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## **Inclusive Growth through Cooperation: A Study of Karnataka Souharda Cooperative Federation**

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### **ABSTRACT**

The concept of financial inclusion has gained significant attention in recent decades as a critical tool for achieving inclusive growth and reducing socio-economic disparities. This paper explores the role of the Karnataka Souharda Cooperative Federation (KSCF) in promoting financial inclusion across the state through a unique cooperative framework. Established under the Karnataka Souharda Sahakari Act, 1997, the Federation represents a modern and autonomous model of cooperative governance, emphasising transparency, member participation, and financial sustainability. The study highlights the Federation's initiatives in expanding access to financial services, especially in rural and semi-urban regions, by fostering self-reliant Souharda Cooperative Societies. It also evaluates the Federation's contributions in areas such as credit disbursement, microfinance support, digital banking access, financial literacy, and capacity building of member societies. Through qualitative insights and secondary data analysis, the paper assesses the effectiveness of Souharda cooperatives in addressing the needs of economically weaker and underserved sections of society. The findings suggest that the Karnataka Souharda Cooperative Federation has played a pivotal role in strengthening grassroots-level financial institutions and enabling community-driven

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economic development. The paper concludes by recommending strategic policy support and digital innovation to further enhance the impact of Souharda cooperatives in achieving inclusive and sustainable growth

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## 1. Introduction

Financial inclusion the process of ensuring access to appropriate financial products and services at affordable costs to all sections of society, particularly the vulnerable and low-income groups has become a cornerstone for achieving inclusive and equitable economic growth in India. The Reserve Bank of India (RBI) defines financial inclusion as the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups (RBI, 2015). While commercial banks and microfinance institutions have made progress in this area, cooperatives remain a powerful yet often underappreciated vehicle for inclusive financial empowerment, especially in rural and semi-urban regions.

In Karnataka, the Karnataka Souharda Cooperative Federation (KSCF) has emerged as a dynamic and progressive institution in this context. Formed under the Karnataka Souharda Sahakari Act, 1997, the Federation has introduced a more autonomous, democratic, and flexible model for cooperative development. Unlike traditional cooperative structures governed by the Karnataka Cooperative Societies Act, 1959, the Souharda model promotes greater member participation, financial discipline, and self-regulation (Karnataka Law Commission, 2008).

The KSCF plays a central role in guiding, training, and strengthening its affiliated Souharda cooperative societies spread across the state. These societies are instrumental in extending credit services, promoting savings, facilitating micro-enterprise development, and conducting financial literacy campaigns. Importantly, they serve as community-based institutions that bridge the gap between the formal financial sector and marginalized populations, including small farmers, artisans, women, and informal workers.

As India strives to achieve the goals of financial inclusion under national initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the National Strategy for Financial Inclusion (2019–2024), the role of state-level cooperative federations, like KSCF, becomes increasingly significant. This paper aims to examine the contribution of the Karnataka Souharda Cooperative Federation in fostering inclusive growth through its member societies, assess the challenges faced, and offer policy suggestions for enhancing its impact.



## 2. Review of Literature

The concept of financial inclusion has been extensively discussed in development economics and public policy, particularly in the Indian context where a large portion of the population remains underserved by formal financial institutions. Several scholars have examined the role of cooperative societies and decentralized financial institutions in promoting financial access and equity.

**Rangarajan Committee (2008)** defines financial inclusion as the process of ensuring access to financial services and timely and adequate credit to vulnerable groups such as weaker sections and low-income groups at an affordable cost. The committee emphasized the need for local institutions like cooperatives to play an active role in achieving financial inclusion in rural India.

**Sriram (2007)** highlighted that traditional cooperatives, while widespread in India, often suffered from political interference and bureaucratic control. However, reformed cooperative models like the Karnataka Souharda Sahakari system have shown promise in creating more autonomous and efficient institutions that can serve local needs better.

**Karmakar (2011)** argued that rural financial institutions must be context-specific, participatory, and community-driven. He emphasized that member-owned institutions, such as cooperative credit societies, play a vital role in promoting inclusive development by providing accessible credit and financial literacy.

**Sharma and Kukreja (2013)** studied financial inclusion and observed that technological advancement and institutional innovation are necessary for inclusive finance. They acknowledged the growing relevance of state-level federations in enabling structural reforms in cooperative finance.

