



Kerala's cooperative sector: Resilience amid challenges

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Abstract

Kerala's cooperative sector has played a pivotal role in the State's socio-economic development through its extensive network of institutions engaged in banking, agriculture, marketing, dairying, and social welfare activities. Built on the principles of democratic participation and mutual assistance, the sector has contributed significantly to rural development, financial inclusion, and livelihood generation. However, cooperative institutions have increasingly encountered challenges such as financial irregularities, inadequate auditing practices, technological limitations, rising non-performing assets, benami transactions, and intense competition from private enterprises, all of which have affected their efficiency and public confidence.

This paper examines the major issues confronting Kerala's cooperative sector and analyses the measures adopted to strengthen its resilience. It discusses recent reforms aimed at improving transparency and accountability, including enhanced audit mechanisms, digital transformation initiatives, and institutional support systems. It also highlights the role of schemes and initiatives in safeguarding the interest of members and ensuring institutional stability during periods of crisis.

The paper further explores the future prospects of the sector in the context of emerging opportunities such as platform cooperatives, technology-driven agricultural initiatives, and policy recommendations under the Fourteenth Five-Year Plan. It argues that effective governance, technological advancement, sound financial management, and active member participation are essential for sustaining the cooperative movement. With appropriate reforms and continued public support, Kerala's cooperative sector can continue to serve as an important instrument of inclusive and sustainable development.

Keywords: Kerala cooperative movement, challenges, resilience, cooperative governance, cooperative reforms, cooperative development

Introduction

Cooperative movement in India began formally with the enactment of 1904 Act during the British period, to address the financial difficulties faced by farmers and rural communities. Later on, 1912 a new Act was formed to rectify the drawbacks of 1904 Act. After independence, the cooperative sector gained significant importance as an instrument for rural development, poverty alleviation, and inclusive economic growth. Landmark initiatives in the dairy sector, especially the success of the National Dairy Development Board and the cooperative model exemplified by Amul, highlighted the significant role of cooperative institutions in bringing socio-economic transformation. Today, cooperative movement in India plays a significant role in the economic development of the overall country. The establishment of Ministry of Cooperation in 2021 marked a significant step under the vision "Sahkar Se Samridhi" (Prosperity through Cooperation). A significant recent development is the National Cooperative Policy 2025, which provides a strategic roadmap for revitalizing and strengthening the cooperative sector in line with India's vision of becoming a developed nation by 2047.

The cooperative movement in Kerala began in the early 1900s and grew significantly after independence. It is widely regarded as one of the most successful and extensive cooperative systems in India. The sector extends across banking, agriculture, dairying, and marketing, characterized by a large membership base and substantial financial activities. Despite accounting for less than 3% of India's population, the southern and western states show

significantly higher proportion of cooperatives membership relative to their estimated total population when compared to the eastern and north-eastern states. In Kerala alone, cooperative institutions account for more than 6 crore memberships, reflecting the strong public participation and extensive reach of the cooperative movement in India. As mid of 2023, there were more than 23,000 registered cooperative societies in Kerala, of which around 16,000 were functioning under the administration of the Registrar of Cooperative Societies. Approximately 60% of Kerala population are members of PACS, indicating a very high dependency for the banking needs on the cooperative sector. To create a powerful and unified two-tier cooperative banking structure, Kerala bank was officially formed on November 29, 2019 by merging 13 District Cooperative Banks with Kerala State Cooperative Bank, that act as backbone of the primary cooperative credit structure in the state. The bank was ranked first in Asia's financial services sector in the World Cooperative Monitor report published by International Cooperative Alliance with the scientific and technical support of the European Research Institute on Cooperative and Social Enterprise.

