table 2:

Table 2: Sample Size (number of states and Cooperative cases)

Sl. No.	Categories of Cooperatives and Relevant Organisations/People Covered	Sample states				Additional states for special cases		National Level	Total	Planned Sample Size
		Maharashtra	Karnataka	Uttarakhand	Assam	Gujarat	MP			
1	Cooperative Case studies									
	Case 1: SRC	N.A	1	1	N.A			N.A	2	2
	Case 2: PACS		2	1	1			N.A	4	2
	Case 3: Special Coop or Thrift and Credit Society	2			1		1	N.A	4	3
	Case 4: Cooperative banks (DCCB/ SCB)	1	1	2	1			N.A	5	3
	Case 5: Urban Coop (state act/ SRC)		1	1	1			N.A	3	3
	Case 6: MSCS	1				1		N.A	2	2
	Case Study sub Total	4	5	5	4	1	1		20	15
2	RBI								0	
3	Apex Level Financial Institutions (NABARD, SIDBI, NABFINS)		1	1	1			1	4	
4	Donors			1				2	3	
5	Promoting, CB (NGOs, international agencies)		1		1			2	4	
6	Training/ Resource Agencies	3	1	1	1				6	
7	Cooperative Department			1	2			2	5	
8	NRLM/SRLM	1		1				1	3	
9	National/State Cooperative Federations/ Cooperative Union	1	2		1			2	6	
10	Individual consultants, experts/ others		1	1				2	4	
	Interviews Sub Totals	5	6	6	6	0	0	12	35	
	Total	9	11	11	10	1	1	12	55	

The field study also covered 12different stakeholders that are engaged in promoting and supporting the financial cooperatives in India. These include the RBI, NABARD, donor agencies like IFAD and UNDP, promoting organisations like Rabo Bank, FWWB and Ananya, training institutes like CAB, ICM, RSETI and SAHARDA, national and state level cooperative federations and unions like NABSCOB, NUCI and ICA, government department including cooperative, agriculture and NRLM, and key individual experts who have worked in the cooperative sector.

The details of the people covered in each state are given in Annexure 1.

1.4.2 Processes Involved

The following implementation process was used to complete the study.

Phase I: Preparation and inception report
Phase II: Macro level research and preliminary report
Phase III: Field level data collection and draft report preparation

- *Conducting primary data collection – field visits to cooperatives*
- *Conducting data analysis and writing a draft report*

Phase IV: Sharing of draft report through national level workshop
Phase V: Finalisation of report

Even with utmost attention, some limitations can still be expected in a time bound study such as the present one. Some of them are:

- Difficulty in obtaining a collaboration of Multi-State Cooperative Societies (MSCS)– due to the limited number of such societies in the areas covered and reluctance by the branch offices to speak with the study team.
- Absence of genuine financial self-reliant cooperatives in Uttarakhand due to the cooperative department in the state blocking registrations.
- Unavailability of complete listing of cooperatives by state and difficulty in reaching out to selected cooperatives, making a random sampling method impossible to use.
- Difficulty in obtaining the required data and documents for understanding the financial position of the cooperatives was difficult as the cooperatives either busy or not organized to provide.

These are some of the key issues faced by the field study team while implementing the field-work planned and covering the planned sample size. Despite this, the team managed to overcome these difficulties and collect some quality data to bring out a rich analysis of the situation.

2 PART II: Enabling Environment for the Cooperatives in India

The section provides an overview of the enabling environment for financial cooperatives in India, particularly within the context of financial inclusion. We have drawn comparisons between the experiences of cooperatives in other countries and in India, both historically and in the present. Through this process, we have identified issues and challenges, which are outlined in the following sub sections. The analysis is based entirely on published information, and the analysis of secondary data is preliminary to a more detailed set of interviews with a wide range of stakeholders.

2.1 The Historical Background of Cooperatives Development

The world of cooperatives is diverse, consisting of a wide range of cooperatives, from financial and agricultural to commodity and services cooperatives. As a member-based institution, a **cooperative** is defined as follows:

"A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise."[10]

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[10]ICA, n.d.

This report refers specifically to **financial cooperatives**, which are cooperatives that offer financial services, sometimes among other services. Financial cooperatives are called by various names around the world, including credit unions, credit cooperatives, cooperative banks or societies.

Financial cooperatives are significantly different from other types of financial institutions. The World Council of Credit Unions (WOCCU) uses the following table to distinguish financial cooperatives from other financial institutions.[11]

This section aims to present a brief summary of the development of cooperatives, internationally and in India.

2.1.1 The International Experiences

The cooperative model dates back to early civilizations in Egypt and China around 1,500-1,300 B.C. Around 550 B.C., agricultural products were exchanged and sold through cooperatives in Babylonia. These cooperatives also provided loans to the poor to avoid exploitation by informal moneylenders. The origin of the modern cooperative model lies in the United Kingdom and Germany in the first part of the 19th century.[12]

Origins of the Cooperative Movement

Financial cooperatives can be traced back to the agricultural credit cooperatives in Germany under Friedrich Wilhelm Raiffeisen (1818–1888). During the Industrial Revolution, many farmers and artisans faced the negative effects of the liberation of the serfs and the introduction of free trade. These farmers and artisans were burdened by having to pay off their former lords and were inexperienced in the independent management of a business. The failure of harvests in the years 1846-47led Raiffeisen, the mayor of Weyerbusch, to create a self-help organization whose wealthier members provided money at the time of crisis and its poorer members repaid the amount borrowed on low interest rates.[13] Over the years the importance of cooperatives worldwide has increased so much that there are currently 57,000 credit unions in 103 countries that serve 208 million people (as of 2013).[14] The United Nations even named 2012 as the International Year of Cooperatives.[15]

On a global scale, the penetration rate of credit unions is about 8%. The highest penetration rate is found in St. Vincent & the Grenadines (90%), followed by Barbados (78%) and Ireland (75%). The penetration rates are high in the U.S.A. and Canada (around 45%), yet they retain a small percentage of deposits. U.S. credit unions have a deposit market share of almost 7% and around 100 million members. In Canada, credit unions have a deposit market share of 8% and more than 10 million members. The penetration rate in Latin America is more than 8%, but the deposit share levels trail behind significantly at around 3-4%. However, they are much more significant that these market shares suggest, because many credit unions reach down to some of the poorest people in each country and have a substantial economic impact.[16]

[11] WOCCU, n.d.
[12] Groeneveld, 2015
[13] Sudradjat, n.d.
[14] WOCCU, 2014
[15] WOCCU, 2011
[16] Groeneveld, Ibid.

Experiences of Success and Failure

Financial cooperatives perform quite differently from banks, which is evident from their success stories. During the Recession in 2008-9, while the US banking industry was on the brink of a collapse, cooperative financial institutions survived as they take on less risk, tend to be less affected by business cycles, and therefore, could serve as an important counter-cyclical economic force in local markets. When banking institutions pulled back significantly on lending after the recession, credit unions filled the void and their loans grew by 8% during the height of the financial crisis, while bank loan portfolios declined by nearly 10% during the period. Similarly, credit unions have expanded their business lending in 2009-13, while small business lending by other banks has significantly declined.[17] Some historical and recent cases of cooperatives are presented below.

The Réseau des *Caissespopulaires*du Burkina, Burkina Faso

Burkina Faso is one of the world's poorest countries with nearly 88% of the active population engaged in the agro-pastoral sector. The economic infrastructure is extremely poor and the formal banking sector is concentrated primarily in the urban areas. In this environment, the *Réseau desCaissespopulaires du Burkina* (RCPB), the country's largest financial cooperative network, has helped people in rural areas access financial services. It is one of the largest cooperatives in West Africa and it owns a large share of the outlets of financial cooperatives. The RCPB is organized in three tiers: the primary *caissespopulaires*(the francophone equivalent of credit unions) at the grassroots level, regional unions, and a national federation. In places where cooperatives are not economically viable, some *caissespopulaires* have established smaller branches called Points of Service (POS).[18]

The success of the RCPB can be traced to some key strategies:

1. The RCPB offers a wide range of products and it even tailors products to suit the specialized needs of the farmers, traders, herders and salaried people.
2. It employs innovative credit technologies. For example, Centre Financier aux Entrepreneurs (CFE) is a professional consulting group, which was formed due to the *caisses*' inability to evaluate large business loans. Now, the *caisses* disburse the loan on approval of the CFE, which possesses the technical knowledge to assess the viability of large loans.
3. The regional unions and national federation also provide necessary support services.
   (i) There is periodic supervision and inspection of the *caissespopulaires*.
   (ii) Cooperative training, education, and materials are provided to the *caisses*.
   (iii) Research is carried out to identify the problems and opportunities that the organization might encounter, and policies and plans are formulated accordingly.

Cooperatives *Dix pourcent*and Le Levier, Haiti

According to World Bank estimates, 80% of the people of Haiti lacked access to credit in which year? Commercial banks lent less than 2% to the agricultural sector and even MFIs devoted only 4.5% of total lending to loans for agricultural production. It is in this scenario, between 1998 and 2002 that the cooperatives *dixpourcent* flourished. They relied on a steady stream of new clients and drug money to operate, and paid interest rates between 10 to 15%. The high interest rates, compared to commercial banks that paid up to 2%, and prizes like cell phones and CD players ensured their tremendous popularity. Naturally, a model like this is not sustainable and the cooperatives *dix pourcent*collapsed in 2002, affecting the credibility of the entire cooperative movement and leading to the loss of $200 million of investors' money.

[17] Schenk, 2012
[18]Aeschliman, 2007

Meanwhile, Développement International Desjardins (DID), the international development arm of the Canadian cooperative Desjardins Group, had helped its partner *caissespopulaires*in Haiti to become viable institutions and had created an auto-regulatory association that provided financial oversight for the member *caisses*. But after the "dix douze" scandal (as the collapse of the *dix pourcent* cooperatives was termed by the media), Haitians lost faith in the entire cooperative movement, including in the *caisses*. This crisis ultimately led the Haitian government to intervene and in June 2002, the cooperative sector was brought under the control of the Central Bank, which had the power to audit the cooperatives and shut them down if necessary.

After the crisis, DID worked on a plan to strengthen the cooperatives, which were small and could not diversify their portfolios. DID oversaw the formation of a federation of fourteen *caisses*, called Le Levier. The federation performed well till the earthquake hit the country in 2010. At this time, the entire cooperative network was in trouble again. The *caisses*were either destroyed or looted. International organizations pledged $1 million to help Le Levier meet the deposit liabilities. After 2010, Le Levier recovered considerably with the help of its international partners. These partners helped Le Levier to develop new products, expand into new markets and gain the trust of the Haitian people. However, there is a concern that if the cooperatives continue to require external funding in the long run, the project will not be sustainable.[19]

The People's Credit Funds, Vietnam

The People's Credit Funds (PCFs) in Vietnam is a successful and resilient network of local financial institutions. The PCFs are self-managed and financed, but are part of a bigger movement controlled by State Bank of Vietnam, the country's central bank. The SBV prepared the regulatory framework, integrated the network into the formal financial sector, supervised its progress and enforced prudential standards.[20] At the highest level of the network is the Central People's Credit Fund , which manages liquidity exchange for the PCFs and also provides financial services to the public (mostly urban) to ensure viability. Some of the features of the system are as follows:

1. Three types of supervision are carried out in PCFs: daily internal control, random but regular inspections by the SBV, and remote supervision by the SBV.
2. Training programs are carried out free of charge.
3. A regulatory framework is made for the PCBs [21]and they are licensed by the SBV.
4. To ensure sustainability, the SBV closes any non-performing PCFs.

The two-tier system of PCBs and the CCF limited the impact of the global financial crisis in Vietnam. To some extent, the CCF is vulnerable to fluctuations in the global economy due to its exposure to urban credit. However, the PCFs, which serve the rural areas, were not affected by global dynamics. Thus savings-based self-reliance ensures resilience to the global cycles.

Cooperatives in Germany

Germany also has a thriving network of cooperatives. It has around 16 million members and it is estimated that nearly every farmer, winegrower and gardener is part of at least one cooperative. The German cooperative network is also three-tiered. Cooperative banks function at the local level, followed by apex banks at the regional level. Apex banks are aided by a number of specialized groups, which provide the required technical expertise. At the national level, there are four specialized federations and many national centres and institutes. Among the many functions of the national federations, there is provision of accounting, auditing and advice on legal, tax and human resources matters. The federations also support the network on international platforms and exchange information with other cooperatives around the world.[22]

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[19]Mattern and Wilson, 2013
[20]Seibel and Thac, 2012
[21]The English name of PCB translates to: Vietnam Credit Information Joint Stock Company
[22]Sudradjat, Ibid.

The Cooperative Rural Bank of Bulacan, Philippines

The Cooperative Rural Bank of Bulacan, Inc. (CRBBI) in Philippines is a rural bank controlled by 180 primary organizations. The CRBBI lends to it member organizations, which in turn lend to individual clients. The primary achievement of the CRBBI is that it attained a hundred percent operational self-sufficiency in 1997. This implies that its income from interest and fees on loans fully covered its operating costs and provisions for losses.[23] Even though this implies an increase in the cost of loans, it ensures that the bank is on the path of long-term sustainability. Some of the factors that improve viability are members' participation in ownership and governance, forward-looking professional management, the adoption of a market-oriented interest rate, incentives for excellence and penalties for bad performance, lesser dependence on government-directed credit programmes, and diversification of deposit products to suit the needs of the local population.

Lessons Arising from the International Experience of Cooperation

International experiments and experiences with cooperatives have taught the movement a few lessons. Studies on cooperative movements around the world have attempted to distil the learnings into a few principles that can be integrated with the existing social, political and economic environments.

Adherence to Cooperative Principles

The international experience validates the need to adhere rigorously to the following cooperative principles, laid down by the International Co-operative Alliance[24]:

(a) The first principle of cooperatives dictates that "memberships should be open and voluntary".
(b) Credit Unions which are largely self-managed are more successful and exhibit attention to member interests.
(c) They should be democratic institutions controlled by the members and should form their own policies.
(d) Members should contribute equitably to the capital of the cooperatives so that the capital is the common property of the members.
(e) Education, training and information should be provided to members as that will help them make greater contributions towards the development of the cooperatives.
(f) Cooperation at the local, regional, national and international levels strengthens the entire cooperative movement.
(g) Finally, cooperatives should work towards the sustainable development of their communities.

Role of the government

The discourse on international cooperatives holds that the government should play the role of a legislator, regulator and prudential supervisor, and not interfere in management. However, there is also evidence that leaders of cooperatives have jeopardized members' interests in many cases and so, regulation needs to be strong. Further, it is important that the government agency that regulates the credit unions be trained in their nature, risks and methodologies.

