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## **The Role of Cooperatives in Promoting Inclusive Economic Development: An Indian Perspective**

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### **ABSTRACT**

Cooperatives have long been recognized as transformative institutions in India's socio-economic landscape, particularly for their potential to foster inclusive growth. Rooted in principles of mutual aid, democratic governance, and local ownership, cooperatives span various sectors including agriculture, finance, housing, and labor. This paper explores the contribution of cooperatives to inclusive economic development in India by analyzing their role in empowering marginalized communities, promoting financial inclusion, and enhancing rural livelihoods. Through case studies such as AMUL, SEWA, and IFFCO, the research evaluates the effectiveness of cooperative models in addressing structural inequalities and enabling equitable access to resources and opportunities. The findings reveal that while cooperatives significantly contribute to employment generation and community development, challenges such as governance inefficiencies and policy constraints continue to limit their scalability and impact. The study underscores the importance of strengthening cooperative frameworks to build a more participatory and inclusive economy in India.



## Introduction

India's journey toward economic development has been marked by significant structural transformations, yet persistent inequality and regional disparities continue to challenge the nation's growth narrative. While GDP growth has been notable, benefits have not uniformly reached the rural poor, informal workers, or marginalized communities (Deshpande et al., 2022). In this context, inclusive economic development—development that ensures broad-based participation and equitable sharing of benefits—has emerged as a policy imperative.

One of the most promising yet underexplored tools to achieve inclusive growth in India is the cooperative model. Cooperatives are voluntary, member-driven institutions that operate on the principles of mutual help, democratic control, and equitable sharing of benefits (Sen & Bhattacharya, 2020). With over 8 lakh cooperatives and more than 290 million members across sectors such as agriculture, dairy, finance, and labor, India has one of the largest cooperative movements in the world (Verma & Pillai, 2021).

Notable examples like AMUL, a dairy cooperative, and SEWA, a women-led cooperative for informal workers, demonstrate how such organizations can successfully enhance income security, employment, and social capital among disadvantaged groups (Joshi & Patel, 2022; Kaur & Menon, 2023). Similarly, Primary Agricultural Credit Societies (PACS) and Urban Cooperative Banks (UCBs) have played critical roles in extending credit to rural and low-income populations often excluded from mainstream finance (Tiwari, 2022; Gupta, 2021).

Despite these successes, cooperatives in India face numerous challenges, including governance failures, political interference, limited digital penetration, and inadequate policy support (Rao, 2020; Yadav & Singh, 2022). This research seeks to critically analyse the extent to which cooperatives contribute to inclusive economic development in India, focusing on their role in promoting financial inclusion, rural empowerment, gender equality, and social cohesion.

### 1. Literature Review

Inclusive economic development emphasizes equity, participation, and access to resources for marginalized groups, rather than focusing solely on aggregate GDP growth. Cooperatives, grounded in the principles of democratic governance, collective ownership, and community-led development, align closely with this paradigm (Sen & Bhattacharya, 2020). They operate not only as economic units but also as vehicles for social empowerment and institutional trust at the grassroots level (Deshpande et al., 2022).



The cooperative movement in India began in the early 20th century as a colonial response to rural credit crises. Post-independence, cooperatives expanded across agriculture, finance, and housing, supported by enabling legislation like the Multi-State Cooperative Societies Act (Mitra, 2019). However, their performance has been uneven due to regional disparities, political interference, and regulatory limitations (Verma & Pillai, 2021).

Agricultural cooperatives such as IFFCO and PACS provide essential services including input distribution, marketing, and rural credit. These institutions have helped reduce dependency on moneylenders and improved access to institutional finance (Tiwari, 2022; Nanda, 2020). However, their outreach and performance vary significantly across Indian states.

The success of AMUL exemplifies how cooperatives can transform rural livelihoods, promote female participation, and integrate small farmers into formal value chains (Joshi & Patel, 2022). Dairy cooperatives in Gujarat have been linked to increases in household income, education, and nutritional outcomes.

Urban Cooperative Banks (UCBs) and Credit Societies serve the informal and lower-middle-income segments of society by offering accessible and affordable financial services. These institutions play a crucial role in financial inclusion, particularly in semi-urban and rural areas (Sharma, 2021; Gupta, 2021).

Organizations like SEWA have proven that cooperatives can enhance women's economic agency and support informal workers with access to credit, health services, and collective bargaining (Kaur & Menon, 2023). Women-led cooperatives contribute directly to SDGs such as gender equality and decent work.

