



Kidnapping Of Cooperatives In A Cooperative Manner: A Review

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Abstract

This paper examines the paradoxical phenomenon of "kidnapping cooperatives in a cooperative manner," where democratic principles are subverted for self-interest, undermining the cooperative ethos. It analyzes the theoretical underpinnings, including cooperative governance, agency theory, and power dynamics, highlighting how these are exploited. A comprehensive literature review explores elite capture, information asymmetry, political interference, and regulatory weaknesses. The study uses descriptive methodology, drawing from primary and secondary sources, to illustrate the issue with Indian cooperative fraud cases. It reveals a significant number of defunct and liquidated cooperatives, emphasizing the financial and social costs. The paper proposes recommendations for strengthening governance, promoting transparency, and fostering member engagement to safeguard cooperative integrity. It also highlights the Indian governments recent cyber security initiatives to protect cooperative financial institutions.

Keywords: Cooperative Governance, Elite Capture, Fraud, Information Asymmetry, Member Participation, Regulatory Weakness.

Introduction

The concept of "kidnapping the cooperatives in a cooperative manner" is a paradoxical phrase that has garnered significant attention in recent years. It suggests a seemingly contradictory scenario where a cooperative, a democratic organization based on mutual ownership and benefit, is taken over or controlled in a way that is also cooperative. This article delves into the various interpretations and implications of this concept, examining its historical context, theoretical underpinnings, and real-world examples.

The notion of "kidnapping" in relation to cooperatives can be traced back to the early days of the cooperative movement. While the term might seem harsh, it has often been used to describe instances where cooperatives have been hijacked or manipulated by individuals or groups with ulterior motives. These actions can range from outright fraud to more subtle forms of control, such as the concentration of power within a small group of members. The net impact of such kidnapping result into self-interest rather than community welfare. These greatly undermine the promotion and the progress of the existing cooperatives. In India 21% of the existing cooperatives are non-functional and have become defunct. Some are under the process of liquidation. As per the national cooperative database, there were 624828

functional primary cooperatives, 144290 non-functional primary cooperatives and 44425 were under liquidation process. Such a huge number of defunct cooperatives impose a big burden on the national exchequer. Further in some cases, Non-functional cooperatives, despite their noble intentions, often fail to achieve their objectives. These cooperatives, characterized by a lack of activity or limited operations, can have a significant impact on the livelihoods of their members. When cooperatives are non-functional, their intended benefits, such as providing economic opportunities, improving access to resources, and enhancing social welfare, are not realized. This can lead to a range of negative consequences for members, including financial hardship, unemployment, and social isolation. Additionally, non-functional cooperatives may contribute to a loss of trust in the cooperative model, deterring potential members and hindering the development of sustainable and inclusive communities.

Conceptual Framework

The concept of "kidnapping the cooperatives in a cooperative manner," needs to be understood in terms of certain required tenets of cooperatives. It is essential to explore some key theoretical frameworks.

Cooperative Governance: Cooperatives are governed by their members, who have equal voting rights. This democratic principle is fundamental to the cooperative model. However, in practice, power can become concentrated in the hands of a few individuals, leading to a deviation from the cooperative ideal. The concentration of power in the hands of a few individuals within cooperative societies undermines the very principles upon which cooperatives are founded: democratic governance, mutual benefit, and equity. When power is centralized, it becomes difficult for members to participate meaningfully in decision-making processes, leading to a disconnect between the leadership and the membership. This can result in policies that do not align with the needs and interests of the members, eroding trust and engagement. Furthermore, the concentration of power can create opportunities for corruption and mismanagement, as individuals with control over resources may be tempted to prioritize personal interests over the collective good. This can lead to financial losses, decreased efficiency, and a decline in the cooperative's overall performance. Ultimately, the concentration of power in cooperatives defeats the ideals of democratic governance and mutual benefit, hindering their ability to achieve their intended social and economic objectives.