**Basavaraju and Raju (2015)** examined the working of Souharda Cooperative Societies in Karnataka and noted that the legal flexibility under the Souharda Act enabled better governance, member participation, and financial discipline compared to traditional cooperatives. They also emphasized the supportive role of Karnataka Souharda Cooperative Federation in capacity-building and training.

**Chakrabarty (2011)**, a former Deputy Governor of the RBI, stressed the importance of financial inclusion in economic development and highlighted the need for multi-agency participation. He recognized cooperatives as a critical pillar alongside banks and microfinance institutions in achieving inclusive goals.

**NABARD (2019)** reports indicate that cooperatives still hold a strong presence in rural financial infrastructure, particularly in regions like Karnataka where alternative cooperative models like Souharda



are gaining traction. These models have enabled greater autonomy, minimized political interference, and improved operational efficiency.

### **3. Research Gap**

While many studies have focused on financial inclusion through banks and microfinance institutions, fewer have explored the unique cooperative frameworks such as the Karnataka Souharda Cooperative Federation. This study aims to bridge that gap by evaluating the Federation's role, institutional structure, and impact on inclusive growth across Karnataka.

### **4. Significance of the study**

The present study holds considerable significance as it explores the unique role of the Karnataka Souharda Cooperative Federation (KSCF) in promoting financial inclusion and grassroots empowerment. While financial inclusion has been widely studied in the context of commercial banks and microfinance institutions, limited attention has been paid to the contribution of cooperative federations operating under alternative legal frameworks. The Karnataka Souharda Sahakari Act, 1997 provides a distinct, autonomous structure that encourages transparency, member participation, and self-regulation. This research fills a critical gap by examining how such a legal and institutional model has enabled Souharda cooperatives to extend financial services to underserved and marginalised populations across the state.

Furthermore, the study offers practical relevance for policymakers, cooperative leaders, and financial institutions by highlighting the impact of KSCF's support systems, including training, monitoring, and capacity-building programs. It underscores how grassroots financial institutions, when empowered with autonomy and professional guidance, can effectively promote inclusive growth and local development. By identifying best practices and institutional strengths, the study not only contributes to the academic discourse on cooperative development but also provides a model that can be adapted or replicated in other regions striving for financial inclusion and decentralised economic progress.

### **5. Objectives of the Study**

1. To examine the role of Karnataka Souharda Cooperative Federation (KSCF) in promoting financial inclusion across rural and semi-urban areas of Karnataka.
2. To analyse the financial services and outreach mechanisms adopted by Souharda cooperatives to serve economically weaker and marginalised sections of society.



3. To identify the challenges faced by Souharda cooperative societies in achieving inclusive growth and financial empowerment.
4. To suggest policy recommendations and best practices for strengthening the role of cooperative federations in advancing inclusive and community-based financial systems.

## 6. Scope of the Study

This study focuses on the role of the Karnataka Souharda Cooperative Federation (KSCF) in promoting financial inclusion in Karnataka. It covers Souharda cooperative societies functioning under the Karnataka Souharda Sahakari Act, 1997, particularly in rural and semi-urban areas. The scope includes analysis of governance, financial services, outreach efforts, and training support provided by KSCF. The study is limited to recent developments and is based on secondary data and literature review.

## 7. Results and Discussion

### 7.1 The role of Karnataka Souharda Cooperative Federation (KSCF) in promoting financial inclusion across rural and semi-urban areas of Karnataka.

The Karnataka Souharda Cooperative Federation (KSCF) has played a pivotal role in expanding financial inclusion, particularly in rural and semi-urban Karnataka, by empowering Souharda Cooperative Societies with legal autonomy, capacity-building, and operational flexibility. As of March 31, 2024, there are 6,194 registered Souharda Cooperatives in Karnataka, collectively handling over ₹77,000 crore in total business, including ₹43,704 crore in deposits and ₹34,030 crore in advances. These cooperatives earned a total profit of ₹626 crore in the financial year 2023–24, highlighting their financial strength and deep community outreach (Indian Cooperative, 2024a).

Unlike conventional cooperatives governed by the Karnataka Cooperative Societies Act, 1959, Souharda Cooperatives are registered under the Karnataka Souharda Sahakari Act, 1997, which provides greater legal and administrative autonomy. This legal framework has enabled cooperative societies to function with professional governance, fewer political interferences, and greater financial transparency (Government of Karnataka, 1997).