However, in recent years, the sector has been facing serious crisis affecting its credibility, efficiency, and public confidence. The crisis is multifaceted in nature, encompassing challenges such as corruption, political intervention, benami dealings, weak governance structures, financial mismanagement, and reduced participation of members. Many cooperative institutions have been accused of financial irregularities including misappropriation of

funds, fraudulent sanctioning of loans, embezzlement, falsification of accounts, and unauthorized investments. Karuvannur Service Cooperative Bank scam is one of the recent evident financial frauds in Kerala involving Rs 300 crore in illicit loans and benami transactions, with investigations revealing the involvement of major political party leaders. Some of the other fraud cases reported involve Kandala service cooperative bank, Angamaly Urban Cooperative Society, BSNL Engineers' Cooperative Society, Perumbavoor Urban Cooperative Society and Nemom Service Cooperative Bank scandals. Although the banking and financial sector is rapidly adopting digital transformation, many cooperative institutions continue to rely on obsolete administrative and accounting systems.

In spite of these issues cooperative sector has shown remarkable resilience due to its strong network of 23,000 registered societies managing over Rs 2.5 lakh crore in investments. It acts as financial backbone supporting rural agriculture, and dairy particularly during crisis like pandemic, flood and economic disruptions by providing emergency credit, welfare assistance, and essential services.

Challenges in Kerala Cooperative Sector

1. Rampant Financial Mismanagement

One of the most serious challenges affecting the cooperative sector is corruption and financial irregularities. Several cooperative institutions have faced allegations involving fund misappropriation, fraudulent loan approvals, embezzlement, account manipulation, and unauthorized investments. Inadequate internal control system and weak auditing mechanism often allow such irregularities to be undetected and continued for long run.

In several cooperative societies, funds collected from members and depositors have allegedly been diverted for unauthorized purposes or misused by officials for personal gain. Karuvannur Service Cooperative Society, Kandala Service Cooperative Society and Nemom Service Cooperative Bank are notable examples in this regard. In most of these cases, loans were sanctioned without adequate collateral, proper documentation, or repayment capacity assessment, resulting in a sharp rise in non-performing assets and financial distress. Financial scandals within the sector have adversely affected the public confidence in cooperative institutions.

2. Weak Auditing System

In Kerala alone, cooperative institutions account for more than 6 crore memberships, reflecting the strong public participation and extensive reach if the cooperative movement in the state.

Weak audit systems continue to be significant challenge in the cooperative sector. A report by the Personnel and Administrative Reforms Department (January 2026) observed that inadequate follow-up of audit findings and administrative shortcomings have adversely affected the transparency and effective functioning of cooperative institutions. In many cases, audits were delayed for several years, enabling financial irregularities and mismanagement to persist unnoticed over long periods.

Lack of timely and proper auditing weakens accountability and affects the effectiveness of internal control mechanisms in cooperative societies. Delay in submitting audit reports often prevents the early detection of operational lapses, financial irregularities, and governance- related issues.

These shortcomings have adversely impacted the credibility and public confidence of the cooperative movement, which is built on the values of transparency, democratic functioning, and mutual cooperation.

3. Technological Backwardness

Technological backwardness remains a major challenge for cooperative institutions. While the banking, financial, and business sectors are rapidly adopting modern technologies, many cooperatives continue to depend on outdated and traditional systems of administration, accounting, and service delivery. Limited use of digital technology reduces operational efficiency, affects transparency, and restricts the ability of cooperatives to compete effectively in an increasing technology – driven economy

Compared to private enterprises and commercial banks, which have widely adopted internet banking, mobile applications, digital payment systems, and AI -enabled customer services, cooperative credit institutions have been slow in technological adaptation. In the case of non-credit cooperatives such as consumer, dairy, handloom, marketing, and industrial cooperatives, inadequate technological support affects production efficiency, inventory management, marketing, customer outreach, and supply chain operations. This technology gap reduces competitiveness and limits the ability of cooperatives to attract younger and technology-oriented consumers and members.