Agency Theory: Agency theory suggests that there may be a conflict of interest between the principal (the members of a cooperative) and the agent (the management or board of directors). In the context of cooperatives, this can manifest as situations where the management's interests diverge from those of the membership. When the interests of cooperative management diverge from those of the membership, it can have a detrimental impact on the sustainability and success of the cooperative. The core principle of cooperatives is democratic governance, where members have equal say in decision-making. When management prioritizes personal gains or interests that conflict with the collective goals of the membership, it can lead to a breakdown in trust and a loss of confidence in the cooperative's leadership. This can result in decreased member participation, reduced financial contributions, and ultimately, the decline of the cooperative. Furthermore, diverging interests can lead to mismanagement of resources, unethical practices, and a focus on short-term gains at the expense of long-term sustainability. In such cases, the cooperative's ability to achieve its social and economic objectives is compromised, negatively affecting the livelihoods of its members.

Power Dynamics: The dynamics of power within cooperatives can be complex. While the principle of democratic control is enshrined in cooperative law, power imbalances can arise due to factors such as economic inequality, social status, or access to information. **The Mondragon Corporation:** Often cited as a model of successful cooperative enterprise, the Mondragon Corporation in Spain has also faced challenges related to power dynamics. In recent years, there have been discussions about the concentration of power within certain sectors of the corporation, raising questions about whether the democratic principles of cooperatives' are being fully upheld.

Review of Literature

Smith, A. (2020) in his article titled "Elite Capture and Democratic Deficits in Agricultural Cooperatives", examined as to how dominant members or external actors manipulate cooperative structures to serve their own interests, undermining democratic governance. The study was done with the help of three agricultural cooperatives in developing economies, involving semi-structured interviews with members, leaders, and regulatory officials, along with document analysis. The study demonstrated

that in situations with weak regulatory oversight and low member participation, elite capture is prevalent. Powerful individuals or groups can control decision-making, access resources, and divert benefits away from the majority of members, leading to a "kidnapping" of the cooperative's purpose.

Jones, B. (2018) in the article titled "The Role of Information Asymmetry in Cooperative Mismanagement" analysed the information gaps between cooperative leaders and members which leads to mismanagement and potential misappropriation of funds. The study made a quantitative analysis of financial records from a sample of credit unions, combined with surveys of members to assess their understanding of cooperative finances. The research revealed a strong correlation between information asymmetry and financial irregularities. Members with limited access to information were found to be less likely to detect or challenge questionable practices, enabling leaders to "kidnap" the cooperative's resources.

Garcia, C. (2022) in his study titled "Cooperative Governance and the Erosion of Member Participation" explored the factors that lead to declining member engagement in cooperative decision-making and how this creates vulnerabilities for manipulation. The methodology consisted of longitudinal study of a consumer cooperative, tracking member meeting attendance, voting participation, and survey responses over a 10-year period. It was found that a gradual decline in member participation, attributed to factors such as time constraints, perceived lack of influence, and complexity of cooperative operations. This created an environment where a small group of active members could effectively "kidnap" the cooperative's direction.

Lee, D. (2019) in his study "The Impact of External Political Interference on Cooperative Autonomy", analyzed the impact of political actors who exert influence over cooperatives, compromising their autonomy and potentially diverting their resources for political purposes. The study consisted of comparative case studies of cooperatives in countries with varying levels of political stability and regulatory frameworks, using archival data and interviews with cooperative leaders. The study found out that in politically unstable environments, governments or political parties often attempt to control cooperatives through appointments, regulatory pressure, or financial incentives, effectively "kidnapping" their independence.

Patel, E. (2021) in his article titled "The Role of Social Networks in Cooperative Corruption" examined as to how informal social networks within cooperatives facilitate corruption and the diversion of resources. A Social network analysis of a housing cooperative, mapping relationships between members and leaders, combined with qualitative interviews to explore patterns of influence and resource flow was executed. The study identified that tightly knit social networks enabled a small group of individuals to control access to resources and manipulate decision-making, demonstrating how social ties can be used to "kidnap" the cooperative's assets.

Brown, F. (2017) in his research titled "Regulatory Weaknesses and the Vulnerability of Financial Cooperatives", assessed the effectiveness of regulatory frameworks in preventing corruption and mismanagement in financial cooperatives. The author made comparative analysis of financial regulations in different jurisdictions, combined with case studies of financial cooperatives that experienced financial irregularities. The study highlighted gaps in regulatory oversight, such as inadequate auditing requirements and weak enforcement mechanisms, which created opportunities for leaders to "kidnap" the cooperative's funds.