[23] Quiñones, 1999
[24] ICA, Ibid.

The main models of **supervision** are as follows:

(a) **Direct supervision** of all the credit unions by the government. This removes regulatory arbitrage, promotes greater confidence and results in uniform standards of competition in the market. But in a country with thousands of cooperatives, it results in a huge cost to the government.

(b) **Supervision differentiated by size of cooperatives:** Direct supervision of the largest credit unions based on asset size. The smaller unions are supervised by mortgage brokers, or insurance and money transfer firms. This reduces the costs to the government. But it creates regulatory arbitrage, divides the credit market into two, and creates confusion among the depositors.

(c) **Delegated supervision:** The supervision is assigned to a third party (like the Credit Unions' National Association in the United States, for instance). The cost of supervision is avoided by the government, and the unions and government share a better relationship.

(d) **Supervision by restructured ministries of governments**: Most such ministries are involved in the welfare of many types of cooperatives, not just financial ones. As a result, they lack adequate funding and the required technical expertise.

Laws and Regulations

Laws relating to cooperatives have traditionally provided more flexibility because these organizations are expected to be managed and controlled by members. International experience shows that it is important to build a robust **legislation**, which is prudential, proportional and predictable. The legislation structures should be different for the banking, cooperative and microfinance laws. The law should define the minimum requirements for licensing a credit union; for the constituents, powers and activities of a union; for a supervisory body; and for deposit and loan concentration limits.

Further, international experience on cooperatives' regulations shows that the focus on initial start-up requirements needs to be replaced or supplemented by measures that ensure the commitment of members (such as getting a minimum number of signatures from people committing their membership, developing business plans to show viability, and allowing a grace period to reach capital adequacy). In addition to members' shares, the capital base of cooperatives needs to be broadened to include retained earnings, donations and statutory reserves. The regulators should allow for non-traditional collateral and alternative guarantees for small loans. The high cost of tending to a large number of small depositors should also be considered.[25]

2.1.2 The Indian Experiences

The history of cooperatives in India can be divided into "four phases representing significant developments or events in the history of the co-op movement".[26]

[25]World Bank, 2007; Poprawa, 2009; WOCCU, 2008
[26]Sriram, 1999

The First Phase: 1900-1930[27]

In 1904, the State of India passed the first legislation concerning cooperatives, namely, the Cooperative Societies Act. Cooperative credit societies were set up with the objective of providing credit to farmers at a reasonable rate[28].Until then, only a few cooperatives had taken form; the first was established in 1891 for farmers to have collective control over the common lands/pastures of the village.[29] Cooperatives proliferated quickly after the 1904 act. By 1915, more than 800 primary cooperatives were established all over India.

In this phase, the Government set up three different committees to investigate the functioning of financial cooperatives. The first was the Edward Law Committee, which came up with? Subsequently, a study by Frederic Nicholson confirmed and reiterated the need for the State to actively promote cooperatives. In the year 1915, the Maclagan Committee advocated that there should be one cooperative for every village and every village should be covered by a cooperative. By this time, the State was already deeply involved in promoting financial cooperatives as instruments of credit delivery. In 1928, the Royal Commission on Agriculture in India submitted its report. Amongst its various observations, the Commission suggested that the cooperative movement must continue to be directed toward the expansion of rural credit and that the State should patronize cooperatives and protect the sector. It was the Royal commission, which made the observation that "if co-operation fails, there will fail the best hope of Rural India."[30]

The early interventionist role of the State shaped the cooperative structure that we have today, including the system of refinance, developed initially by the Agriculture refinance cell of the Reserve Bank of India, then the Agriculture Refinance and Development Corporation and later by the National Bank for Agriculture and Rural Development (NABARD). The trend of involvement continued in the following phases, as the State became increasingly involved with cooperatives, seeing them as instruments delivering Government schemes.

The Second Phase: 1930 – 1950

This phase did not involve too much action for the financial cooperatives. The early signs of sickness in the cooperative system also surfaced during this period.

The 1945 Agricultural Finance Sub-committee observed that a large number of co-ops were faced with the problem of frozen assets as a result of heavy over-dues. As a result, it recommended the liquidation of members' frozen assets by adjusting the claims of the society to the members' repaying capacity. This solution is another indicator of the State's interventionist role, this time in the area of the credit discipline of members.

Around the same time there was another committee set up to look into the cooperative sector, namely, The Co-operative Planning Committee. The Committee looked into the causes of co-op failure and identified the small size of the primary co-op as the principal cause of failure. It also advocated State protection for the co-op sector from competition.

The Third Phase: 1950–1990

The third phase was action-packed. The All India Rural Credit Survey (AIRCS) submitted its report in 1954, recommending the participation of the Sate in the share capital of the cooperatives. It suggested that the State should hold at least 51% of the share capital of all cooperatives at all levels. Significantly, it also recommended that "there should be a common cadre of employees for all co-

[27] The following outline of the four phases of the Indian cooperative movement is largely based on M. S. Sriram's study.
[28] RBI, 2013
[29] Hough, 1960
[30] RCA, 1979

ops, the co-ops should have both credit and commodity functions, the co-ops should have a larger area of operation and to ensure this, there had to be compulsory amalgamation of co-ops”.[31]In 1969, another committee was set up to review the progress made on the recommendation of the AIRCS.

Ever since the AIRCS recommendations, the State has been involved in restructuring the cooperative sector, ignoring the basic issues of autonomy and self-help. As M. S. Sriram says in his study,

“The view of the State has been that the rural areas need to be supported with cheap credit from the State and if the institutions that were meant to deliver this failed, there either had to be a re-organization or a new institution created. In brief, it initiated more studies and took more policy decisions.”

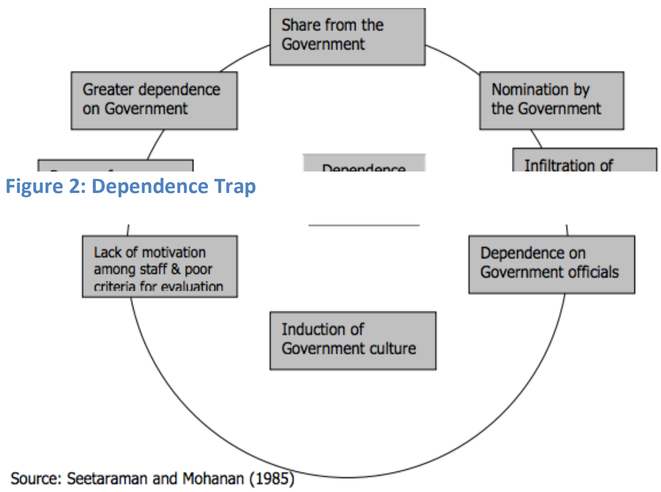


Figure 2: Dependence Trap

Source: Seetaraman and Mohanan (1985)

The subsequent committees illustrate the diversity of policy recommendations. The Narasimham Committee suggested floating Regional Rural Banks; the Hazari Committee recommended integration of the short-term structure with the long-term (though not implemented);the National Commission on Agriculture recommended setting up of Farmers’ Service Co-operative Societies, this time with the active collaboration of the nationalised banks; the Bawa committee recommended the setting up of large co-ops in tribal areas; and the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development, under the Chairmanship of Sivaraman, resulted in the formation of NABARD.

The diversity in the committee’s recommendations resulted in many interventions at the policy level too. Additionally, the financial involvement of the State caused interference at the operation level as well, leading to what is termed as dependence trap, as depicted in Figure 1.T he ailing financial cooperative system received a decisive blow when, in 1989, the Government of India (GoI) launched a populist scheme to write off the loans of farmers—an election promise on which the government had come to power.

Toward the end of this phase, however, some alternative viewpoints were put forth. The Khusro Committee talked about ‘savings as product necessary for cooperatives’ and advised that ‘business planning should take place at the local level and that strategies should be in place for cooperatives to sustain themselves.’[32]

The Fourth Phase: 1990–Present

This phase saw some developments in the area of the autonomy and self-reliance of cooperatives.
A parallel cooperative movement of Self-Help Groups (SHGs) picked up silently all over the country. Strikingly, while these groups “operate on the basic principles of cooperation and mutual aid as

[31]Sriram, Ibid; 4.
[32]Sriram, Ibid.

specified by International Co-op Alliance in its 1994 congress, very few registered themselves as cooperatives. [Several of these enterprises] operate as informal groups with just a bank account and some bookkeeping."[33]) The government monitored this movement and played a cautious but supportive role.

In the mainstream cooperative movement, an important development took place when the Brahm Prakash Committee on the Model Co-op Act "suggested a radically different law which ensured autonomy to co-ops in the country, thereby suggesting that the role of the State should be reduced in the co-op sector."[34] However, given that cooperation is a State subject, it was only recommendatory in nature. Nevertheless, in 1995, the state of Andhra Pradesh passed a radically new law called the Andhra Pradesh Mutually Aided Co-operative Societies Act to govern new-generation co-ops. The new act runs concurrently with the old Act of 1956, allowing existing cooperatives a choice between the two. It allows cooperatives registered under it greater autonomy at the cost of no financial support coming from the States. Several informal mutual-aid groups have come forward to register under the new act. As of February 2005, there were a total of 13,891 cooperatives registered under this act, of which 3,428 were previously registered under the old act. Following the example of Andhra Pradesh, several states introduced self-reliant cooperative laws, including Jammu and Kashmir, Uttaranchal, Karnataka, Madhya Pradesh, Jharkhand, Bihar, Chhattisgarh and Orissa.

Subsequent committees, such as the Shri Jagdish Kapoor, Shri Madhav Rao, and Prof.A.Vaidyanathan committees echoed the new view that cooperatives should be member-driven enterprises, free of political interference. The Vaidyanathan Committee proposed significant and wide-ranging reforms in the governance and management of cooperatives, including crucial amendments to the respective State Cooperative Societies Acts.[35] As an incentive for reform, the GoI developed a comprehensive assistance package, the provision of which was contingent on major revision by the states of the legal and regulatory frameworks.[36]Based on the recommendations of the Vaidyanathan Task Force, the GoI announced a package for revival of the ST CCS in 2006. As of December 2012, twenty-five state governments signed the Memorandum of Understanding with the GoI and NABARD, agreeing to make amendments and receive the assistance package.

In early 2008, the GoI had announced the Agricultural Debt Waiver and Debt Relief Scheme, 2008, despite the warning of the World Bank regarding "the potentially adverse impact debt waivers could have on credit culture as well as the risk they posed to financial markets/institutions".[37] This scheme has been criticized for not mitigating the debt burden of all farmers but only of those borrowing from formal institutions and those being undertaking risky behavior.[38]

In essence, despite some setbacks, a new generation of autonomous financial cooperatives is slowly emerging in India.

2.2 The Contemporary Institutional Structures

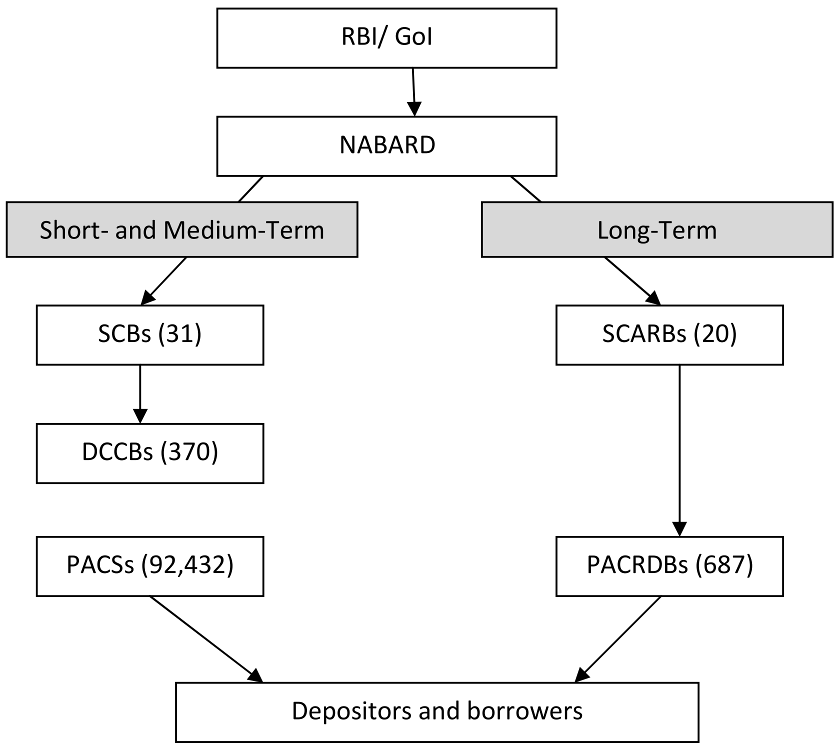
The cooperative system in India consists of rural and urban cooperatives. The rural cooperative system, illustrated in Figure 2 below, consists of the Short-Term Cooperative Credit Structure (ST CCS) and the Long-Term Cooperative Credit Structure (LT CCS).

[33]Sriram, Ibid.
[34]Sriram, Ibid.
[35]RBI, 2013
[36] World Bank, 2014
[37]World Bank, Ibid.
[38]Srinivasan, 2008

The ST CSS is of most relevance to financial inclusion as it meets the crop loan requirements. The ST CCS functions as a three-tier structure in 16 states. As shown in the figure, it is composed of primary agricultural credit cooperative societies (PACS) at the base; PACS have farmers as their members. District Central Cooperative Banks (DCCBs) act as the intermediate federal structure; PACS are its principal affiliated members. State Cooperative Banks (SCB), at the apex state level, have the DCCBs and other cooperatives as their principal members. In 13 smaller states and union territories, PACS are directly affiliated to SCBs and the ST CCS functions as a two-tier structure. In three states, a mixed structure operates, with a two-tier structure in some districts and a three-tier structure in the others.[39]

The LT CSS, supporting farmer-level capital investments in agriculture, consists of two tiers, with Primary Cooperative Agriculture and Rural Development Banks (PCARDB) at the base, and State Cooperative Agriculture and Rural Banks (SCARB) at the apex.