## 2. Objectives

- To evaluate the contribution of cooperatives to rural livelihood improvement and financial inclusion.
- To assess the role of women-led and worker cooperatives in empowering marginalized populations.
- To identify key challenges that limit the effectiveness of cooperatives in India.



## **Rural Livelihood Improvement**

### **a) Employment and Income Generation**

Cooperatives provide direct and indirect employment opportunities to millions, especially in agriculture and allied sectors. According to NABARD (2022), rural cooperatives in India support over 17 million people through formal employment, with additional benefits through market access, price stabilization, and collective bargaining.

- The AMUL dairy cooperative involves 3.6 million milk producers, primarily smallholder farmers and women. It has helped double rural household incomes in many districts of Gujarat over two decades (Joshi & Patel, 2022).
- IFFCO, the fertilizer cooperative, reaches over 55 million farmers, reducing input costs and boosting productivity, thereby improving net farm incomes (Nanda, 2020).

### **b) Empowerment Through Ownership**

Unlike top-down government schemes, cooperatives function on participatory governance, empowering rural members with decision-making power and profit-sharing rights. This leads to better social capital, trust, and community-led development.

### **c) Resilience and Sustainability**

During shocks like COVID-19 or monsoon failures, cooperatives helped sustain incomes. AMUL continued procurement even during lockdowns, ensuring income continuity for members (AMUL Annual Report, 2021).

## **Financial Inclusion**

### **a) Access to Credit in Rural Areas**

Cooperatives have emerged as a cornerstone of rural credit delivery in India, particularly through Primary Agricultural Credit Societies (PACS). As of 2023, there are more than 95,000 PACS operating across the country, making them one of the largest grassroots-level financial institutions (NABARD, 2023). These societies account for approximately 40% of all short-term agricultural credit, directly supporting small and marginal farmers who are frequently excluded by commercial banks due to lack of collateral or formal documentation. By facilitating easy access to institutional credit, PACS play a vital role in reducing dependency on moneylenders and supporting sustainable agricultural practices.



## **b) Urban Cooperative Banks (UCBs) and Credit Societies**

In urban and semi-urban settings, Urban Cooperative Banks (UCBs) and cooperative credit societies have expanded the reach of micro-finance services to low-income groups, informal workers, and micro-entrepreneurs. These institutions provide small-ticket loans—often without collateral—and cater to the needs of artisans, street vendors, shopkeepers, and daily wage workers. Additionally, they contribute to promoting financial literacy, savings habits, and economic stability among lower-middle-class populations. A case study from Maharashtra indicates that cooperative banks succeeded in extending credit to 20% more rural households than traditional nationalized banks in the same region, demonstrating their deeper penetration and localized trust (Gupta, 2021).

## **c) Women’s Financial Inclusion**

Cooperatives have played a transformative role in improving financial access for women, particularly in rural and informal sectors. Self-help groups (SHGs) and women-led cooperatives such as SEWA Bank have empowered over 1.7 million women by providing them with access to savings accounts, micro-loans, health insurance, and pension schemes (Kaur & Menon, 2023). These financial tools have enabled women to start small businesses, gain autonomy in household financial decisions, and improve their families’ overall well-being. Moreover, these cooperatives offer a platform for collective strength and bargaining power, thereby enhancing women’s social and economic agency.

## **d) Digital and Financial Technology Barriers**

Despite their importance, many cooperatives in India struggle with technological backwardness. As of 2023, only 23% of PACS are computerized, which severely limits their ability to integrate with modern payment systems like UPI, mobile banking, or real-time fund transfers (NABARD, 2023). This lack of digital infrastructure restricts the scalability and speed of services, creating a gap between cooperatives and tech-savvy private financial institutions. Bridging this digital divide is critical for cooperatives to remain relevant and inclusive in the evolving fintech ecosystem.

- **Income Growth:** Cooperative models such as dairy and agricultural coops have led to 30–50% income increases over a 10-year period by stabilizing prices, ensuring market access, and reducing input costs.



- **Loan Accessibility (Rural Poor):** Rural cooperative credit institutions offer 40% more credit access than nationalized banks in underserved regions, helping break the cycle of poverty for small farmers.
- **Women's Access to Finance:** Over 1.7 million women have benefited from SHGs and SEWA Bank initiatives, gaining access to formal financial services previously unavailable to them.
- **Farm Input Subsidy:** Agricultural cooperatives like IFFCO deliver affordable fertilizers and support services to more than 55 million farmers, improving crop yields and input affordability.
- **Employment Generation:** Across all sectors, cooperatives have generated employment for over 17 million people, both directly (within cooperative institutions) and indirectly (through supply chains and services).