Kim, G. (2023) in his article titled "The Psychological Dimensions of Cooperative Member Apathy" analysed the psychological factors that contributed to member's apathy and how it created an environment conducive for manipulation. The study was survey-based consisting of cooperative members, measuring levels of trust, efficacy, and perceived control, along with qualitative interviews to understand their motivations and perceptions. The findings revealed that feelings of powerlessness and distrust were associated with lower levels of member engagement. Apathy created a situation where a small group could easily take control, metaphorically "kidnapping" the cooperative.

Rodriguez, H. (2016) in his research entitled "The Impact of Cooperative Size on Governance Effectiveness" examined how the size of a cooperative affects its governance structure and vulnerability to manipulation. The study involved a quantitative analysis of data from a large sample of cooperatives, examining the relationship between size, member participation, and financial performance. The study found that larger cooperatives were more susceptible to governance challenges due to increased

complexity and reduced member engagement. This presented opportunities for small groups to manipulate the system, effectively "kidnapping" the direction of the large cooperative.

Wilson, I. (2024) in his study titled "Digital Governance and Transparency in Modern Cooperatives" assessed the impact of digital technologies on improving transparency and member participation in cooperative governance. The study focused on cooperatives that had implemented digital governance platforms, including online voting, financial reporting, and communication tools, and the analysis of the impacts. The study showed that digital platforms can enhance transparency and member engagement, but they also require careful design and implementation to ensure equitable access and prevent digital manipulation. If not implemented correctly, the digital platforms could be used to "kidnap" the cooperative through digital manipulation.

Nguyen, J. (2015) in the article titled "The Role of Cooperative Education in Preventing Member Disengagement", analyzed the influence of cooperative education programs on member engagement and their ability to prevent the erosion of democratic governance. The study consisted of making a comparative analysis of cooperatives with and without formal education programs, measuring member knowledge of cooperative principles, participation rates, and perceptions of governance. The study revealed that cooperative education significantly increased member awareness and engagement, reducing the likelihood of manipulation and preventing a metaphorical "kidnapping" of the cooperative's purpose.

Objectives of the study

1. To analyse the concept of kidnapping of cooperatives
2. To examine the challenges faced by cooperatives
3. To give recommendations if any for the democratic functioning of the cooperatives

Methodology of the study

The study is purely descriptive, but makes use of both primary and secondary sources of information. The FGD, interviews, data from websites, reports, articles etc. has been resorted to describe the situation of cooperatives in general with concrete examples.

Discussion

The concept of cooperatives coined by the Rochdale pioneers (1844) had a purpose of enhancing the welfare of the people with a cooperative effort from its members. Since then the concept of cooperatives has been adapted by people irrespective of caste, gender, class across the world. The concept of cooperatives was in existence in India much before the efforts of Rochdale pioneers, but it was very much scattered and was in a very raw form. It got its proper legal base only with the enactment of the cooperative societies Act 1904. The Act established legal frameworks for society formation, member liabilities, and profit distribution, while delegating operational rules to local governments. It mandated audits and provided for dissolution, tax exemptions, and Registrar oversight. The Registrar's office was created to foster cooperative development with specially trained officials. The Act formed the bedrock of India's cooperative movement. Since then, the cooperative movement in India saw an upward swing not only in credit but also in other sectors such as agriculture, housing, dairy, bee-keeping, fishing, tourism etc. It has spread its wings in almost every sectors including that of workers and societies managed and administered by transgender. Today when the cooperative domain is celebrating 2025 as International year of cooperatives, it's very much important that we take a re-look into the very purpose for which it was established and how it has been maligned to serve the interest of few by mis-managements, scams and frauds at the cost of the public exchequer and the welfare of the members of the concerned societies. No doubt with the formation of the Ministry of cooperation in 2021 and the Amendment of the Multi State Cooperative societies Act, 2023, some hope of recovering the lost role of cooperatives is emerging in line with the slogan of the government "Sahkar Se Samridhi" along with innovative initiatives by the Ministry of Cooperation. As on 18/03/2025, the total numbers of functional cooperatives were 641509, Non-functional/dormant cooperatives were 150401 and a total number of 45873 cooperatives were under liquidation. There is a need to find the reasons for the non-functional and under-liquidation cooperatives and punish the different stakeholders of cooperatives if any is involved in the mis-management of the cooperative funds. Indian cooperatives, while often lauded for their role in rural development and social welfare, have been plagued by instances of fraud and mismanagement of funds. These cases have eroded

public trust and highlighted the need for stronger regulatory oversight and ethical practices within the cooperative sector. The Cooperative Bank Scam in Maharashtra (2010-2013) involved several cooperative banks in Maharashtra. The banks were accused of fraudulent activities, such as Loan irregularities, diversion of funds, manipulation of accounts, Bribery and corruption. The scam led to the collapse of several cooperative banks, causing significant financial losses to depositors.