Figure 3: Rural Cooperative Institutional Arrangement



NABARD provides direct finance and refinance to SCBs, SCARBs and recently, also directly to DCCBs.[40] NABARD then borrows from the Reserve Bank of India (RBI) and the GoI, among other institutions.[41]

[39]Bakshi, 2013
[40]NABARD, n.d.
[41]Maan and Singh, 2013

Urban Primary Cooperative Banks, popularly known as Urban Co-operative Banks (UCBs), are primary cooperative banks located in urban and semi-urban areas. In contrast to the rural three-tier structure, these operate independently although they are loosely integrated into the higher financing agencies, such as DCCBs and SCBs. The status of UCBs, registered under the Multi State Cooperative Societies Act, in the cooperative structure is not well defined. They are neither linked to any DCCB nor SCB on account of their presence in more than one state.[42]

> The three-tier structure and the rural-urban distinction creates several problems:
>
> - Competition among cooperatives at different levels as they serve the same clients.
> - Blurred distinction between rural and urban cooperatives.
> - Increased transaction costs and reduced profit margins.
> - Low overall efficiency of the cooperative credit system.

A couple of issues with the Indian three-tier system stand out. Firstly, the competition existing between the tiers defeats the purpose of a multi-tier system. The advantage of such a system would be economies of scale, with higher tiers providing wholesale services to lower tiers. However, in India, SCBs often serve the same individuals and cooperatives as the DCCBs and to some extent, those that PACSs seek to serve as well. As Dave Grace, the former vice-president of the World Council of Credit Unions (WOCCU), pointed out in an article on the cooperative system in India, "a well developed system of trust and support has not been and cannot be established within such a competitive environment" (2008). In the Report of the Expert Committee to examine the Three Tier Short Term Cooperative Credit Structure (ST CCS) (2013), the RBI also confirmed the existence of competition in deposit mobilization between the tiers.

Additionally, the distinction between urban and rural banks has been blurred. The above-mentioned Report of the Expert Committee has also found that some DCCBs and the SCB consistently provide less than a 15% share of the agricultural credit in the operational area. Further, SCBs in the North-Eastern Region as well as in smaller states and union territories like Delhi, Goa, Chandigarh, etc. provide insignificant credit to agriculture and only cater to the requirements of the urban population. Policymakers, then, should determine whether existing barriers need to be removed in order to allow fair competition or whether truly re-enforcing tiers should be reinstituted.[43]

Another significant issue is the redundancy in the three-tier system. In the words of the above-mentioned Report, "The prevalence of the three-tiered structure leads to an increase in transaction costs that diminish profit margins." The existence of a third tier at the state level is unusual outside of India; in most countries, the third tier typically only exists at the national level.

2.3 The Cooperative Law and their Implementation

Indian cooperatives face a complex regulatory environment, which is the result of the government's historical orientation of development and protection. Thus, cooperatives in India recognize the need for control and supervision.

[42] Das,2009

[43] Grace, 2008.

2.3.1 The Rationale and Principles of Cooperative Regulation

All financial systems need regulation as their clients, both borrowers and depositors, need protection: depositors need an assurance of the safety of their deposits, and borrowers need to have access to lending and recovery practices that are fair and non-exploitative. As finance is a quasi-public good, it requires regulatory intervention to reach efficient outcomes. Further, market imperfections are binding on the poor and small entrepreneurs, making the regulation of this sector that much more important.[44]

The regulations of cooperatives assumes importance because:

- The cooperative sector in India is one of the largest in the world, with a network of about six lakh cooperative societies, a membership of about 249 million persons, and a pool of 23.86 million people whom it provides direct credit and self-employment[45].
- Cooperatives take deposits from low- and middle-income people, for whom deposit safety is a major concern.
- Cooperatives lend mostly to small and marginal farmers, and micro-entrepreneurs, whose requirements fall into priority sector lending (PSL) and who need credit at fair prices.
- Cooperatives engage in relationship lending, with credit decisions being based on soft information from members. This can reduce information cost and increase efficiency, but at the same time, it can also lead to fewer professional decision-making processes and higher credit risks.
- Cooperatives have been faced with several failures on account of mismanagement arising from the family control of cooperatives, the use of cooperatives for political purposes, and fraud by the leaders and staff.

Historically, cooperatives in India have had more lenient regulation compared to those in other countries because the government has encouraged promotion and growth of the sector. More recently, the paradigm has changed towards having a level-playing field for all types of financial institutions, with different types of institutions having equitable representation. This will be facilitated by promoting competition among different types of institutions, which is expected to lead to efficient allocation of productive resources, i.e. finance. Accordingly, four principles are prescribed for financial sector regulation: Stability, Transparency, Neutrality and Responsibility.[46]

2.3.2 The Regulations

Cooperative banks come under the purview of both the Registrar of Cooperative Societies of the state (in which they are located) and the Reserve Bank of India. Critics of the sector believe that this dual regulation creates inefficiencies and at the same time, prevents prompt regulatory action. Different acts regulate the following aspects of cooperative functioning:

- Membership rules and operational procedures;
- Prudential norms relating to income recognition, asset classification, provisioning and capital adequacy ratios. Since March 2008, cooperatives are also required to disclose the level of CRAR in their notes to accounts in their balance annual sheets;
- Functioning of cooperatives, by mandating regular audits, board meetings and annual general meetings for disclosure and adoption of accounts and financial decisions; and
- Government control of management in case of complaints of mismanagement and frauds by members.

[44]Nayak, 2012
[45] Figures quoted by the former Minister of Cooperatives, Charan Das Mahant, in 2012 (PTI, 2012)
[46]Rajan, 2009 and Mor, 2013

The laws applicable to financial cooperatives include:

- **All State-level Cooperative Acts**

  Financial cooperative regulation was put in force at the Centre through the Co-operative Societies Act, 1912. By 1919, cooperation work was transferred to the states, and each state promulgated a cooperative law with the objective of expanding financial services systems to remote areas and low-income populations. Although all the state laws adopt the basic cooperative principles, differences persist based on local needs and requirements of state governments. Most state governments contributed share capital in order to promote cooperatives and were therefore invested in the cooperatives. Consequently, the laws dictated the rules for financial operations, the need for audits, and even deputed government staff to manage the cooperatives.

  The traditional cooperative acts of each state have provisions for state supervision and control of cooperatives in case of mismanagement noticed by officials or reported by members. With the governance and internal functioning of the cooperatives controlled by government officials, democratic and member-managed functioning of cooperatives was severely compromised and was the subject of many cooperative sector assessments. These Acts resulted in cooperatives being largely state-controlled, which led to discussions and passing of self-reliant cooperatives acts in many states.

- **Self-Reliant Cooperative Society Acts/ Mutually Aided Cooperative Society Act (MACS)**

  Self-reliant cooperative acts have been promulgated in nine states (Andhra Pradesh, Karnataka, Madhya Pradesh, Bihar, Jharkhand, Odisha, Chhattisgarh, Jammu and Kashmir, and Uttarakhand). Two states, Odisha and Madhya Pradesh, have repealed the self-reliant cooperative act and passed new acts aligned with the 97th Amendment discussed below.

- **The Constitution (97th Amendment) Act, 2011**

  In order to ensure that cooperative societies in India function in a democratic, professional, autonomous and economically sound manner, the Centre pronounced The Constitution (97th Amendment) Act, 2011, which aims to standardize some systems and increase the democratic functioning of cooperatives. The Centre asked state governments to amend their respective State Cooperative Society Acts to be in tune with the Constitution (97th Amendment), 2011, before February 2013. While the announcement of the 97th Amendment has been contested on the ground that the Centre cannot legislate on an issue under state jurisdiction (e.g. in Gujarat), many states have amended their Cooperative Acts subsequently, to bring them in conformity with the Amendment, and some states have repealed the Self-Reliant Acts that were hitherto operating in their states (e.g. Madhya Pradesh and Odisha). The implementation of the Act, however, is another matter. Under Section 17 of the Amendment Act, a period of six months is provided within which elections to all co-operative societies should be held from the date of commencement of the Amendment Act. In states like Odisha, however, elections have not been held until July 2014 and this mandatory period had been exceeded by at least a year.

- **The Multi-state Cooperative Societies Act, 2002 (MSCSA)**

  The MSCSA applies to cooperatives that operate in multiple states. The MSCA of 1984 was amended in 2002 to provide greater freedom from state control to the members of these cooperatives, especially to those who have not availed of any financial assistance from the government. The cooperatives can appoint auditors, hold elections and hold general body meetings within six months of the closure of the financial year. However, the 2002 Act continues to have gaps. Governance and member control provisions are still inadequate, and in cases of reports of mismanagement, the office of the Registrar of Cooperatives can supersede the members and take control of the cooperative, irrespective of whether or not the cooperative has received financial assistance from the government.

Currently, most states have formed multi-state cooperative societies (MSCS), the notable exceptions being some of the northeast states (Meghalaya, Mizoram, Sikkim and Tripura). However, the branches of MSCS formed by other states like Assam, West Bengal and Rajasthan are functioning in these four NE states, which do not have their own MSCSAs.

- **The Banking Regulation Act 1949**[47]

  The Banking Regulation Act, 1949, was extended to apply to cooperative banks in 1996.The primary objectives of the Act are to safeguard the interest of depositors, to develop banking institutions on sound lines, and to attune the monetary and credit system to the larger interests and priorities of the nation. Under the provisions of the Act, any new or existing primary cooperative banks are required to obtain a license from the RBI. Primary (urban) cooperative banks are also required to maintain a certain amount of cash reserves and liquid assets and can carry on banking business only if the real or exchangeable value of their paid-up capital and reserves is more than Rs. 1 lakh. With a view to extending institutional credit support to tiny and cottage units, the Reserve Bank of India grants refinance facilities to urban cooperative banks (UCBs). To ensure that the UCBs conduct their affairs in the interests of the depositors and also comply with the regulatory framework prescribed by the RBI, the Urban Banks department undertakes on-site inspections of these banks every one to two years depending upon the financial condition of banks.

- **The Deposit Insurance and Credit Guarantee Corporation Act, 1961**

  The deposits made in cooperative banks are protected by The Deposit Insurance and Credit Guarantee Corporation (DICGC), an organization set up in 1961 by the RBI. All eligible cooperative banks as defined in the DICGC Act are covered by the Deposit Insurance Scheme. The DICGC Act covers only those states which have included in their Cooperatives Societies Acts a provision empowering the RBI (should it find reason to do so on inspection of the cooperative) to order the Registrar of the cooperative societies in the respective States/Union Territories to wind up a cooperative bank or to supersede its management. The amendment should also ensure that the Registrar is not required to take any action for winding up, amalgamation or reconstruction of a cooperative bank without prior sanction in writing from the RBI.

In the event of the winding up or liquidation of an insured bank, every depositor of the bank is entitled to payment of an amount equal to deposits held by the depositor in the cooperative bank, subject to an upper limit of ₹100,000 per depositor. The banks have to pay an insurance premium of 1 per cent per annum.

Since 2001, corporations have had to settle claims for large amounts due to the failure of banks, particularly in the cooperative sector, causing a drain on the Deposit Insurance Fund (DIF).

The financial burden on account of payment of premium should be borne by the banks themselves and should not be passed on to the depositors.[48]

[47] A short summary of the Multi-State Cooperatives Act and the Banking Regulations Act will be provided in the next version of the report.
[48] DICGC, 2006

2.3.3 Recent Cooperative Promotion and Development Measures

In addition to regulations, the government has set up various funds for the promotion and recovery of cooperatives. These include:

- **The Financial Inclusion Fund (FIF)**
  The FIF was set up in 2007 on the recommendations of the Committee on Financial Inclusion set up by the Government of India (GoI) under Dr. C. Rangarajan at NABARD with an overall corpus of ₹ 500 crore. The objective of the FIF is to support "developmental and promotional activities" with a view to securing greater financial inclusion, particularly among weaker sections, low-income groups and in backward regions/hitherto unbanked areas.

- **Financial Inclusion Technology Fund (FITF)**
  The Rangarajan Committee (2008) also recommended the setting up of the FITF at NABARD with an overall corpus of ₹ 500 crore. The FITF aims to enhance investment in Information Communication Technology (ICT) to promote financial inclusion; to stimulate the transfer of research and technology in financial inclusion; to increase the technological absorption capacity of financial service providers/users; and to encourage an environment of innovation and cooperation among stakeholders.

The institutions eligible for availing the FIF and FITF include (a) Financial Institutions, viz., NABARD, Commercial Banks, Regional Rural Banks and Cooperative Banks. (b) NGOs, MFIs, SHGs, farmers' clubs, local-level associations, etc. (c) Service providers like insurance companies (providing micro-insurance services), post offices, railways, etc. (d) Any other organization whose objectives are in conformity with the overall objectives of the FIF and are approved by the Advisory Board from time to time. Training and research organizations, academic institutions, universities will also be considered eligible for FIF.

- **Rural Infrastructure Development Fund (RIDF)**
  The Rural Infrastructure Development Fund (RIDF) was instituted by NABARD with an announcement in the Union Budget 1995-96, with the sole objective of giving low-cost fund support to state governments and state-owned corporations for quick completion of ongoing projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure. Domestic commercial banks contribute to the Fund to the extent of their shortfall in stipulated priority sector lending to agriculture. The shortfall in disbursements of RIDF funds as compared to sanctions is a matter of concern in the implementation of RIDF. The scope of RIDF has been widened to include activities such as rural drinking water schemes, rural market yards, rural health centres and primary schools, mini hydel plants, *shishushikshakendras*, *anganwadis*[49], and system improvement in the power sector.

  ADWDRS 2008
  The Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS)was launched in May 2008 to address the problems and difficulties faced by the farming community in the repayment of loans taken by them and to help them qualify for fresh loans. Under

[49] *Aanganwadis*are care centres for children in the age group of 2 to 5, and*shishushikshakendras*are government primary schools for children in the age group of 5 to 9.

ADWDRS, small and marginal farmers were provided a complete waiver of an eligible amount, and other farmers were provided a one-time relief of 25 percent. This one-time relief were subject to the payment of the balance 75 percent of the amount borrowed by the farmer. Under the scheme, direct agricultural loans disbursed by Scheduled Commercial Banks, Local Area Banks, Cooperative Credit Institutions and Regional Rural Banks between 1April 1997 and 31March 2007 to farmers, which were overdue as on 31 December 2007 and remained unpaid up to 29 February 2008 were eligible for Debt Waiver/Debt Relief.

In addition to promotional funds, there have been some regulatory changes that have provided impetus to cooperatives. For instance, the recognition that warehouse receipts finance provides liquidity against the harvested agricultural produce of famers and can play an important role in smoothening their income flows, led to the promulgation of the Warehousing (Development and Regulation) Act, 2007, whereby warehouse receipts have become negotiable instruments. The Rajan Committee (2009) estimated that as 15-20% of the produce harvested is stored in warehouses, the use of this provision can enable agricultural credit to extend to about ₹ 1 lakh crore.