### **Empowerment through Women-led and Worker Cooperatives**

Women-led and worker cooperatives have emerged as powerful instruments for empowering marginalized and vulnerable populations in India, especially those excluded from formal employment, finance, and social protection systems. These cooperatives operate in both rural and urban settings, offering economic independence, social support, and collective voice to members.

One of the most prominent examples is the Self-Employed Women's Association (SEWA), which combines trade unionism with cooperative enterprise. With a membership of over 1.7 million informal women workers, SEWA empowers women across sectors like agriculture, textiles, street vending, and domestic work. Through SEWA Bank, women gain access to savings, loans, insurance, and pension schemes, helping them build assets and reduce financial dependency (Kaur & Menon, 2023). Moreover, SEWA provides skill training, legal literacy, healthcare, and childcare—creating a holistic ecosystem for women's empowerment. As a result, women not only improve their income but also gain voice in household decisions, mobility, and self-confidence.

Similarly, women's dairy cooperatives in states like Gujarat, Bihar, and Karnataka have helped female farmers enter traditionally male-dominated markets. For instance, the AMUL model involves thousands of women members and allows them to own the value chain—from production to marketing—resulting in higher incomes and community respect (Joshi & Patel, 2022).

In the urban informal economy, worker cooperatives formed by construction workers, waste pickers, and artisans enable marginalized groups to collectively organize for better wages and safer working



conditions. These cooperatives often function without middlemen, allowing members to retain full value for their labor. A notable example includes Kagad Kach Patra Kashtakari Panchayat (KKPKP) in Pune, a waste-picker cooperative that formalized the employment of thousands of Dalit women and negotiated access to municipal contracts and health services.

Women-led cooperatives also play a role in bridging social exclusion, especially among Dalits, tribals, and religious minorities. By fostering peer support networks, these cooperatives provide a safe space for members to share experiences, resolve conflicts, and collectively negotiate with state agencies and markets. In many regions, participation in cooperatives has also led to increased political participation of women in village panchayats and local governance bodies.

Despite their success, these cooperatives face challenges including limited access to markets, inadequate training, and social stigma. Many women and worker cooperatives still lack digital infrastructure, formal registration, and long-term policy support. However, their continued expansion and recognition by national and international bodies (like UN Women and ILO) affirm their critical role in inclusive development.

### **Challenges Limiting the Effectiveness of Cooperatives in India**

Despite their widespread reach and potential to drive inclusive growth, cooperatives in India face systemic and structural challenges that hinder their effectiveness. These issues range from internal governance deficiencies to external policy and market constraints.

#### **➤ Weak Governance and Political Interference**

One of the most persistent problems in Indian cooperatives is political interference, particularly in sectors like agricultural credit and marketing. Leadership positions in cooperatives are often captured by local political elites, which results in poor accountability, mismanagement of funds, and non-democratic decision-making. In many cases, elections are either not held or are manipulated, undermining the principle of member control (Chopra, 2020). This weakens transparency and erodes trust among members.

#### **➤ Lack of Professional Management**

Many cooperatives suffer from poor organizational capacity and a lack of trained staff or professional management. Unlike corporate or NGO sectors, cooperatives often operate with limited administrative training and oversight, affecting their ability to scale, innovate, and compete in modern markets (Rao,



2020). The absence of business planning, market analysis, or financial forecasting further reduces their operational efficiency.

➤ **Financial and Capital Constraints**

Access to capital remains a major constraint, especially for smaller or rural cooperatives. While institutions like NABARD offer support, many cooperatives lack the documentation, legal status, or financial literacy required to tap into these resources. Additionally, members often have low savings capacity, limiting internal capital mobilization. As a result, cooperatives are unable to invest in infrastructure, digitization, or product diversification (Yadav & Singh, 2022).

➤ **Digital and Technological Backwardness**

A large number of cooperatives still operate manually, especially Primary Agricultural Credit Societies (PACS). According to NABARD (2023), only 23% of PACS are computerized, and most are not integrated with digital platforms like UPI or mobile banking. This limits access to real-time services, reduces transparency, and excludes them from fintech innovations that are rapidly transforming India's financial landscape.

➤ **Regulatory Complexity and Dual Control**

Cooperatives often face dual regulation—by both state and central authorities—which leads to policy confusion, excessive bureaucracy, and inconsistent oversight. For example, state cooperatives are governed by State Cooperative Acts, while multi-state cooperatives are regulated by the Multi-State Cooperative Societies Act. This fragmented framework often results in slow approvals, legal delays, and compliance burdens that restrict operational flexibility (Verma & Pillai, 2021).