4. Rising Non-Performing Assets

One of the major financial challenges in cooperative sector is steady rise in non-performing asset. Multiple factors have contributed to the increase in NPAs within Kerala's cooperative sector. Agricultural crises, unemployment, reduced income levels, natural calamities, economic uncertainty, and ineffective credit evaluation practices have adversely impacted the repayment capacity of borrowers. In several instances, loans were approved without sufficient assessment of repayment potential or proper collateral security. Inefficient recovery systems and political interference in loan sanctioning further worsened the situation.

In many instances, loans were sanctioned without adequate assessment of repayment potential or sufficient collateral security. Insufficient recovery mechanisms and political interference in loan sanctioning further aggravated the problem. The recent Karuvannur Service Cooperative Bank controversy further exposed issues related to bad loans, weak supervision, and deficiencies in auditing and recovery mechanisms within the cooperative banking sector.

The growing level of NPAs has placed significant financial pressure on cooperative institutions by weakening their liquidity position, profitability, and capacity to provide fresh loans. It has also raised serious concerns about the long-term sustainability and credibility of cooperative banks and credit societies, emphasizing the importance of effective credit appraisal, continuous monitoring, and efficient recovery mechanisms.

5. Benami Transactions and Fraudulent Dealings

Benami transactions and proxy financial dealings have become serious issue in Kerala cooperative sector. Such practices violate cooperative principles and financial regulations while increasing the risk of non-performing

assets. Benami loans also reduce opportunities for genuine members to access financial assistance. Several cooperative institutions have faced issues such as fictitious loan accounts, fund misappropriation, illegal financial diversion, and transactions conducted through proxy individuals. These irregularities are often linked to weak governance, political influence, poor auditing mechanisms, and lack of professional management. Such practices contribute to rising Non-Performing Assets, financial instability, and declining public trust in cooperative institutions.

The Kandala Service Co-operative Bank controversy surfaced as another significant instance of financial malpractice and alleged benami transactions within Kerala's cooperative sector. Investigations and reports pointed to allegations of fraudulent monetary dealings, misuse of deposit schemes, approval of loans without sufficient collateral security, and diversion of funds through benami accounts. The issue gained widespread attention following controversies surrounding cooperative banks in Kerala, particularly the Karuvannur Cooperative Bank case, which revealed structural deficiencies in auditing practices, transparency, and regulatory oversight mechanisms. As cooperatives are fundamentally based on transparency, democratic functioning, and mutual confidence, the presence of corruption and financial fraud undermines the core values of the cooperative movement. Hence, effective regulatory supervision, transparent administration, technological modernization, and strict legal measures are necessary to ensure accountability and strengthen the long-term sustainability of the cooperative sector.

6. Competition from the Private Sector

Increasing competition, private sector enterprises has become a major challenge for cooperative institutions. Private organizations often possess stronger financial resources, advanced technology, professional management practices and efficient marketing strategies, enabling them to provide faster and more customer-oriented services.

In the case of credit cooperatives, commercial and private banks have expanded rapidly through digital banking, mobile applications, online transactions. Many cooperative banks and credit societies have found it difficult to match these technological advancements and service standards, resulting in reduced competitiveness, particularly among younger and urban customers.

Non-credit cooperatives such as consumer, dairy, handloom, marketing, and industrial cooperatives also face intense competition from private companies and organized retail chains. Private enterprises often benefit from better branding, wider product variety, efficient supply chain management, large -scale production, and aggressive marketing strategies. As a result, many non-credit cooperatives struggle to maintain market share, profitability, and customer loyalty.

Resilience of Kerala Cooperative Sector

In spite of encountering multiple challenges, the Kerala cooperative sector has shown significant resilience because of its strong social base and community-centred framework.