Another key developmental measure has been the direction by the RBI to all UCBs to complete Core Banking Solutions (CBS) implementation. To achieve this, NABARD has also initiated a project that enables cooperatives to take financial support for establishing CBS.

2.3.4 Regulatory Gaps and Recommendations

A Task Force Committee on Revival of Credit Cooperative Institutions led by Prof. A. Vaidyanathan in 2004 had suggested the following measures, all of which were subsequently followed:

- A financial assistance package to revive the short-term cooperative structure.
- The enactment of a liberal law by the state government to enable the cooperatives to be member-driven organizations.
- A legislative provision issued by the states that empowers the RBI to regulate the cooperatives under the Banking Regulation Act and through the Registrar of Cooperative Societies (RCS).
- The recognition of rural financial cooperatives for their unique role in serving the poor and a separate chapter on them in the state cooperative acts.
- Access to the NABARD refinancing package for self-reliant cooperatives.

The major criticism of the cooperative regulations in India has been that that they overlap, requiring compliance from cooperative banks of both state laws and national laws. However, even with overlapping regulation, the supervision is wanting, with both state infrastructure and RBI supervision being weak at best. As members are currently unaware and unable to exercise control over cooperatives, the government has been given a supervisory role. However, there is an another view emerging, that government refinance and supervision should give way to market finance and control.[50]

Several writers on the cooperative sector have made recommendations for streamlining and strengthening existing regulations. Some of reccomendations are not consistent with others, and this report provides a compilation of the recommendations, stating the apparently contradictory ones as well.

[50]Mor, Ibid, p 169

- **Remove overlapping regulation** by state and RBI, and have only RBI regulate and supervise cooperatives.
- **Strengthen the state-level supervision structure** by creating state-level regulatory forums, like the State Finance Regulatory Commission (SFRC) for instance, which supervise all the small financial institutions at the state level. The RBI, in turn, must train, license and provide accreditation to the SFRCs.[51]
- **Improve transparency** by providing better information on cooperatives, which is integral to the supervision of cooperatives by members and the market.
- **Create access to credit bureaus** by making cooperatives' members provide and take information on borrowers, thereby increasing information related to creditworthiness and reducing risks.
- **Improve accountability** by regulating that politicians and family members cannot be on boards of cooperatives.
- **Improve management** by regulating that the management and staff of cooperatives get a minimum required certificate, which should have prescribed standards. Currently, while the RBI has issued directives requiring that cooperatives appoint professionals as directors on their boards, the implementation of this directive is doubtful.
- **Integrating cooperatives with markets** for both equity and loans. Several commentators on the cooperatives sector in India have recommended that cooperatives be better integrated with markets. If cooperatives are allowed to ensure that the loans given our are secure or to raise equity from the markets, market discipline can be enforced through more transparent information. Rating by agencies such as CRISIL has also been suggested. Such information and evaluation will enable depositors to respond by withdrawing and reallocating funds, thus creating pressure on management to effectively manage resources.
- **Ensure effective member control** through financial literacy and member education, strong data and information systems, and transparent and accountable processes for financial management.
- **Regulatory bodies.** Several writers recommend that the regulatory supervision and oversight of cooperatives must remain with the RBI and NABARD.

2.4 Conclusions on the Enabling Environment: Analytical Discussions

Internationally, financial inclusion, in which cooperatives play an important role, has gained currency as an important element of social and economic inclusion. According to the World Bank's Global Financial Development Report 2014, "Research—both theoretical and empirical—suggests that financial inclusion is important for development and poverty reduction." In India, financial inclusion has been considered a critical policy goal. The current Director of the Reserve bank of India has said: "The imperative for financial inclusion is both a moral one as well as one based on economic efficiency. Should we not give everyone that is capable the tools and resources to better themselves, and in doing so, better the country?"[52]

Cooperatives play a vital role in the delivery of credit to rural areas. Although cooperatives provide only 16% of agriculture credit, they have a much higher penetration, evidenced by the high share of cooperatives in total number of agricultural accounts held by the banking system. Cooperatives provided agricultural credit to 3.09 crore farmers during 2011-12 compared to only 2.55 crore farmers served by commercial banks and 82 lakh by the RRBs. Further, the outreach of cooperatives has increased, as they financed 67 lakh new farmers during 2011-12 compared to 21 lakh new farmers served by commercial banks and only 9 lakh new farmers by RRBs.[53]

[51]Mor, Ibid.
[52]Rajain, 2013
[53]RBI, 2013, pages 10-11.

Cooperatives also have some key advantages over other institutions in promoting financial inclusion. Firstly, by being interwoven with communities, they have superior knowledge regarding borrower quality and business opportunities. This feature is particularly useful in an environment lacking sophisticated credit scoring. They also have a lower cost structure allowing them to reach segments of the population that are unprofitable for other banks. Further, the cooperative can balance profitability with the development needs of the community, given that the owners are also members of the community in which the cooperative operates. Overall then, cooperatives can address market imperfections (such as informational asymmetries, transactions costs and contract enforcement costs), which are particularly binding on poor or small entrepreneurs who lack collateral, credit histories and connections.

Some of key discussions in addressing the enabling environment issues are:

About implementation of Cooperative Laws[54]

In Madhya Pradesh, the new cooperative law was enacted in 2012, which was aligned with the 97th amendment. The bye laws, however, have remained the same as for traditional cooperatives, in cooperatives which were registered as SRC, there existing bye laws have been removed and replaced by the old bye laws, with the state offering no choice or flexibility to cooperatives to write their own bye laws. The intention of the 97th amendment was to bring a balance between the traditional law and the Self Reliant Cooperatives Laws. However, this has been belied, by the attitude of the cooperative departments in the States, where the staff tend to return to the controlling attitudes of the traditional law. For instance, in Madhya Pradesh, it is difficult to get permission, in a timely manner for area expansion, or other activities for which permissions are needed. This has severely restricted the operations of cooperatives in Madhya Pradesh.

Lack of a Strategy for Collectivising SHGs

While the government has supported the formation of SHGs, and the SHG-Bank Linkage model enables SHGs to take financial services from the financial services sector, the strategy for collectivisation has been lacking. NABARD has not planned or supported SHGs to federate into cooperatives, nor has the NRLM strategized the institutional form federations must take to benefit from the financial inclusion movement. This has been an area of weakness, both in NABARD and NRLM, and has resulted in SHGs being dispersed, with no real voice or possibility of advocacy for financial empowerment of women, beyond what is possible through SHGs.

SHG digitalisation lacks the back up support needed to scale up

SHG digitalisation is currently being piloted in some states, however this is a very limited experiment, as it involves giving machines to SHGs, with greater financial support to the machine providing company than to the SHGs! Similarly, hand held devices have been introduced, but financial and capacity building support to SHGs to be able to use them effectively, has not been forthcoming.

Questioning the Financial Inclusion accounts

Accounts under the PMJDY are basic accounts, with no provision for issuing cheque books, or ATM cards. Only four transactions per month are permitted. The Overdraft limit on the account is equal to the Fixed Deposit kept by the customer. These are very restrictive conditions, and do not encourage transactions in the account. Without regular and frequent transactions, the account holders will not become financially active.

[54]From discussion with arti of PSM, Indore

3 PART III: Practical Experiences from Cooperatives

3.1 Profile of the Financial Cooperatives Studied

Based on the data provided by the cooperatives during the field visit, a preliminary profiling of the cooperatives highlights the following aspects: It covers a wide range of cooperative types: traditional as well as self-reliant cooperatives, banks and societies, urban and rural, primary and secondary. The team found a wide range in basic statistical information – as shown in the table below. For example, the profits for the 5 cooperatives covered in Karnataka varies from 0.58 lakhs to 5.56 crore. The range of non-financial services offered is also impressive: from none to a wide range of services to the members.

Table 3: Profile of Cooperative Studied[55]

Parameters	Uttarakhand	Assam	Karnataka	Maharashtra[56]
Year of establishment	1924 - 2003	1973 - 1998	1922 - 2008	1917 - 1997
Traditional vs. SRC	Traditional, SRC	Traditional	Traditional, SRC	Traditional, MSCS
Society vs. Bank	Society, Bank	Society, Bank	Society, Bank	Society, Bank
Tier	Primary, Secondary	Primary, Secondary	Primary, Secondary	Primary, Secondary
Location	Urban	Rural, Urban	Rural, Urban	Rural, Urban
Numbers of villages/areas covered	N.D[57].	N.D.	2 - 622	
Number of Members	2174 - 8569	4440 - 8128	385 - 3881	
Numbers of SHGs Promoted	0 - 101	N.D.	115 - 22419	
Number of Borrowers	N.D.	N.D.	460 - 199116	
Number of Depositors	N.D.	N.D.	2065 - 3881	
Average loan size	10000 - 14800	N.D.	22685 - 22685	
Average deposit size	N.D.	N.D.	1623 - 1623	
NPA/loan outstanding (lakhs)	.18% - 12%	7% - 8%	3% - 9%	
Profits (Crores)	39.89 lakhs - 3.41 crore	N.D.	0.58 lakhs - 5.56 crore	
Linked with External Agencies for Funding	None, Government	N.D.	NABFINS, IGS Lamp fund, Sampark	
Play a BC Role	N.D	N.D.	No	
Accounts opened under PM Jan Dhan Yojna	0 - 3000	N.D.	0 - 0	

[55] It is a preliminary profiling based on the data provided from the organizations. It will be updated after procuring the required data.
[56] The Maharashtra data needs correction and it will be included in the final report
[57] N.D= No data available at the time of drafting the report. Further efforts will be made to get these data from the organization and included in the final report

Non-financial Activities	PDS Shops	PDS shops, petrol pump, fertilizers distribution, seed production, warehouse.	Tractors leasing, fertilizer distribution, Training to SHGs, enterprise training to women, education support, skills training to women-youth	

While the variation indicates good coverage of types of cooperatives, the statistics cannot be extrapolated to reach conclusions about state-level phenomena, since purposive (instead of random) sampling was used. Nevertheless, the case studies can provide insight into the ground-level situation of cooperatives and an understanding of the implications of the enabling environment.

3.2 Products and Services Offered

The main products offered by the cooperatives are savings and loan products, and in some cases insurance services through collaborations with private insurance companies. A few special cooperatives, such as VimoSEWA and Annapurna Pariwar Vikas Society, offer only specialized products - in these cases, insurance and pension schemes. Remittance services like National Electronic Funds Transfer (*NEFT*)/Real Time Gross Settlement (RTGS) are mainly offered by the cooperative banks - DCCBs, SCBs, UCBs- by taking the support of payment gateways from private or nationalized banks like Axis Bank. In some rural areas, PACS also provide remittance services.

Table 4: List of Financial Products and Services Offered by the Cooperatives Studied

No	Financial Products	Total No. of Cooperatives offered the product
I	**Savings products**	
1	Savings account scheme for Individuals	13
2	Savings account scheme for SHGs/JLGs, village level clubs	6
3	Current savings deposit scheme for individuals	1
4	Monthly Recurring Deposit (RD) for Individuals	13
5	Monthly Recurring Deposit (RD) for SHGs/JLGs/Village level clubs or associations	6
6	Fixed Deposit for individuals	13
7	Fixed Deposit (RD) for SHGs/JLGs/Village level clubs or associations/ Primary cooperatives	9
8	Daily deposit schemes (Pigmy/ A.B.S Deposits)	7
9	Staff savings/ security deposits	3
10	Purpose oriented deposits - Festival/education/marriage/gold/property, etc	2
11	Re-investment plan deposits	1
12	Lakhpati RD scheme	1
13	Cash certificate deposit scheme	2
14	No-frill-accounts / Jan Dhan Yojana	4

II.	**Loan products**	
1	Crop loan/ Agricultural loan	9
2	Medium term (MT) loan	9
3	Short term loan	3
4	Long term loan	1
5	Business development loan (BDP)	7
6	Loans against savings products (FD, RD, Pigmy, etc)	7
7	Loans against salary	3
8	Cash credit, overdraft facility	4
9	Education loans	5
10	Festival advances	3
11	Gold loan	2
12	Vehicle loan (commercial/personal)	7
13	Property loan	2
14	Housing loan	5
15	Farmers home loan	1
16	Loans to repay old debts	1
17	Loans to asset creation	1
18	Consumer loans	4
19	Personal loan	1
20	Krishi Karmikaru Chirabhakya loan for agriculture labour to buy milch animals	3
21	SHG-Bank linkage loan	2
22	JLG-bank linkage loan	4
23	Loans to MFI for Micro credit loans	1
24	Business promotion loan to PACS/primary coops	3
25	General - single product for multipurpose	1
26	Loans for disabled persons (income generating activities, Education/Training, Young Professionals, Parents Association for the Mentally Retarded Persons, Micro Credit Scheme - Loan to NGOs)	
27	Micro credit scheme for individual and SHGs	1
28	Self employment credit card	1
29	Loan for Tourism - self employment	1
30	Loan for Horticulture, vegetable and floriculture self employment	1
31	NABARD - Dairy project loan	1
III.	**Insurances**	
1	Direct insurance services (life/credit/health/family security fund)	1
2	Crop insurances through the collaboration of National Crop Insurance company	2
3	Accident insurances through United India Insurance company	2
4	Life or credit insurance through company	3
5	Health insurances through Yashashwini scheme	3
IV.	**Pension**	
1	Regular pension/ Swavalamban Pension Scheme	1
V	**Remittances**	
1	Remittance service through other nationalized banks	2
2	Remittance service through PACS/other organisations	3

The common **savings products** offered by the cooperatives include: savings account for flexible savings, recurring deposits (RD), fixed deposits (FD) and Pigmy, a daily deposit scheme for individual members. In addition to servicing individual members and clients, rural cooperatives often also provide savings products (savings accounts, RDs, FDs, etc) to groups of individuals, such as SHGs, JLGs, and village level organizations. On some occasions, as seen in Assam and Maharashtra, also urban cooperatives at times step up to service these groups.

Pigmy, the daily deposit scheme offered mainly by the primary cooperatives like PACS, SRC and urban primary cooperatives, is convenient for low income members and nominal members to make savings of small amounts at the door step of their house. Unlike bank deposits, this scheme avoids any embarrassment for the depositors for making such small investments.

Generally the return offered on the regular savings bank account scheme is 4%, which is the same as what private and nationalized banks offer. However, the interest offered by cooperatives, particularly by UCBs, on the RD and FD is 0.5 or 1% higher compared to the private banks. Some of the PACS offer savings accounts to non-members in order to attract more deposits, particularly in Uttarakhand.