KSCF has also invested heavily in training and monitoring activities. For example, it regularly conducts district-level training sessions for CEOs and directors of member cooperatives in areas such as audit compliance, digital recordkeeping, and financial governance—recent sessions were held in Bellary,



Chikkaballapur, Haveri, and Kolar districts (Indian Cooperative, 2024b). These initiatives not only ensure regulatory compliance but also equip cooperative leaders to better serve their communities with tailored financial products.

According to NABARD (2023), cooperatives in Karnataka—particularly those under the Souharda model have made significant contributions to financial inclusion by extending savings and credit services to women, small farmers, self-help groups, and informal workers, often excluded from the formal banking system. This grassroots approach, supported by KSCF's guidance, has helped reduce dependence on informal moneylenders and enabled local entrepreneurship and income generation.

In conclusion, backed by robust financial data and institutional support structures, the Karnataka Souharda Cooperative Federation has proven to be an effective vehicle for inclusive financial development in Karnataka's underserved regions.

## **7.2 The financial services and outreach mechanisms adopted by Souharda cooperatives to serve economically weaker and marginalised sections of society.**

The Souharda Cooperative movement in Karnataka has significantly enhanced financial access for marginalized communities by offering inclusive and tailored financial services. As of March 31, 2024, there were 6,194 Souharda cooperatives in Karnataka, managing total business of ₹77,000 crore, including ₹43,704 crore in deposits and ₹34,030 crore in loans. These cooperatives also earned a profit of ₹626 crore, maintained reserves of ₹3,690 crore, and operated 1,631 e-stamping centers that facilitate secure documentation, benefiting members across diverse communities, including rural self-help groups, women, and small-scale entrepreneurs.

Several Souharda societies have implemented innovative outreach mechanisms. For instance, Pavagada Souharda Multipurpose Cooperative Society, a prominent Souharda cooperative, reported a business turnover of ₹477 crore and a net profit of ₹6.49 crore as of March 31, 2025. It has expanded its services to include unsecured and secured loans of up to ₹1 lakh and ₹4 crore respectively, targeted outreach to women with 33% of its workforce being women, and active CSR initiatives such as health camps, food distribution, and support to orphanages, all of which extend its outreach to vulnerable and underserved communities. To provide financial services to the people of the rural areas during the crisis of the Corona epidemic, the youth, in a village called Kudibailu that saw no asphalted road, joined together and formed the organisation 'Shantiniketana Souharda Sahakari Kudibailu Kucchuru Hebri Taluk Udipi District' and have been providing good financial services.



Moreover, Arivinamane Souharda Sahakari Sangha (AMSCOS) exemplifies digital and community-centric outreach by offering member-specific financial services such as savings, fixed deposits, loans, recurring deposits, and farmer-friendly “Siri Samruddi” loans, alongside financial literacy and entrepreneurship workshops in regions like Kadur and Tumkur. These services are a direct effort to uplift rural entrepreneurs and marginalized members through both financial access and education.

Souharda cooperative societies in Karnataka confront several regulatory and legal hurdles. As reported, over 1,000 cooperatives received income tax notices despite Section 80P of the Income Tax Act exempting credit cooperatives from taxation (2018), illustrating persistent compliance burdens and uncertainty around tax treatment in Indian. European states deeply scrutinised governance. Minister Rajanna even suggested abolishing the Souharda Federation, citing poor governance and placing roughly 1,500 societies on the verge of closure. Worsening the situation, corruption and depositor mismanagement triggered widespread protests when the Kittur Rani Channamma Urban Credit Souharda Cooperative failed to return crores of rupees, severely undermining public trust.

Operational sustainability issues also loom large. While not specific to Souharda alone, a staggering 34.7% of Karnataka’s cooperatives operate at a loss, signalling pervasive financial instability within the sector. Such financial vulnerabilities, paired with inefficient management and governance frameworks, impede the capacity of these cooperatives to serve marginalised communities effectively. Moreover, the Souharda Act mandates autonomy, prohibiting direct government loans or subsidies. This structural independence, while beneficial for self-governance, leaves most societies grappling with limited capital access when aiming to expand or sustain outreach efforts to weaker segments.

### **7.3 The challenges faced by Souharda cooperative societies in achieving inclusive growth and financial empowerment.**

While Souharda cooperative societies have made notable contributions toward financial inclusion in Karnataka, they face several critical challenges that hinder their capacity to fully achieve inclusive growth and empower economically weaker communities.