1. Strengthening Auditing and Transparency

Recent reforms focus on strengthening auditing mechanisms, ensuring timely inspections, and improving financial transparency. One of the major changes was

introduction of administrative audit which includes Compliance audit, IT audit, and Performance audit. It does not check just its financial accounts but also examines whether the society is properly organised, managed and operating according to cooperative principles and legal requirements. Team audit is another concept introduced as part of strengthening auditing. The recent Kerala Cooperative Societies Amendment Act 2023 brought significant changes in the audit frame work. It also restricted the continuous appointment of auditors, limiting any auditor, auditing firm or audit team to a maximum of 2 consecutive audits of the same cooperative society.

Another important reform was the introduction of Cooperative Audit Monitoring System (CAMIS). The system was designed to modernize audit administration by bringing audit-related activities onto a digital platform. It provides details on taluk-wise society categories, completed audits, pending audits, deposit figures, loan information, and serious audit irregularities there by increasing transparency and public confidence.

2. Digitization and Technological Advancement

As the grassroots units of the cooperative banking structure, PACS play a significant role in delivering agricultural loans, rural credit, and essential financial services to farmers and local communities. The computerisation of Primary Agricultural Credit Societies (PACS) in Kerala is a major reform initiative intended to modernise the cooperative credit system. Majority of PACS had already computerized their operations.

Technological modernization is also evident in non-cooperative sectors in Kerala. The Kerala Food Platform (KFP) is a digital initiative closely related to the cooperative agricultural ecosystem in Kerala, and it shares the goal of safe food distribution with Consumerfed, though they operate as separate, complementary entities. Matsyafed has adopted digital technology to modernize its operation through the launch of Fresh Meen Mobile Application. This app serves as a key technological initiative aimed at connecting local fishermen directly with consumers to ensure quality and fair pricing. Marketfed is expanding its reach through its own e-commerce platforms and digital interventions, allowing for direct-to-consumer sales and better market linkage for farm produce.

The department of Cooperation in Kerala has introduced the Coop Kerala brand and certification programme in 2023 to create a common identity for products manufactured by cooperative societies. Although the Coop Kerala initiative has achieved notable growth, it continues to face several challenges including strong competition from private companies, inadequate marketing efforts, distribution-related issues, and variations in product quality among cooperative societies. Nevertheless, the growing demand for locally made and socially responsible products creates new opportunities for the brand.

3. Deposit Guarantee Scheme

Deposit Guarantee Schemes (DGS) play an important role in strengthening resilience within the cooperative sector by enhancing depositor confidence, preventing panic withdrawals, and offering financial protection during liquidity crises. All societies falling within the scope of the Deposit Guarantee Scheme are required to register and make the prescribed contributions. Failure to comply with

this requirement will result in the loss of the society's authority to accept deposits from the public. By assuring deposits up to a specified limit, these schemes help smaller and regional cooperative societies maintain member trust and reduce the risk of systemic instability arising from local economic disturbances. The Registrar may, through a general or special order and for reasons recorded in writing, grant exemption to a society from enrolment under the Deposit Guarantee Scheme for a period not exceeding one year. Such exemption is subject to the conditions specified in the order.

4. Cooperative Risk Fund Scheme

The Co-operative Risk Fund Scheme also represents an important resilience-building initiative within Kerala's cooperative sector by providing financial protection to both borrowing members and cooperative institutions. The scheme offers relief to the families of borrowing members who die before repaying their loans by settling eligible outstanding liabilities through a common fund created from contributions made by participating cooperative societies. This mechanism prevents loan defaults arising from unforeseen circumstances, thereby protecting the financial health of cooperative institutions while reducing the economic burden on bereaved families.

The scheme also promotes responsible risk management through clearly defined provisions regarding coverage, contributions, fund administration, accounting, and audit procedures. By ensuring financial security for members, minimizing credit risk, and maintaining the stability of cooperative credit operations, the Co-operative Risk Fund Scheme enhances the resilience, credibility, and social responsibility of Kerala's cooperative sector.