The common **loan products** offered by the rural cooperatives include short-term (ST) agriculture loans, which include crop loans, medium term (MT) loans for agriculture allied activities (such as such as bore-wells, pipeline, lift irrigation, tractor, drip irrigation, vermi-compost, solar pump sets, sericulture, horticulture, dairy, etc), business development loans, and loans against members' savings/deposits. The rate of interest for the ST and MT loans ranges from 10.7% to 11%, but when farmers repay their loans in time, a government support scheme enables them to pay 0% for the crop loans and 3% for the MT loans, and the government contributes the remaining to the bank as interest subsidy. The UCBs generally offer a range of enterprise development loans and some of the specific purpose loans like education, housing, vehicle, and consumer loans. The rate of interest for these loans is 11% to 11.5%.

The SRCs, PACS and also some of the UCBs(like Konoklota UCB in Assam and Annapurna Mahila Cooperative Society in Maharashtra)extend credit to SHGs, and JLGs from the savings collections, SHG-BL schemes and microfinance schemes mobilized from SIDBI, RMK, Ananya and NABFINS. There are some special loans designed to meet the local needs. These include special products introduced in the hilly region like Assam and Uttarakhand for tea gardening and Tourism self-employment, respectively. The State Apex Cooperative Bank, Assam has a range of special products for disabled persons including loans for income generating activities, education/training, young professionals and micro credit for NGOs for the upliftment of disabled persons. The other special loan products offered by cooperatives include loan for repayment of old debts, gold loans, festival loans and loan against salary of employed persons.

Non-financial services are mostly offered by PACS and SRCs. These include training to SHGs, PDS services, educational support, fertilizer distribution, and marketing. Nevertheless, some cooperative banks, such as Annapurna in Maharashtra and Bidar DCCB, are also providing non-financial services through separately-established entities. Services offered by these organizations include training to SHGs, PACS, other DCCBs, rural youths, day care services, hostel for women and health services.

The **process of designing need based financial products** is initiated mainly through the inputs of field level staff during the staff review meetings and finally discussed and decided at the board meetings of DCCBs and/or SCBs with the required approval of Registrar of cooperative society. Generally the products of DCCBs and SCBs offered to the PACS are pre-designed and there is not much scope for the PACS to modify or influence new products. PACS are more like agents for channelling the products of DCCBs and SCBs. However, their own loan products operated at the

PACS level from their own deposit collections have some amount of space to design and influence with their board. Nevertheless, the decision-making power of PACS in this regard is curbed by the DCCB as its representatives participate in the board meeting and have influence on such decisions because they depend on DCCB for major capital support.

Very few cooperatives take a professional approach to product designing by engaging technically qualified professionals to conduct market analysis and designing products that are based on the needs of the members. Annapurna in Maharashtra and VimoSEWA in Gujarat have used professionals to carry out such processes. The Konoklota UCB in Assam designs its products in house without external professional help. Most products are designed as a result of member/client demand (e.g. housing and vehicle loan).The urban cooperative also interacts with clients of other financial players, mainly in the microfinance area to understand the needs and issues and designs terms and products that are better than the competitors. The group loan seems to have been once such product.

Cooperatives are more flexible in responding to the needs of members as compared to NBFCs who have one or two loan products. For example, the Sewa Bank has always strived to meet the needs of its members. The products and services have been designed after extensive discussions with the members and clients. An example may be found in the Exposure and Dialogue Programme (EDP), which was initiated with the support of the Bank of New Zealand (BNZ)'s policy department. Some officers from this department visited the Sewa bank and engaged in a process of understanding the clients, by staying in the latter's homes, and having in-depth discussions with them to understand their need. The Sewa Bank learnt to follow this method, too, and realized that for their clients, capital formation was a key need, which the bank needed to facilitate. The bank supported its clients to build and keep capital safe in many forms: gold, house, and other financial products such as fixed and recurring deposits. This orientation towards enabling capital formation, and meeting all the life cycle needs of members, has led the Sewa Bank to have a wide range of financial products. These include:

- A one year recurring deposit IRD) for meeting festival expenses
- Kishori gold scheme
- Ghar Fund yojana (saving for house building or repair)
- Mangalprasang: saving for a wedding
- Long period RD
- Chinta Nivaran scheme: loan for emergency needs, a savings and loan product
- Pensions
- Insurance for all emergencies, insurance for self and husband
- Medical loan: floating insurance
- Insurance for loss of assets
- FD linked insurance, whereby the interest on the FD is used to pay the premium for the life insurance policy

The Sewa Bank provides financial literacy to members to enable them to understand and utilize the financial products for their best advantage.

Sewa Bank operates in urban areas, where many MFIs operate, including Janalakshmi, Ujjivan, Bandhan, Pahal, and Disha, among others. Some women have as many as 5 loans concurrently. Neither the Sewa Bank nor other MFIs give the loan information to the Credit bureau, or use the information available with the Bureau. Sewa's risk is lower as most of its loan products are savings linked.

Challenges: PACS have an interest to play as BC or 'payment bank' for all the payments related to government schemes such as National Rural Employment Guarantee Act scheme (NREGA), pension, etc for the individual members and non-members but the infrastructure limitation and political influence at the Panchayat level, makes it difficult for them to provide financial services at the door step of the rural households.

Offering more credit services will enable higher profit for the primary cooperatives like PACS and SRCs but inadequate capital constrains this opportunity. PACS have to depend on the DCCB and often a limited amount is offered on crop loans. This outcome forces many farmers to access credit from nationalized banks, which make additional process work (shifting the land documents from PACS to national banks) and travel expenses for the farmers. On the other hand DCCBs struggle to offer subsidy-based loans as they do not get the interest subsidy contributions from the government in time. This puts pressure on the bank to meet the operational expenses as well as on adequate lending to the PACS.

Offering higher interest rates will attract more small depositors, and in turn increase cooperative's own working capital. However, with the lack of infrastructure and adequate and qualified human resources, it is difficult to make it a viable proposition. Many farmers use private or nationalized banks because they provide many facilities including ATM.

3.3 Reasons for Success and Failure

3.3.1 Factors contributing to the Success of co-operatives- Field reality

The study discloses that the success of co-operatives in terms of profits and growth depends on several factors like governance, human resources, selection and delivering of products and services, support of key stakeholders, management of human resources and finance and looking for continuous opportunities. The factors that have contributed to the success of co-operatives in the study area are presented below, which also present a picture of nationwide scenario:

1. **Structure and Scale of operations**

The three-tier structure of the co-operatives acts as a safety net and provides opportunities for PACS. The middle tier DCCBs treat them as their extended arms and guide them in the provision of financial services. The PACS enjoy partial autonomy in mobilising and utilising their members' savings to service their member clients. The supervision by DCCB helps PACS to comply with the statutory requirements. The PACS in turn function as eyes and ears of DCCBs to gauge field needs and thereby connect people with DCCB. The DCCBs sets their business agenda in line with the States Apex banks and works closely with PACS to reach out to people, particularly farmers. The study reveals that the success of co-operatives is high wherever there is synchronisation of People-PACS-DCCB. The experience of Bidar is a standing example to this.

Similarly, a study of Friends of Women's World Banking (FWWB), an NGO that supports cooperatives development and financing, suggests that the co-operatives are successful when the scale of operation is aligned with the capacity of members, hence suggesting that a medium size with a capital/savings base of Rs. 10-15 crores to be more sustainable.

2. **Governance**

Of the four PACS visited during the study, all had constituted their Board of Directors (BOD) by election, for the first time, when they were mandated to do it in accordance with the 97^{th} amendment. The election was conducted by a designated officer from the co-operative department thereby ensuring increased diversity in the board with representation of women, socially marginalised and professionals.

In most of the profitable co-operatives, such as the PACS in Ajabpur, Uttarakhand, the Board meetings are conducted at regular intervals (held in every quarter) which has paved the way for better communication among the BOD.

The discussion with the BODs in PACS, Nagora, in Karnataka, a profitable co-operative, reveals that most of its BODs are educated and the key persons such as President, Secretary and Treasurer are highly qualified. They were quite interactive and were conversant with the functions of BOD and activities, holding extensive knowledge in carrying out financial business and equipped with control over the affairs.

Though the politically powerful BODs are seen as a setback for most of the cooperatives, there are certain exceptions like the experience of DCCB in Bidar. The Chairman of the Board of DCCB is a four time M.L.A and two times Minister, who is considered by the members as a visionary. According to them, he was the driving force behind setting up a training academy for rural development, preparing a proposal to build a multi-specialty hospital and tapping of many government schemes (RSETI for skill development) and concessions for the DCCB.

In successful co-operatives like Timbuktu in Anantapur District, in Seemandhra and CCFD co-operatives, it is noticed that a majority of the members are highly motivated and have gained ownership and acquired managerial skills faster by attending various training programmes.

Democratic functioning, openness and team work of Board of Directors are acknowledged as the contributors by the Chairman of Annapurna Mahila Cooperative credit bank, to their growth.

3. **Management**

Most of the PACS and DCCB that were visited have annual plans and targets and conduct monthly review of the progress at Board level, thereby developing a systematic management of the affairs of the co-operatives. The annual audited reports serve as the basis for course correction. (Example: PACS in Gadgi followed the recommendations (increasing deposits, reducing NPAs) of the Audit Report to make course corrections and thus progressed in Grade (from C to B) within a year. They are aiming at computerisation in order to achieve grade ''A'' and have already approached DCCB in this regard.

4. **Human Resources and Capacity building**

Good academic qualifications and regular training on management practices in co-operatives are the key features of some of the most successful co-operatives like SEWA, FWWB and several PACS in Assam, Karnataka, Maharashtra and Uttarakhand, DCCB in Bidar. The effectiveness of these features is witnessed from the customer friendly approach and proper up keeping of records of the staff members. The secretaries of PACS in Nagora, Gadgi, executive officers of DCCB, Bidar and training officer in Training Academy have conveyed that the salaries and incentives are on par with mainstream bank, which is one of the motivations for their long tenure of service.

5. **Market orientation/Adaptability**

The successful cooperatives like SEWA bank, urban cooperative banks in the studied states have been identifying products and services in a scientific process by conducting marketing and customer surveys, whereas, PACS across the States use member interactions for the same purpose. Such surveys have been useful for them to introduce innovative loan products. For instance, PACS have started loan services to transport sector, urban banks focus on financing warehouses and the SCB on loaning to Food consortium as alternatives to declining agricultural lending in Assam.

Such surveys also help them to create and provide a ''bundle of services'' beyond finance to retain and attract members. Examples are: Marketing of members' produces in Timbuktu cooperatives in Anantapur District, in Seemandhra and CCFD cooperatives; SCB in Assam offer insurance services in collaboration with the LIC and New India Assurance; Setting up of a godown and seed production/processing facility by DuarBagori GPSS, Assam. The surveys have also been helpful in *reaching out to new breed of customers* (salaried employees- to open salary account, deposit accounts and offering deposit or guarantee linked loans, seen in most of the urban cooperative banks across the States visited and in a few PACS of Bidar in Karnataka). The Annapurna Mahila Cooperative credit bank in Pune, which is registered under the Multi State Coop Societies Act cater to the needs of works in urban slums of both Pune and Mumbai. The bank is part of the Annapurna Pariwar that also consist of a section 25 (now Sec 8) Micro insurance company, a day care operation, two Mahila Mandal or women's federation that takes care of providing scholarships and educational support for children of the bank's clients .

Door to door services to collect savings and loan repayments is one of the customer friendly services provided by most of the urban cooperative banks across the States studied. Such needs are identified based on interactions with the clients.

Besides conducting usual activities, some of the exceptionally well run PACS and DCCBs undertake service oriented - earned **income generation activities** in tune with the field needs. Proposal to lend loans to industries (small and medium), establishing a multi-speciality hospital by DCCB in Bidar, Karnataka is an example. Almost all the PACS across the study area implemented the Public Distribution System (PDS) and earn margins. Majority of them, especially in agricultural belts, sell fertilizers to the members for a service fee. The DuarBagori GPSS in Assam has moved a step ahead and has opened a petrol bunk, which is an enormous source of money for them.

Opening Bank accounts for individuals who are otherwise not connected to the DCCBs is an effective method of increasing target base of DCCBs and tapping savings that would otherwise go to mainstream or unscrupulous financial providers. This is done by motivating member PACS to reach out to more people with yearly targets. Such an approach has already started yielding results in Bidar.

6. **Customer sensitivity**

The study highlights that the successful co-operatives across states are sensitive to the needs of customers and prospects. For instance, the State Apex Bank in Karnataka has designed several innovative loan products (agricultural infrastructural loans, small business loans, educational loans, marriage loans) and its implementation through DCCBs and PACS. These new loan products have been very well accepted among the members and non-members of the co-operatives.

The experience of cooperatives supported by FWWB indicates that offering loan products convenient to clients and allowing members to take loans on flexible terms works well resulting in the success of cooperatives. In this case, the member Cooperatives are given flexibility akin to a cash credit facility, so that they take as much loan as they need in peak seasons, repay when they have cash, and take loans again. This enables them to have short term funds (less than 12 to 18 months) from FWWB, which usually extends term loans for three years. FWWB also allows cooperatives to repay loans ahead of the committed time, thereby saving interest costs for cooperatives. Another effective method followed by the FWWB is, understanding the fears of members and offering counselling during crisis situations through trusted staff team.

A similar method of operation was adopted by the SEWA bank as well. On learning the failure of Madhopura bank, members lined outside the cooperative bank to withdraw their savings. At that time, Sewa Bank which was using the **Bank Sakhi** (BS) approach, made Bank Sakhis available to the members at any time, when the members met the BS's in their homes. With the BS approach, the bank had become accessible at the door step of the clients. The Sakhis convinced them that the Sewa Bank was managed well and their savings were safe with the bank. The trust in the bank was reinforced by these conversations and ensured no drain on the bank's finances.

The study of PACS in Uttarakhand unlocks another positive factor: ''Focusing on What works''. The PACS in Uttarakhand applied the **Differential Margin** strategy to keep the institution alive and to earn risk free margins. Their loan portfolio, could earn a maximum margin of 2% and the option of serving as BC to DCCB would fetch 2.5% margin. But their term deposits with DCCB attracts a margin of 5%. They found that mobilising deposits from their constituency and keeping it with DCCB is a less risky and more profitable proposition, and they have been systematically pursuing this as their business model.

In Annapurna Mahila Cooperative credit bank in Pune, the members who are not inclined to take loans are to withdraw savings. The bank also offers a comeback loan product to attract people who have opted out. Under this model, they can re-start from where they have left it off. For instance, if they had taken two loans earlier then their comeback loan will be considered to be their third one and they won't have to start from level 1.