➤ **Limited Market Access and Branding**

Many cooperatives, especially in non-agricultural sectors like crafts or processing, struggle to access mainstream markets due to poor branding, packaging, and distribution channels. Without access to e-commerce or organized retail, their sales remain localized, seasonal, and volatile. Additionally, cooperatives lack resources to invest in marketing, certifications, and quality control, limiting their competitive advantage (Deshpande et al., 2022).

➤ **Gender and Social Barriers**



Even within cooperatives, women and marginalized groups often face lower participation in leadership roles. Patriarchal norms, time poverty, and lack of literacy restrict their ability to fully benefit from cooperative membership. Women-led cooperatives also face higher resistance in male-dominated sectors like agriculture or finance.

## Findings

This study reveals that cooperatives in India play a crucial role in advancing inclusive economic development, particularly by improving rural livelihoods, extending financial services to the underserved, and empowering marginalized populations.

Firstly, dairy and agricultural cooperatives have significantly improved household incomes among small and marginal farmers. For example, members of AMUL have experienced an average income increase of 30–50% over the past decade, while IFFCO has supported over 55 million farmers with affordable inputs and agricultural services, contributing to both income security and productivity.

Secondly, cooperatives are instrumental in financial inclusion. Primary Agricultural Credit Societies (PACS) and Urban Cooperative Banks (UCBs) have reached segments typically neglected by commercial banks, including rural poor, informal workers, and women. SEWA Bank, for instance, has empowered more than 1.7 million women by providing them with access to savings, credit, insurance, and pensions—directly enhancing their financial independence and household decision-making power.

Thirdly, the social empowerment dimension of cooperatives is equally significant. Worker cooperatives and women-led cooperatives enable democratic participation, leadership opportunities, and social cohesion among disadvantaged groups. This is particularly important in rural and semi-urban areas where caste, class, and gender disparities prevail.

However, the study also identifies several challenges. These include weak governance structures, political interference, lack of professional management, and limited access to capital. Moreover, cooperatives lag behind in terms of digital infrastructure, with only 23% of PACS computerized as of 2023. These constraints limit the scalability, transparency, and long-term sustainability of many cooperative institutions.

## Recommendations

To enhance the effectiveness and impact of cooperatives in India, several strategic policy interventions and reforms are recommended.



Firstly, governance reforms are essential. Cooperatives should be required to hold regular elections and ensure transparent audits to strengthen member accountability and reduce political interference. Training programs must be introduced to promote professional leadership and ethical management.

Secondly, the digitization of cooperatives should be prioritized. Government and development banks like NABARD should support the full computerization of PACS and promote integration with national fintech platforms such as UPI and Aadhaar-enabled payments. This will improve service delivery, transparency, and reach.

Thirdly, financial and technical support should be expanded. A dedicated Cooperative Development Fund can be created to offer low-interest capital for infrastructure, marketing, and innovation. Additionally, capacity-building programs should be provided in areas like financial literacy, branding, e-commerce, and governance.

Fourth, cooperatives should be given greater access to markets and branding support. Government partnerships with e-commerce platforms and organized retailers can help cooperatives achieve wider distribution and visibility. Certification programs can also help improve the market credibility of cooperative products.

Finally, gender empowerment within cooperatives must be actively promoted. Policies should encourage the formation of women-led cooperatives and ensure gender representation in governance bodies. Customized credit schemes, skill development, and leadership programs for women will further enhance inclusivity.

## **Conclusion**

This study concludes that cooperatives in India have emerged as powerful tools for promoting inclusive economic development, particularly in rural areas and among marginalized populations. By enabling access to credit, improving rural livelihoods, and fostering collective entrepreneurship, cooperatives serve as community-driven alternatives to market-led and state-led development models. Case studies such as AMUL, SEWA, and IFFCO clearly demonstrate how cooperatives contribute not only to income generation and financial access but also to social empowerment and gender equality. The democratic and participatory structure of cooperatives ensures that benefits are shared equitably among members, fostering a sense of ownership and agency.



However, the full potential of cooperatives remains constrained by structural and institutional challenges. Issues such as weak governance, limited professional capacity, inadequate digital infrastructure, and fragmented regulation continue to hinder their scalability and efficiency. To strengthen the cooperative sector, targeted reforms are necessary—ranging from governance overhaul and digitization to financial support and gender-inclusive policies. With the right support systems and enabling environment, cooperatives can become key drivers of a more equitable, resilient, and inclusive Indian economy.

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