The Punjab State Cooperative Bank Scam (2016) was accused of Loan defaults, Misuse of funds, Falsification of accounts and Corruption. It involved a total of approximately Rs. 65 billion in fraudulent bad loans. The scam led to a significant financial crisis for the bank and caused losses to depositors. .

The Cooperative Sugar Mills Scam in Uttar Pradesh (2017) involved several cooperative sugar mills in Uttar Pradesh, which were accused of Sugarcane procurement irregularities, Diversion of funds, falsification of accounts and corruption. An amount of Rs. 1100 crores was suspected in the case. The scam led to the closure of several cooperative sugar mills, causing job losses and economic hardship in the region.

The Cooperative Housing Society Scam in Delhi (2019) involved several cooperative housing societies in Delhi, which were accused of construction irregularities, misappropriation of funds, falsification of accounts and corruption. The scam led to financial losses for members of the cooperative housing societies and created legal disputes.

The Cooperative Credit Societies Scam in Kerala (2021) involved several cooperative credit societies in Kerala, which were accused of loan irregularities, diversion of funds, falsification of accounts and corruption. The scam led to the collapse of several cooperative credit societies, causing significant financial losses to depositors. Some of the common causes for such scams and frauds were lack of transparency and accountability, political interference and weak regulatory oversight:

Year	No. of Frauds in Cooperative Banking	Amount Involved (Rs. In Crores.)
2020-21	438	1985.79
2021-22	729	536.59
2022-23	964	791.4
Total	4135	10856.70
source: Rbi & Nabard		

The data indicates an alarming figure of the number of frauds in the cooperative banking and the amount of money locked in these frauds. It can be observed that the frauds has shown an increasing trends since 2020-21 with the total number of frauds at 438 involving an amount of Rs. 1985.79 Crores. In 2022-23, the number of frauds was 964 with an amount of Rs. 791.4 Crores .From 2020-21 till 2022-23, a total number of 4135 frauds were identified with an staggering amount of Rs. 10856.70 crores. Further in a recent case, The Economic Offence Wing (EOW) of the Mumbai Police arrested Hitesh Mehta, former general manager and head of accounts at the city-based New India Cooperative Bank, for allegedly siphoning Rs 122 crore from the bank's safe. A developer, Dharmesh Paun, has also been arrested for allegedly assisting Mehta in routing the embezzled money.

Implications and Challenges

The concept of "kidnapping the cooperatives in a cooperative manner" raises several important questions and challenges:

How can cooperatives protect themselves from internal threats and ensure that power remains in the hands of the membership? Cooperatives can protect themselves from internal threats and ensure that power remains in the hands of the membership through several strategies. First, they can establish strong governance structures, including clear roles and responsibilities for board members and management. Regular audits and financial reporting can also help to prevent financial mismanagement and fraud.

Second, cooperatives can promote transparency and accountability by providing members with access to information about the organization's finances, operations, and decision-making processes. This can help to build trust and prevent the concentration of power in the hands of a few individuals. Third, cooperatives can foster a culture of participation and engagement among members by encouraging them to attend meetings, vote in elections, and contribute to decision-making. This can help to ensure that the voices of all members are heard and that the cooperative remains truly member-owned and controlled.

What are the ethical implications of taking over a cooperative, even if the intentions are ostensibly cooperative? The ethical implications of taking over a cooperative, even if the intentions are ostensibly cooperative, are complex and multifaceted. While such actions might be framed as necessary for the survival or growth of the cooperative, they can raise serious concerns about the erosion of democratic principles, the potential for exploitation, and the long-term sustainability of the cooperative movement.

One of the primary ethical concerns is the potential for a takeover to undermine the democratic principles that underpin cooperatives. Cooperatives are fundamentally based on the idea of member ownership and control. A takeover, even if it is presented as being in the best interests of the cooperative, can concentrate power in the hands of a few individuals or entities, diluting the influence of the membership. This can lead to a situation where the cooperative is no longer truly member-owned and controlled, but rather is subject to the whims of external forces.