7. Financial Ability

The lessons from the sex-workers cooperative in Bangalore, PACS in Ajapur, Uttarakhand and other PAC show that continued increase in shareholding and savings and 'optimal utilisation of their own funds, combined with a preference for gap funding seemed to be a formula for success. The ability to mobilize deposits from non-members are high thereby enabling the cooperative to access a large pool of funds and the consequent risk free deposits with DCCB for a higher rate of interest.

The credibility of the cooperatives among its stakeholders is ensured by maintaining anon time repayment rate of above 90%, which ensures a good fund flow for rotation. The PACS covered in the study maintain recovery rates from 90 to 95%.

The term deposits by PACS in DCCBs, used to get an interest of 5% per annum. However, the interest rate was revised as follows due to the strong lobbying of PACS across the State: Half of the fixed deposits get 9% and the remaining get 4% and thus the effective interest rate is 6.5% for the entire fixed deposits.

Distribution of dividend and setting aside of reserve funds are the prominent indicators of financial ability of cooperatives. The PACS of Ajabpur in Uttarakhand issued 20% dividend to its members and deposited Rs. 12 crores as risk fund with DCCB during 2014-15, is an example. Finally, good linkages have also contributed to the sustainability of cooperatives; as seen in the DCCB Bidar's linkages with State Apex Bank and NABARD for finance and the PACS technology transfer Linkages with Agricultural University for seed production and Processing.

8. **Policy and Legal Environment**

Minimal statutory requirement under the cooperative Acts is found to be one of the favouring aspects for cooperative societies across the country. The SRCs enjoy the non-interference of the Cooperative Department, although in reality it may act as an impediment to these institutions in the long run for lack of supervision and guidance, as witnessed in Bhumika Souharda cooperative in Koppal District of Karnataka.

9. **MIS**

The Study reveals that many of the successful co-operatives, from PACS to Apex Bank have switched to automation. For instance, The PACS of Ajabpur in Uttarakhand use 'Easy Bank' software, which has also been adopted by all the 42 branches of DCCB in Bidar which are now computerised. The other PACS are evincing keen interest for automation and training to handle computers. Wherever the computerisation is completed it has helped PACS and DCCB, particularly in monitoring and tracking down overdue.

Annapurna Mahila Cooperative credit bank has drawn up Standard Operating Procedures for all key activities, which serves as a monitoring tool.

10. **Sustainability**

The study of cooperatives shows some important formula ways in which PACS and UCBs attain financial sustainability: a small and competent staff team, careful deployment of funds, making use of its assets to earn are the three important ways by which the PACS and UCBs are able to break even and sustain.

Firstly, functioning as a **small team** of members is one of the players for sustainability. Almost all the PACS and UCBs have been functioning with a slim team of 5-6 members, including the attender.
The cooperatives also use their BOD to mobilise deposits for a small incentive and such a strategy has mobilising funds and keep the costs low.

Further**, careful deployment of funds** with low risks is another strategy for sustainability of the institutions like PACS and UCB. For instance, the urban cooperative banks covered in the study offer only secured loans and loans against deposits and salaries. The PACS in Bidar also offers loans to nominal members in a similar fashion. They issue loans on the guarantee of the regular members, even if the nominal members do not have adequate deposit. The PACS and UCBs consider Business Development Programme (BDP) loans as a key portfolio utilized by most of the nominal members.

Another way of ensuring sustainability is by using of **assets of cooperatives to generate income**. Many of the PACS visited are found to have been using a portion of their office as a stock yard for PDS and fertilizers. They also undertake a bundle of services to build income for the Society.

They get a margin from the interest subsidy from the Government loan schemes. Exceptionally, like in Bidar, the salary of the Secretary of PACS is covered as part of a cost sharing arrangement with the government.

The successful DCCBs are thriving with the active partnership of PACS, which is more or less used as BC without formalising it to reach out to new customers to expand the cooperative's business. A successful partnership with its member PACS seems to be essential to the financial sustainability of DCCBs.

Linkages for financial and non-financial services from several quarters seem to be one of the success and sustainability factors of cooperatives. The example of Annapurna Mahila Cooperative credit bank in Pune demonstrates this principle. They have established linkages with the Indian Overseas Bank for a cash credit, with Rabo bank for an ECB of 375000 Euros and SIDBI for subordinate loans. On the non-financial services front, they have signed a Memorandum of Understanding with HCP network that gives the members of the bank access to 300 hospitals in Pune and Mumbai at concessional rates including for OPD. They have also established linkages with NGOs to be used as franchise. So far, they have given four such franchise. The NGO foundation, which is part of the Annapurna group, undertakes economic development initiatives in their service area to improve the credit absorption. The foundation also engaged in market surveys for product development.

Similarly, Mann DeshiMahilasahakari Bank in Pune has partnered with HSBC bank to issue ‘E-cards’ to its clients that enable them to undertake doorstep banking thus promoting inclusion. With the linkages with UTI Mutual Funds, they offer micro pension schemes. The bank has in partnership with IDBI bank, opaertes ATMs and Rupay cards and IMPS.

3.3.2 Factors affecting the survival and growth of the Co-operatives

The co-operatives, as a sector is facing a series of problems and issues that affect their immediate and long-term survival. It ranges from structure and scaling up, inhibitions of cooperatives, interference of politicians and bureaucrats, lack of support from the key stakeholders and misuse of legal provisions. The issues affecting the grass root structures of cooperatives like PACS and UCBs are outlined in this section.

1. Issues relating to Outreach, Structure and Scaling up

The Geographical constraints in mountain regions like Uttarakhand and interiors of Assam have been affecting the outreach to more villages, which has resulted in low scale operations in such remote areas.

The large-scale conversion of farming land for industrial purposes (in Uttarakhand) and the resultant urbanization, has led to the reduced membership of farmers and agricultural credit. This has forced the PACS to enrol non-members to maintain the business. However, this can change the composition and character of PACS from cooperatives to that of cooperatives, and can result in admission drift.

In some states, there are weaknesses in certain layers of the cooperative structures. For instance in Assam, the middle layer is weak, with DCCBs particularly plagued by mismanagement and poor performance. This weakens the financial position of the Apex bank as well. Further there is lack of adoption of the CBS, and prevent PACS from engaging in financial services, even though the low penetration of commercial banks offers a good market for financial services.

Some of the co-operatives like SEWA bank, after reaching a level of scaling up have the ambition to transform themselves as Multi-state cooperative societies to reach out more people and expand their business and services.

2. Inhibitions of women members, BOD, Staff

It is not only the structure and policy environment, but also the inhibitions of cooperatives to contribute to the status quo and the subsequent downfall. The following instances from the field elaborate the types of inhibitions of the cooperatives.

It is seen that the illiterate women members are totally silent in the Board meeting under the impression that they do not have anything to share and everything would be taken care by their male colleagues. In most of the interactions held by the study team, the women leaders needed lot of persuasion to open up from the interviewer. The literate women members are little better in engaging in communication. Even among the literate members, irrespective of men and women, only a handful, like presidents are able to recount financial information. The Presidents think that the financial information is the sole responsibility of the Secretary.

In Uttarakhand, many of the PACS members sold out their lands to the upcoming industrial layouts and earned large amounts. This has provided an opportunity for the PACS to tap this new flown money and to show better avenues for members towards investments taking in to consideration of their long term needs (personal and social security). Nevertheless, they have not made use of this opportunity.

Majority of the PACS visited are against becoming BCs, based on their misconception that it will drain their existing business and thereby detrimental to the interests of its members, and will be counterproductive for the cooperative in the long run. This is contrary to the perceptions of cooperatives in Karnataka.

The Apex bank in Assam is keen to provide training to the staff of cooperatives. Unfortunately, most of the staff is older and they are reluctant to undergo any training with the mind-set of ‘’what will be the use of such training at the tail end of the career?’’ Similar is the case with most of the BODs of PACS visited to attend training. The only difference is in their cause of refusal. Some of them indicate that they do not have time to spare and others are also against any paid training. The interaction with ICM in Assam and Training Academy in Bidar has endorsed the same.

It has come to the light during the study that most of the PACs in Assam stick to a particular and only one loan portfolio and that too without proper loan processing increase the risks and eventually drain the cooperatives. The cash credit lending to tea gardens in Assam is an example.

It has been seen in most of the PACS and UCBs, across the States that the dual iniquities of co-operatives charging lower interest on loans compared to the commercial banks, and offering a preferential rate of interest on savings as a business strategy to attract and retain members. In reality it affects their profit margins.

3. Interference from politicians and government machinery

The study reveals that the cooperative network is controlled by a few powerful political leaders. For example, Mr. P.K. Singh is long-time chairman of the Uttarakhand Cooperative Federation, the chairman of the Institute of Cooperative Management (ICM), and member of IFFCO and other national cooperative bodies. Similar is the case in Karnataka. Most of the UCBs and SRCs in the Study area are promoted by powerful local politicians.

There are instances in Assam and Uttarakhand that the government-deputed staff (field and top level) from the government departments, to manage the co-operatives. The move was not helpful to the growth of cooperatives as they are highly attuned to the bureaucratic tendencies. Seldom have they listened to cooperative members and the financing institutions. Setting up of SRCs by the State Government and appointing its own officers to run the show mars the very concept of SRCs. The examples from Uttarakhand depict this field reality. The Uttarakhand Microfinance and Livelihood Promotion Cooperative Institution (UMLPCI) – the government is allowed to establish, fund, and manage a cooperative registered under the self-reliant cooperative act (SRC Act). Further, the government places its own officials to manage cooperatives, as seen in Dehradun District Central

Cooperative Bank – where the managing director viewed herself as an employee of the state rather than of the cooperative bank. The decisions are taken without consulting the cooperative's management. The same is the situation in Assam.

The one-time massive promotion of cooperatives and indiscreet pumping of funds by the State, as in the case of Assam, often serves to popularise the image of the Government, and in the long run loses its impetus incurring losses and thereby affect the cooperative sector's credibility.

The UCBs during the Study, informed that the dual regulation by RBI and State Cooperative Department causes additional work. They also added that the rent seeking behaviour (employment for relatives, freebees) of the Cooperative Department during the inspection is a headache. According to them, the dual regulation also come in the way of amendments in the bye-law. Sewa Bank gave an example of seeking permission for expanding their operations. They sought permission from both RBI and the cooperative department. While both were positively inclined, the process of getting a No Objection Certificate required a change in Bye Laws of the Bank, which had to be approved by the AGM, and the whole process of coordinating with the two regulators and complying with the requirements took 4 years.

4. Lack of Support and pro-active role from key Stakeholders

Most of the Stakeholders of co-operatives (NGOs, SRCs, Apex Bank, Federal cooperatives) during the Study have reported that the attitude of RBI is not favourable to cooperatives, to conduct banking business (because of the past track records and over politicisation of cooperatives). They also opined that the State government's reluctance to fully comply the recommendations of Prof.Vaidyanathan committee and the subsequent 97th amendments (Failure of the Uttarakhand State to amend the Cooperative Act and the proposed changes to restore the controlling powers of the State in Karnataka are the examples) are also hindering the co-operative sector. The protracted response and the missing deadlines by the Apex Bank to implement the revival package in Assam, which has undermined the survival of PACS is another instance to cite as the lack of support for cooperatives.

The stakeholders and well-wishers of SRCs, during the study indicated that the lack of government's investments in SRCs is a serious handicap, in terms of fund low, leverage and supervision. The cooperative department is not keen to spare time to SRCs as they do not have stake in it.

The NABARD has been supporting training programmes for cooperatives through State Apex Bank and DCCBS. Yet, the study team found that the training is a lip service and low priority in the cooperatives as a whole. Exceptions are few like in Bidar, where the DCCB has a proactive role by establishing a training academy for cooperatives. Even the ICM in Assam is lagging behind because of the lack of interest among members for training. The training promotion for SRCs is a different story as the federal cooperative, which has a supervisory role to play, leave the training to the discretion of SRCs. Hence, only interest few attend the training programmes scantly organised by the federal co-op. In a few SRCs which are promoted by NGOs (like Sampark, in Karnataka) they are fed with training inputs. Such services will also be a question mark as and when they stop mentoring the SRCs. The training is a distant dream for even for a quite number of interested PACS in Assam for they are not financially supported for such activities.

Credit rationing system prevailing in the co-operatives, which is an outcome of the extent of refinancing, often affects the farmers and they are forced to rely on multiple credit sources. This is evident from the gaps in the Size of the agricultural loans provided in PACS against the loan limits set under the ''Scale of Finance''. Many BODs of PACS interviewed has echoed this, and they have indicated that the agricultural are not even half of the Size envisaged under the Scale of Finance.

It is noted that the delay in Government disbursements cause financial strains in DCCB and in turn for PACS. The case of DCCB, Bidar is an example for it. The dues from the State Government, the interest subsidies isRs32 crores (up to February, 2015) and SHG subsidy is Rs 4 crores.

Most of the UCBs and PACS visited reported that the TDS deductions for the business (levying of 33% direct tax on the services provided by rural cooperative banks/PACS), interest caps on the deposits and loans and the deposits of SLR only in government securities which fetches low interest are the barriers of urban cooperatives. Similarly, levying tax for SRCs, as in the cases of Uttarakhand and Karnataka is also viewed as a deterrent.

5. **Misuse of positions and exemption**

The cases of financial frauds as it happened in a cooperative in Andhra Pradesh, where some leaders colluded to use the money of their cooperative society to buy an asset (a truck) and sold it off, pocketing the money is one example of misuse of position and misappropriation of funds. Such kind of activities seriously erode the confidence of its members, its lenders and ultimately portrays the entire cooperative sector in bad taste.

The misuse of exemption provided under the SRCs are widely reported in Uttarakhand. One such example is that the Uttarakhand State's procurement procedures allow state to make purchases of up to Rs. 2 lakhs from cooperatives without requiring quotations. Since the Self Reliance Co-operative Act does not distinguish between the poor, semi-poor, and wealthier people, usually they are promoted by people with political and business connections. A majority of them operates in urban areas to take advantage of such business propositions. As a result, many contractors and government suppliers formed cooperatives under the SRC Act and started supplying material to government projects without competitive bidding. Poor and irregular monitoring, supervision and follow-up by the Cooperative department and federal cooperatives fuel unbridled freedom for SRCs which ruins them in the long run.

The constraining factors, if addressed would increase the confidence and capacity of the co-operatives to deliver its mission and reaching out to the real poor.