5. Cooperative Revival Fund Scheme

The Co-operative Revival Fund Scheme serves as a vital resilience mechanism within Kerala's cooperative sector by facilitating the rehabilitation and revitalization of financially distressed or inactive cooperative societies. Established under the Kerala Co-operative Societies Act, 1969, the scheme provides targeted financial assistance to societies that possess the potential for recovery but require temporary support to restore their operations and financial health. The fund is mobilized through contributions from cooperative societies, allocations from reserve and stabilization funds, government grants, and other approved sources, ensuring the availability of resources for institutional recovery. By enabling struggling cooperatives to overcome financial setbacks, resume normal functioning, and continue serving their members, the scheme helps preserve employment, protect member interests, and maintain the continuity of cooperative services.

6. Rapid Crisis Response

Co-operative Alliance to Rebuild Kerala (CARE Kerala) is a flagship initiative of the Kerala Department of Co-operation aimed at supporting the rehabilitation and recovery of communities affected by natural disasters, particularly floods. The programme draws upon the collective strength of more than 15,000 cooperative societies across the state to provide housing assistance through CARE Home, financial aid through CARE Loan, and rehabilitation support through CARE Grace. By mobilizing cooperative resources for public welfare, CARE Kerala demonstrates the social

responsibility of the cooperative sector and its commitment to community development. The initiative has also helped strengthen public trust and confidence in cooperative institutions by showcasing their active role in addressing social and humanitarian challenges.

Future Prospects of Kerala Cooperative Sector

The future of Kerala's cooperative sector remains encouraging, supported by its extensive grassroots presence, democratic character, and commitment to meeting the needs of local communities. Cooperatives are likely to assume an even greater role in promoting rural development, strengthening agricultural credit and finance, expanding financial inclusion, creating employment opportunities, and delivering social welfare services. Their close connection with the people and community-based approach position them as important institutions in advancing inclusive and sustainable socio-economic development in the State.

The emergence of platform cooperatives under the Kerala Knowledge Economy Mission (KKEM) offers new opportunities for employment generation in the digital economy. By combining technology with cooperative principles, these institutions can provide sustainable livelihoods, democratic management, and fair income opportunities for skilled workers and professionals.

The Co-operative Initiative in Technology-driven Agriculture (CITA) is another significant step toward strengthening the agricultural sector through cooperative institutions. The adoption of modern technologies in production, aggregation, storage, value addition, and marketing is expected to improve farm productivity and increase farmers' incomes while enhancing the competitiveness of agricultural cooperatives.

In addition, the recommendations of the Fourteenth Five-Year Plan highlight the need for technological modernization, effective management of non-performing assets (NPAs), and a stronger role for Kerala Bank in assisting cooperative societies facing financial difficulties. The implementation of these measures is expected to enhance operational efficiency, improve financial stability, and strengthen the long-term viability of the cooperative sector.

Sustained policy support, the adoption of modern technologies, professional and accountable management practices, and active involvement of members will be crucial in shaping the future of the sector. With these foundations in place, Kerala's cooperative movement has the potential to evolve as a successful model of inclusive, people-oriented, and sustainable development.

Conclusion

Kerala's cooperative sector continues to be a vital pillar of the state's socio-economic progress. Although it faces challenges such as rising non-performing assets, governance deficiencies, growing competition from private and commercial institutions, technological changes, and evolving market conditions, the sector has shown considerable resilience and adaptability. Regulatory reforms have played a crucial role in improving the resilience of the Kerala cooperative sector by strengthening auditing systems, enhancing transparency, modernizing operations, and improving financial supervision. Although challenges such as political interference, corruption, and financial irregularities still persist, reforms focused on digital

transformation, professional governance, and regulatory accountability have helped cooperative institutions adapt to changing economic and financial conditions.

Sustained implementation of these reforms is essential for ensuring the long-term stability, credibility, and sustainability of the cooperative movement in Kerala. Strong cooperative administration and policy reformulation will attract youth cooperatives.

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