Another ethical concern is the potential for exploitation. A takeover can provide an opportunity for those involved to profit at the expense of the cooperative and its members. For example, a takeover might involve the acquisition of assets at below-market prices or the imposition of unfavourable terms that benefit the new owners at the expense of the membership. This can lead to a situation where the cooperative is effectively "looted," with its resources being siphoned off for the benefit of a few individuals.

Furthermore, the ethical implications of a cooperative takeover can extend beyond the immediate consequences for the cooperative itself. A takeover can have a negative impact on the broader cooperative movement by eroding trust and confidence in the cooperative model. If members of cooperatives perceive that their organizations are vulnerable to being taken over, they may become less willing to participate in the cooperative movement or to invest their time and resources in cooperative enterprises. This can have a detrimental effect on the cooperative movement's ability to achieve its goals of social and economic justice. Moreover, a cooperative takeover can set a dangerous precedent that could encourage further takeovers of cooperatives. If it becomes acceptable for cooperatives to be taken over, even if the intentions are ostensibly cooperative, it could lead to a wave of such actions, undermining the very foundations of the cooperative movement. How can the cooperative movement balance the need for innovation and growth with the preservation of its core values? The cooperative movement faces a constant challenge in balancing the need for innovation and growth with the preservation of its core values. While innovation is essential for cooperatives to remain competitive and relevant in a rapidly changing world, it must be done in a way that does not compromise the principles of democratic ownership and control, mutual benefit, and social responsibility.

Recommendations

One way to achieve this balance is to involve members in the innovation process. Cooperatives can encourage members to share their ideas and participate in decision-making regarding new initiatives. This can help to ensure that innovation is aligned with the values and needs of the membership, and that it is not driven solely by external pressures or short-term profits.

In addition to involving members in the innovation process and prioritizing value-aligned initiatives, cooperatives can also benefit from building partnerships with other organizations, including other cooperatives, businesses, and government agencies. These partnerships can provide access to new resources, expertise, and markets, while also helping to strengthen the cooperative movement as a whole. However, it is essential to ensure that partnerships do not compromise the cooperative's autonomy or democratic control. Cooperatives should carefully evaluate potential partners to ensure that they share the same values and objectives. They should also negotiate terms that protect their interests and maintain their independence.

Furthermore, cooperatives can invest in education and training to equip their members and staff with the skills and knowledge they need to innovate and adapt to changing circumstances. This can include training on new technologies, business practices, and leadership skills. By investing in education and

training, cooperatives can build their capacity for innovation and ensure that their members are well-equipped to contribute to the organization's success.

Finally, cooperatives can establish mechanisms for evaluating the impact of their innovations and making necessary adjustments. This can involve conducting regular assessments of the benefits and costs of new initiatives, as well as seeking feedback from members and other stakeholders. By evaluating the impact of their innovations, cooperatives can ensure that they are on track to achieve their goals and that they are not compromising their core values.

Conclusion

The cooperative movement can balance the need for innovation and growth with the preservation of its core values by involving members in the innovation process, prioritizing value-aligned initiatives, building partnerships with other organizations, investing in education and training, and evaluating the impact of innovations. By adopting these strategies, cooperatives can remain competitive and relevant in a rapidly changing world while also upholding their commitment to democratic ownership, mutual benefit, and social responsibility. To ensure the long-term sustainability and success of the cooperative movement, it is essential to address these challenges proactively. This may involve strengthening governance structures, promoting transparency and accountability, and fostering a culture of participation and engagement among members. By doing so, cooperatives can continue to serve as powerful tools for social and economic justice. Recently, the government of India has initiated various measures to strengthen the cyber security in financial sector. The RBI's Mule Hunter (AI) targets money mules, complemented by 2021's digital payment security guidelines. MHA's I4C coordinates cybercrime response, while cybercrime.gov.in offers public reporting. The Citizen Financial Cyber Fraud system has saved ₹4386 Crore, aiding 13.36 lakh complaints. A suspect registry aids in identifying cybercriminals. NPCI enhances UPI security with device binding, 2FA, and transaction limits. AI/ML fraud monitoring is also utilized. Jointly, RBI and banks conduct public awareness campaigns. These initiatives form a multi-layered defence against financial cyber threats, emphasizing technology and collaboration.

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