4 PART IV: Conclusions and Recommendations

4.1 Conclusions

Cooperatives are first and foremost an economic partnership among members, to achieve what cannot be achieved alone. Cooperatives provide the collective strength, the countervailing power, to other forms of economic organisation. As against other organisations that promote shareholder value, cooperatives promote and optimise member value, or client value. They are focussed on members, or clients, and seek to offer products that their members need, at the most affordable price. They are not focussed on getting the highest profits. The following are the specific conclusions drawn from the Study:

- The study shows that a lack of professionalism and transparency detracts from becoming a long term, self-sustainable organization, which would be viable for several years. The cooperatives have always been seen as organisations for delivering official credit, and have worked as a credit rationing, or credit distribution system rather than vibrant financial organisations.

- *Survival of co-operatives***:** It is evident from the field study that the *co-operatives as an organization survive* irrespective of many constraints and challenges. Many of them even thrive with profits, by keeping their clientele satisfied by financial and non-financial services. This is due to the visionary leadership, abled and dedicated human resource team and the support secured from linkages.

- *Impact of 97th Amendment:* The study reveals that *97th amendment*, which was introduced to improve the governance in co-operatives, has *worked to a limited extent*, in terms of cooperatives being required to constitute an elected board, ensure representation of women and socially marginalized persons, and to induct professionals in the Board.

- *The effect of revival package:* Similarly, the *revival package* offered to the ailing co-operatives have *helped to revive them* to a certain extent (For instance, 223 of 1281 PACS affiliated to DCCB in Pune have been selected for development under the revival package. These PACS will be supported in non-financial businesses like drip irrigation, Xerox facility, fertilizer dealership, gas agencies, warehousing etc. Plans are there to train 400 members to conduct surveys in villages to identify business potentials as part of this package), but rejuvenation of cooperatives has not been possible due to the lack of follow-up and co-ordination between the promoting and supporting organisations, such as the NABARD and the state government.

- *The situation of Refinancing:* The study discloses that the Cooperative banks, DCCBs, SCBs are basically engaged in short term (ST) loan products, with only a few giving long term (LT) finance. The model is limited to NABARD refinance. As local politicians get involved in who gets how much loan, the system becomes one of distribution of officially subsidised money. Currently, this is the reality of cooperatives financing.

- Banks are reluctant to lend to cooperatives because they have a low equity base, have low collaterals, limiting the confidence banks can place in their professional abilities. While there are a few exceptions, such as the Mulaknoor cooperative, or dairy cooperatives, these are exceptions rather than the norm.

Self-Reliance co-operatives

The Study leads to an understanding that the enactment of *Self Reliance Co-operatives Act has spurted the birth of numerous SRCs* in many States (only a small proportion by poor by taking the route of SHG-Federation-SRC), *their growth is directionless* in view of the poor orientation, internalisation and supervision. The co-operative department under the *State Governments have not reconciled to people's power and control* envisaged in the Self Reliance co-op Act and to play a proactive role to nurture the new found co-operative structure with training and supervision support. They are completely left to mend themselves in the name of Self Reliance, forgetting that they need sound financial knowledge and skills to handle the scale of operations. This has become counterproductive to the very purpose of this ACT. Using this unfortunate situation, the *State governments (Co-op Department) attempts to restore controlling powers enshrined in the traditional Co-op Act.* The problems associated with these kind of back door entry of Governments will exert influence over cooperatives and leads to many issues, including: a) negating the cooperative's autonomy – eroding the cooperative's ability to address the members' needs and overall sense of ownership by the members; b) preventing central reform and related funding; and c) promoting agendas that conflict with members' needs. There's also an attitude issue here: an overall acceptance of the government's managerial intervention, which is often seen as nurturing rather than interfering. This attitude is caused by, as well as causes, the government's intervention in cooperatives.

Role of Cooperatives in the Financial Inclusion
The financial inclusion movement in India has not taken advantage of the widespread network of cooperatives, which have close contacts with millions of clients already. They could be good vehicles for financial inclusion. The current financial inclusion policy has missed out on this potential of cooperatives.

The decision makers of the financial inclusion movement have thought about payment banks, which does not take into account all the capabilities of cooperatives. They need to move away from thinking only about credit delivery, to thinking about promoting financial transactions among people. People need to have institutions with which they can keep their savings safe, earn some interest on the savings, send and receive remittances, and have other transactions as needed, not just take loans. Cooperatives can do these activities well. In 3 to 5 years, most people in rural areas will have smart phones, mobile banking will enable banking outreach everywhere, people will just need systems for putting cash in and withdraw cash from, and start transacting. Cooperatives can provide these places for transaction, along with post offices as well. When many transactions with clients are established, they can then do un-collateralised lending, lending need not be the first transactions. The current financial inclusion policy has missed out on this potential of cooperatives.
This is similar to what has been done in India with regard to agricultural loans. There are so many tenant farmers in India, yet typically banks only lend to landowner, who don't farm. The farmers who farm don't get anything. Similarly, cooperatives who are close to rural and urban clients have not been given a role in financial inclusion, only banks who are far away from them have been asked to open branches and increase their outreach.

4.2 Recommendations

The recommendations for the improvement of co-operatives, as a sector has been detailed in this section, based on the field study, experts' opinion and international practices.

Centralised operations, minimal interference, qualified and trained staff, technology inclusion and handholding support of NABARD are suggested to improve the overall functioning of the co-ops across India.

Membership reforms

Memberships in Indian co-operatives are focussed on specific membership groups, such as farmers, or women. While there is a rationale to it, and certainly women only cooperatives have more credibility than mixed cooperatives, this also restricts membership to a relatively smaller number of people in an area. The membership is wide open in other countries, which ensures broad-basing the membership of cooperatives. Establishing an organisation for a specific group of people becomes inefficient, while broad basing helps to develop a diversified portfolio, catering to a large range of clients. This will enable the coops to cover risks of weather, and non-affordability of the service.

Member Education

Member education in co-operatives needs to be focused to increase their awareness, commitment and participation to strengthen the organization. The model used by Annapurna Mahila Cooperative credit bank in Pune is an example. They effectively use films and games as part of training to educate the members. It also uses the training modules developed by Friends of women's' banking worldwide.

Performing Board

The study indicates that the Cooperatives become viable very fast, provided there is good governance and professional management. For cooperatives to operate professionally, their boards have to be constituted in a different way, and their mandate should be different than it is now. Currently, boards of cooperatives are representatives of the governing bodies of their member cooperatives. This representative system, if continued, must be on the condition that the member being nominated has some experience in banking, IT, or have other professional qualities that are needed for the supervision of a state cooperative. Secondly, they should NOT be active politicians. This should be legislated, so that political influence on cooperatives is reduced significantly. This is a practice in Netherlands, which ensures that board members have the qualifications to be on the governing board of a higher level cooperative, in fact they are often elevated from managerial to supervisory positions to ensure experienced people on the boards. Further, active politicians cannot be governing board members of cooperatives.

The third critical need is to ensure that the mandate of the governing board is only supervision, not operational management. The governing boards should be supervisory bodies, and should not interfere in the day to day management of cooperatives, which should be done by professionals. Cooperatives need to recruit professionals to handle finance, risk management, IT and operations. They can have well integrated cooperative strategies. The apex institutions can then be real apex institutions, which modernised IT solutions to design better products, monitor operations at each level of the cooperative structure, and to give early warning signs in case of problems arising at any level. This intense monitoring is extremely important, because if early measures are not taken to stem recovery or sanction problems, then it if often too late to make corrections, the problems will magnify and the situation will go out of hand, then the only recourse left may be new injection of funds.

In Indian cooperatives, corporate governance is linked one to one with the operations management. This needs to be set in order, by de-linking the two. The Board members should discuss and evolve the broad operational policies, which then the management can implement. The management should be thoroughly professional. The corporate governance and operational management should be quite separate.

Centralised operations

Even if the cooperative structure is 3 tiered, as it is in any Indian State, the operations can be centralised, so that cooperatives can become more efficient, client oriented. An advantage of centralised operations will be the availability of skilled staff, who can be found or retained more easily in urban areas. Also, when operations are centralised, they are at higher scale and the business entity can afford skilled staff. Another message therefore is: centralise operations, to become more meaningful for the cooperative members, and to optimise their value. Processes can be put in place whereby clients can influence the cooperatives bank, but this should not be through the governing board members controlling the operations. A system of keeping clients close to the organisation to them, client focussed product design (both on assets and liability side) will help cooperatives to compete with the best companies both Indian and foreign ones. Further, a highly competitive cooperatives can also lower market rate for all clients, which is the key objective of a financial cooperative, to influence the microfinance market to have cheaper and more client focussed loan and savings products.

Skilled Human Resource

The success of cooperatives comes from skilled staff, hired as professionals, uniform and standardised processes being followed, which are mostly IT driven. The cooperative should be able to attract good highly skilled staff. Capacity building of BODs and Staff team contributes to both good governance and effective management in co-ops. It is essential to reduce failures of co-ops as the result of weakness in governance, management of human resources and finance, accounting and auditing systems.

Recognising the empowering potential of cooperatives, Friends of Women's World Banking, a wholesale lending organization gives special attention to cooperatives. It allows small loans to cooperatives, starting as low as Rs. 10 lakhs, whereas MFIs take much larger loans. Cooperatives are given flexibility akin to a cash credit facility, so that they take as much loan as they need in peak seasons, repay when they have cash, and take loans again. This enables them to have short term funds (less than 12 to 18 months) from FWWB, which usually extends term loans for three years. FWWB also allows cooperatives to repay loans ahead of the committed time, thereby saving interest costs for cooperatives. Most lending organisations do not offer such flexibility as it affects their cash planning and interest earnings, but FWWB extends the facility to enable cooperatives to benefit from seasonal cash flows, and to maximize the cooperatives returns. FWWB had initiated capacity building programmes for strengthening financial management and governance systems in cooperatives; however these have tapered down over the years as they are grant-dependent.

Some types of training that would help include:

- *Cooperative management*, including confidence building, the imperatives of members managing an organization, member education, inculcating an attitude of contributing to the organization and nurturing it. Building literacy and numeracy skills among members, leaders and staff is important when cooperative members are largely illiterate.

- *Leadership development*, including investing in potential leaders of an organization, attending to rotation of leadership and providing for two or three rounds of training, to ensure that leadership abilities are broad-based rather than concentrated in a few hands.

- *Accounts and audit systems*: It is important that cooperatives are well aware of the regulations and systems needed to comply with the regulations. They need to maintain upto date accounts, and also estimate and planning for the costs of establishing and maintaining accounts and audit systems.
- *Good Governance*: In addition to audit, it is important that management systems and decision-making processes in the cooperative be transparent. It is also critical to build cadres, so that a second level of leadership is prepared, and offers a questioning environment in the cooperative.

Innovations in Products and Services

The innovation in financial products and services are needed to align with the needs of the customers and prospects.

The life cycle events, age categorisation and occupational categories of the customers and prospects give the lead for products and service innovation.

As far as the savings is concerned, purpose oriented savings schemes is an option. For instance, Educational Savings, Marriage Savings, Old age Savings, Emergency Savings, Asset creation Savings(to purchase land, to renovate and expand house, to purchase jewels, to purchase vehicles, to purchase consumer durables etc.). The term of savings could be mutually decided by the co-ops and the client, based on their age, occupation, income. The savings under this model could be on any one of the following method: Daily, Weekly, Fortnightly, Monthly, or yearly. Options to tap up the savings in between could also be explored.

These purpose-oriented savings could easily be linked with the related loan products with a conditional period of savings, with a savings-credit ratio. The acquired assets through such loans could be treated as hypothecation.

The co-operatives could go beyond the traditional loan products of agriculture and enterprise, to include life cycle requirements such as Children's education, festivals and family functions, health, and emergency loans. This approach has been a success in SEWA bank. . The Annapurna Mahila Cooperative credit bank's micro insurance offers an innovative package is another example. Unlike commercial insurers, it covers mental illness, AIDS and Caesarean delivery. Another innovation is the carried forward of benefits in case of no claims during the year.

Regarding the services, the co-ops could undertake Business Development Services (market research, preparation of simple feasibility reports, identifying and linking mentors, marketing and advertising) for the BDS loan clients (of course it needs a professional team, which could be developed either in house or outsourced, who could be used several PACS in a cluster).

Opening up of ''transferable accounts'' from one PACS to other for the BDS and migrant clients as an extended service. (This will be easy as and when the PACS are CBS friendly).

Selling of Government bonds, mobile phones and recharge cards could also be considered as an additional service.

Insurance products - The law is very restrictive on insurance products. If cooperatives have to offer insurance, the laws need to be flexible. In health insurance, there are government subsidized schemes, however these have hidden costs attached (due to corrupt practices in hospitals and service providers)[58], and are limited in value (Rs. 30,000 per family per year). Many organisations have developed health mutuals and offer these to members, however, most of these are unregistered. The products offered by some of the health mutuals in TamilNadu include an instant payment of Rs. 300 to Rs. 500 on delivering a child, etc.

[58] In one case, it was reported that a hospital that usually charged a fee of Rs. 200 for giving a death certificate, raised this fee to Rs. 2,000, knowing that the family of the deceased will get a government benefit of Rs. 10,000 after showing that certificate.

Pension products: Most cooperatives do not know how to facilitate pensions for their members. Government and other organisations not only need to help them to understand the National Pension Scheme (NPS), but also enable them to become pension aggregators.

Technology Adoption

Technology like Core Banking Solutions (CBS) is an indispensable requirement to open accounts under JDY so that they may be used for transfers of gas subsidies and Direct Benefit Transfers. However, such facilities are not within the reach of PACS and UCB to enrol new accounts as part of Financial Inclusion. Only a handful of DCCBs has acquired the facility. In 3 to 5 years, most people in rural areas will have smart phones, mobile banking will enable banking outreach everywhere, people will just need systems for putting cash in and withdraw cash from, and start transacting.

Role of Government

Despite several changes in laws, the influence of the government on operations of cooperatives is still very large in India. In order to revive the cooperative system, the foremost requirement is to reduce the influence of the Registrar of cooperatives in each State. Cooperatives should be allowed to function without government interference. The State should acknowledge the democratic and equality benefits of cooperatives, and their special advantages for women's leadership, decision making and empowerment impacts, government and funding agencies should focus on building cooperative institutions that provide financial services.

The government, as seen in the international experience, should only concentrates on good legislation and supervision, should not engage with credit delivery. From the Gender perspective, issuing of Jan Dhan Yojana ''RUPAY'' cards in the names of women and granting Income Tax exemptions to women's banks(with low-income shareholders) and women co-operatives would go a long way in ensuring financial inclusion for women. The exemption of tax would enhance the dividend for women from low income groups, which will be a motivating factor for them.