#### **1. Regulatory and Legal Challenges**

Despite being formed under a separate legal framework (Karnataka Souharda Sahakari Act, 1997), Souharda cooperatives often face ambiguities in regulatory oversight, particularly with regard to income tax compliance. Although Section 80P of the Income Tax Act exempts cooperatives from taxation, more



than 1,000 Souharda societies received IT notices in 2018–19, creating confusion and financial burden (Indian Cooperative, 2024).

## 2. Governance and Political Interference

Several societies face allegations of mismanagement and poor governance, which affect their credibility. The recent protest by hundreds of women depositors against Kittur Rani Channamma Urban Souharda Credit Co-op Society in Bailhongal (Belagavi district), for failing to return public deposits, highlights serious trust and transparency issues (Times of India, 2024). Political discussions around disbanding or weakening the Souharda structure, as raised by some state leaders, further contribute to institutional instability (Indian Cooperative, 2024).

## 3. Financial and Operational Vulnerability

According to the Karnataka Cooperation Department, 34.7% of cooperative societies in Karnataka operate at a loss, indicating financial weakness within a significant portion of the sector (Indian Cooperative, 2023). Souharda cooperatives, which do not receive direct government funding or subsidies, often struggle with capital inadequacy, especially when expanding outreach to rural and underserved populations.

## 4. Lack of Digital Infrastructure and Skilled Workforce

Many small and medium-sized Souharda cooperatives lack access to modern IT systems for digital banking, real-time monitoring, and customer service. There is also a shortage of professionally trained staff, particularly in remote regions, which affects efficiency and member engagement.

The challenges faced by Souharda cooperatives—ranging from legal uncertainty and governance issues to financial constraints and capacity gaps—pose serious limitations to their mission of inclusive development. Addressing these issues through policy clarity, financial support mechanisms, stronger audit systems, and digital modernization is essential to enhance the long-term sustainability and public trust in Souharda cooperatives.

## 8. Policy Recommendations

1. **National Cooperative Policy Framework:** A unified national policy is essential to streamline cooperative functioning and support inclusive growth. The Government of India launched the



National Cooperative Policy (2025–2045) to expand PACS, foster digitisation, and encourage multi-sectoral cooperatives.

2. **Access to Capital and Funding Reform:** Currently, Souharda cooperatives operate without access to direct government subsidies. Introducing collateral-free loan schemes like the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) could improve outreach to the financially excluded.
3. **Digitisation and Professional Capacity Building:** Digital tools, core banking systems, and training can enhance governance. The Reserve Bank of India supports digitisation and modernisation in cooperative banking (Agriculture Institute, 2025). Collaborations with Common Service Centres (CSCs) may also help extend rural financial services.
4. **Protecting Democratic Autonomy:** Recent legal proposals in Karnataka threatened cooperative autonomy by allowing voting rights for government nominees and defaulters. These were rightfully returned for revision by the Governor, upholding the democratic ethos of cooperatives.
5. **Financial Literacy and Member Engagement:** Financial education is key to sustainable inclusion. The Self-Employed Women's Association (SEWA) cooperative model illustrates how grassroots education and member-driven approaches can succeed in empowering marginalised populations.
6. **Diversified Services and Multi-Purpose Outlets:** Adopting a multi-service model, similar to the expansion of PACS at the panchayat level announced by the Union Ministry of Cooperation, can improve cooperative viability and outreach.

## 9. Conclusion

The Karnataka Souharda Cooperative Federation (KSCF) has emerged as a pioneering institution in promoting financial inclusion by offering member-centric, democratically governed financial services across rural and semi-urban Karnataka. This study demonstrates that Souharda cooperatives have played a significant role in extending banking and credit services to economically weaker and marginalized communities, helping bridge the financial access gap left by mainstream banks. Their innovative outreach mechanisms, such as group lending models and localized governance structures, have enabled grassroots participation and economic empowerment. Despite limited government support, many Souharda societies have shown resilience and self-sufficiency, underscoring the potential of community-based financial systems in advancing inclusive growth.



However, the sector also faces substantial challenges, including regulatory ambiguity, weak governance in some societies, lack of professional capacity, and insufficient technological adoption. These barriers limit the scalability and impact of Souharda cooperatives, especially in remote and underbanked areas. For these institutions to realize their full potential, policy support must focus on strengthening legal protections, expanding access to funding and digital tools, and building capacity through professional training and member education. Strengthening federations like KSCF is not only essential for deepening financial inclusion but also for realizing broader socio-economic goals through cooperative-based development models.

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