Supportive Role of NABARD

NABARD is the fourth layer of the cooperative structure, as an Apex bank, and a very strong promotional and supervisory role for cooperatives. As an organization, NABARD is a complex organisation with many functions: financier, promoter, regulator, supervisor, and development bank that needs to have a return on its assets. It has very highly motivated staff and could perform its functions well, but the orientation of different tasks that it has are completely different, the promotion and development tasks demanding a different outlook from the regulating and supervision roles. Nevertheless its District offices need to be strengthened with field and administrative staff to ensure better supervision and guidance for cooperatives under its jurisdiction.
Refinancing to MSCSs

Larger scale of cooperatives is critical for viability but there is a hitch in that NABARD does not provide refinance to MSCSs. If NABARD revises this condition, it will enable cooperatives to merge across states, providing the scale needed for viability and enabling cooperatives to sustain. This enabling step will be needed till the cooperatives attain the strength that they have done in Kerala, where cooperatives do not need refinance to survive. Instead of waiting for the provision of refinance to MSCS to be passed by the Parliament, which was not approved by the Parliament, as per its existing Act, NABARD can lend to any financial institution registered by RBI, and under this provision, it could have, and still can extend refinance to MSCSs.

Revival package

Revival packages need to be real handholding projects; they need to help build vision in cooperatives, and support them to work towards a vision, by making a strategy and assigning time frames. The release of the capital support from the revival package should be related to the progress achieved, so that it is possible to push for the change. Handholding projects need to have clearly agreed milestones for change of management, operations and systems. These could be:

- Change of board members, based on clearly set criteria for membership of the board
- Separation between board and operations management
- Standards set for human resources at each level
- Recruitment processes that adhere to the standards
- Operational milestones such as targets for increasing the number of clients, improved credit/ deposit ratios, reduction of Nonperforming assets (NPAs), increased efficiency of operations, etc.

Unless these measures are put into place, the funds from revival packages, which cost the state exchequer a lot, will not yield the desired results, and will be wasted away. Further, to enable cooperatives to achieve scale, merger of SCBs across states should be facilitated by NABARD extending refinance to MSCSs.

Supporting to strengthen primary cooperatives

NABARD has the most important role, of a Development Financial Institution (DFI) and the financial provider for cooperatives at each level. For instance, some areas where NABARD role can be stronger are:

- Providing funds and creating capacities for primary cooperatives to adopt Core Banking Solutions (CBS), as well as computerised MIS. While the FITF exists, its utilisation and efficacy could be greatly improved.
- SHGs are currently not integrated into higher-level federation structures strategically, in a way that gives them more voice and financial opportunities. This can be done by integrating them with cooperatives. NABARD could develop a strategy for this.
- Provide financial and capacity building support to SHGs and cooperatives for digitalisation.

Have a well-articulated National Cooperative Credit Policy

With no clearly articulated policy for credit cooperatives at the national level, this remains an area of weakness in India. The 97th Amendment was an attempt to bring some uniformity, however, it was not introduced with the due processes needed for bringing a central statute in a state-controlled subject, therefore is still challenged. The state amendments to cooperative laws post the 97th amendment have sought to return to the implementation processes of the old Acts, as the cooperative officers know no better. There are operational issues that plague the sector, with audits of cooperative societies pending because the state panels for approved auditors have not been announced. Weaknesses remain in the following areas:

- SHG are not allowed membership of cooperatives
- Panels of approved auditors have not yet been published in most states
- Bye laws of cooperatives are not allowed to be flexible, with states like Madhya Pradesh insisting on the old standard bye laws being adopted by the cooperatives
- Permissions for expansion of area of operations are difficult to obtain

Create a Competitive Environment among cooperatives

Currently, registration of a state level cooperative, e.g. in Madhya Pradesh, requires a no objection certificate (NOC) from all existing state level cooperatives. This is an antiquated procedure, promoting protective behaviour, and creating barriers to entry for new cooperatives, as also providing room for corruption.

Formal Recognition of Cooperatives as Agents of Financial Inclusion

In 1991, NABARD and RBI recognised SHGs as clients of banks, giving to informal groups the status of bank clients. This was a landmark provision that changed the face of Indian rural banking and enabled financial inclusion in a very big way. Today, there is a similar need, to declare all clients of cooperatives, especially those with CBS, as financially included. Members of cooperatives should be considered financially included.

Strengthen the Cooperative Department

The cooperative department needs to have more staff, both at national and state level, and needs training and re-orientation of staff at all levels. The staff needs to be able to evaluate the implications of different laws and regulations, and understand how cooperatives can play an important role in financial inclusion. They need to have positive attitudes so as to be able to build capacities of cooperatives to participate actively in the movement.

Remove restrictions on PMJDY accounts

The PMJDY accounts should be operated like regular bank accounts, with customers having the possibility of conducting transactions regularly, issuing cheques and being allowed to use ATM cards. Cooperatives would be able to allow these transactions, however, for this, cooperatives have to be integrated in the financial inclusion movement.

Sampark, Bangalore
May 20, 2015

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6 Annexure 1: List of People Covered under the Study

National Level

Category of Organisations/ People	S. No.	Organisation Name	Person Name	Department	Designation
Apex Level Financial Institutions (NABARD, SIDBI)	1	NABARD	Shri G. R. Chintala, and five others (Focus Group Discussion)	MCID	CGM,
Donors	2	GIZ	Ms. Jonna Bickel	GIZ - NABARD Rural Financial Institutions Programme	Technical Advisor
	3	IFAD	Ms. Meera Mishra		
	4	UNDP	Dr. Navin Anand	UN Solution Exchange, UNDP	Resource Person
Promoting, CB (NGOs, international agencies)	5	FWWB and Ananya	Ms. Vijayalakshmi Das		CEO
	6	Rabo Bank	Mr. Arindam Datta	Rural & Development Banking / Advisory	Senior Director and Head
	7	Rabo Bank	Mr. Rishab Sood		Senior Executive
	8	Rabo Bank	Mr. Bjorn Schrijver	Rabobank International Advisory Services (RIAS) B.V.	Team Leader
Government Department	9	Department of Agriculture and Cooperatives, Government of India	Mr. Sebastian John	Capacity Building	Director
	10	Department of Agriculture & Cooperation Ministry of Agriculture, Govt. of India	Mr. Sanjeev Chopra		Joint Secretary
NRLM/SRLM	11	National Rural Livelihood	Ms. Charulata,	Financial Inclusion	

		Mission			
State Apex Cooperative bank/ State Cooperative Federation/ Cooperative Union	12	National Cooperative Union of India -NCUI-done	Dr. Dinesh	Director General – National council for Cooperative Training	Chief Executive
	13	International Co-operative Alliance Asia and Pacific	Balu Iyer		Regional Director
	14	International Co-operative Alliance	Mrs. Savitri Singh	Cooperative Training Department	
Individual consultants, experts/ others	15	Key informant	Mr. Kishangopal	Lawyer	

Karnataka

Category of Organisations/ People	Sr. No	Organisations	Person Name	Department	Designation
Cooperatives Case Studies					
Case 1: SRC	1	Eshwara Souharda Cooperative, Koppal	Ms. Sudha, board members and staff		Secretary
	2	GMAS, Bidar	Mr. Ravichandra		CEO
	3		Mr. B.S.Kudre		Nominal director
Case 2: PACS	4	Nagora PACS, Bidar district	FGD with 3 Staff		
	5		FGD with 10 Board of directors and CEO		
	6		Interview with 7 clients of PACS		
	7		FGD with one of the PACS promoted SHG members		
	8		Interview with two non-members of SHG of PACS		
	9	Gadgi PACS, Bidar district	Interview with Mr. Deepak		CEO
	10		Interview with Accountant		Accountant
Case 4: Cooperative Bank (DCCB/ SCB)	11	Bidar District Central Cooperative Bank	Mr. Sharnappa Bhakale		General Manager

	12		Mr. Narasa Reddy	Credit and PACS Supervision	Deputy General Manager
	13		Mr. Sridar Kulkarni	SHG-BL	Manager
Case 5: Urban Cooperative bank (State coop act/ SRC/ MSCA)	14	Bidar Mahila Urban Cooperative bank	Mr. Jyothi		Manager
Apex Level Financial Institutions (NABARD, NABFINS, FWWB, Ananya)	15	NABARD, Bidar	Mr.D.B.S.Joshi		Assistant General Manager
NGOs- Promoting, CB	16	Prawarda	Ms. Mangala	NGO	CEO
	17		Mr. B.S.Kudre	NGO	Director of Prawarda
Training/ Resource Agencies	18	SAHARDA Rural Development Acadamy	Mr. Subrahmanya Prabhu		Director
	19	SAHARDA Rural Development Acadamy	Mr. S.G. Patil		Faculty
	20	SAHARDA Rural Development Acadamy	Mr. Omkar		Coordinator
State Apex Cooperative bank/ State Cooperative Federation/ Cooperative Union	21	Karnataka State Cooperative Apex Bank Ltd	Mr. H.S. Satish	Dept of Microfinance	Sr. Project Officer
	22	Karnataka Souharda Federal Cooperative Ltd	Mr. Srikanth Baruve		Asst. General Manager
Individual consultants, experts/ others	23	Institute for Social and Economic Change (ISEC)	Mr. Veerashekharappa	Centre for Economic Studies and Policy	Associate Professor and Head

Maharashtra

Category of Organisations/ People	S. No	Organisation	Person Name	Department	Designation
Cooperatives Case Studies					
Case 3: Special Coop or Thrift and credit coop society	1	Mann Deshi Urban Cooperative, Pune	Ms. Chetna Vijay Sinha		Chairperson
	2		Ms. Rekha Kulkarni		CEO
	3		Ms. Swati Patil		Branch Manager, Katraj
	4	Bhagini Nivedita sahkari Bank, Pune	Ms. Smita Kishor Deshpande		CEO
Case 4: Cooperative Bank (DCCB/ SCB)	5	Pune DCCB	Dr. Digambar Durgade		Chairperson
	6		Mr. Kashinath Dandawate and team		Assistant General Manager
Case 6: MSCS	7	Annapurna Cooperative, Maharashtra	Dr. Medha Purao Sawant		Founder-Chairperson
	8		Ms. Sujata Bhat		Sr. Manager and consultant
	9		Ms. Arti Shinde		Assistant Fin Mngr
Training/ Resource Agencies	10	College of Agriculture Banking	Mr. Venkatesh		
	11	Vaikunth Mehta Institute, Pune	Mr. Sanjeeb Patjoshi		Director
	12		Dr. Medha Dubhashi	Gender Studies	Professor
	13		Mr.S.Kutty	Cooperative Law	Associate Professor
	14	ICM Pune	FGD with Director, Mr. N.K.Tiwariand faculty members		Director

NRLM/SRLM	15	MSRLM	Ms. Leena Bansod		COO and additional in charge of CEO
State Cooperative Federation/ Cooperative Union	16	National Federation of State Cooperative Banks, NAFSCOB	Mr. B. Subramanyam		Managing Director

Uttarakhand

Category of Organisations/ People	Sr. No	Organisaion	Person Name	Department	Designation
Cooperatives Case Studies					
Case 1: SRC	1	Apex microfinance and Livelihood promotion cooperative society	Mr. Satish Chandra Lakhchura		Chief Executive
Case 2: PACS	2	Ahabpur PACS	Mr. Arjun Giri		Secretary
Case 4: Cooperative Bank (DCCB/ SCB)	3	Dehradun District Credit Cooperative Bank	Ms. Vandana Shrivastava		Secretary/ GM
	4	Dehradun State Cooperative Bank	Mr. Rajendra Prasad Sharma		Managing Director
Case 5: Urban Cooperative bank (State coop act)	5	Dehradun Urban Coop Bank	Mr. Birbal Singh		Assistant Accounts Officer
Apex Level Financial Institutions (NABARD, SIDBI)	6	NABARD	Mr. Hemant Kumar Sablania.	Uttarakhand Regional Office	Deputy General Manager
Donors	7	IFAD	Ms. Meera Mishra		Sr. Program Officer
Training/ Resource Agencies	8	ICM	Dr. Ajay Sharma		Professor
Cooperative Department	9	Dehradun Coop Dept	Mr. Rajesh Chauhan		Assistant registrar
NRLM/SRLM	10	USRLM	Mr. Prabhakar Bebni.		
Individual consultants, experts/ others	11		Ms. Vibha Puri		Retd IAS officer

Assam

Category of Organisations/ People	S. No.	Organisation	Person Name	Designation
Cooperatives Case Studies				
Case 2: PACS	1	Duar Bagori Samobai Samity Ltd	Mr. Ataur Rahman	CEO
Case 3: Special Coop or Thrift and credit coop society	2	Konoklata Mahail UCB	Ms. Lakhimi Baruah	Managing Director
Case 4: Cooperative Bank (DCCB/ SCB)	3	State Apex Cooperative Bank	Mr. R.N.Talukdar	Managing Director
Case 5: Urban Cooperative bank (State coop act/ SRC/ MSCA)	4	Co-operative City Bank	Mr. Mrigen Sharma	Managing Director
Apex Level Financial Institutions (NABARD, NABFINS, FWWB, Ananya)	5	NABARD, RO	Mr. Arun Shandilya	Chief General Manager
NGOs- Promoting, CB	6	Centre for Microfinance & Livelihood	Senior staff	
Training/ Resource Agencies	7	Institute of Cooperative Management Guwahati	Dr. K.I.Meetei	Director
	8	Indian Institute of Bank Management (IIBM), Guwahati	Prof Avijit Sharma	Professor
Cooperative Department	9	Registrar of Cooperative Society	Mr. H.K. Nath	Joint Registrar
State Apex Cooperative bank/ State Cooperative Federation/ Cooperative Union	10	National Cooperative Development Corporation	Mr.M.P. Sugunan	Regional Director
	11		Mr. Robert Touthang	Assistant Director

Madhya Pradesh

Category of Organisations/ People	Sr. No	Organisation	Person Name	Designation
Cooperatives				
Case 3: Special Coop or Thrift and credit coop society	1	Pratigya Samanvit Vikas Sakh Sahkarita Maryadit	Ms. Arti Kushwah	Director

Gujarat

Category of Organisations/ People	Sr. No	Organisation	Person Name	Designation
Cooperatives				
Case 3: Special Coop or Thrift and credit coop society	1	Sewa Bank	Ms. Jayshree Vyas	Managing Director
Case 5: Multi-purpose cooperatives/ Special Coop or Thrift and credit coop society	2	VimoSewa	Mr. Arman Oza	CEO