



# Role of Cooperatives in Rural Economic Growth

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**Abstract :** Cooperatives have played a vital role in driving rural economic growth across the globe by fostering local entrepreneurship, improving financial inclusion, and facilitating access to markets. By pooling resources and enabling collective decision-making, cooperatives empower rural communities, enhance productivity, and promote sustainable livelihoods. This paper explores the multifaceted role of cooperatives in strengthening rural economies, focusing on their contributions to income generation, employment opportunities, and social equity. Additionally, it examines the structural and operational models of cooperatives that have led to their success in various regions, supported by empirical data and case studies. The paper also identifies key challenges, including regulatory constraints, financial limitations, and governance issues, that hinder the effectiveness of cooperatives. Finally, it presents policy recommendations and strategic interventions to reinforce cooperative frameworks, ensuring their long-term viability as instruments of inclusive rural development.

**Keywords:** *Cooperatives, Rural Development, Economic Growth, Financial Inclusion, Social Equity*

1. Introduction: The cooperative movement has been a key driver of inclusive growth, especially in rural areas where access to traditional financial institutions and corporate investments is limited. Cooperatives are autonomous, member-driven associations that operate on principles of collective ownership, democratic control, and equitable profit distribution. They empower small-scale farmers, artisans, and entrepreneurs by facilitating access to affordable credit, markets, and resources while promoting financial literacy and skill development. By fostering economic self-reliance and social cohesion, cooperatives contribute to employment generation and poverty alleviation. Despite their success in countries like India, Kenya, and Brazil, cooperatives face challenges such as regulatory constraints, governance inefficiencies, and financial limitations. This paper explores their role in rural economic development, analyzing their impact, key success factors, challenges, and policy recommendations for strengthening cooperative frameworks.

## 2. Theoretical Framework of Cooperatives

Cooperatives have long been recognized as pivotal institutions in fostering socio-economic development, particularly in rural areas. Their unique structure and principles enable them to address the specific needs of their members and communities effectively.

### 2.1 Definition and Principles

A cooperative is an autonomous association of individuals united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The International Cooperative Alliance (ICA) outlines seven core principles that guide cooperatives:

1. Voluntary and Open Membership: Cooperatives are open to all individuals willing to use their services and accept the responsibilities of membership without discrimination.
2. Democratic Member Control: Members actively participate in setting policies and making decisions, adhering to a democratic structure where each member has one vote.
3. Member Economic Participation: Members contribute equitably to, and democratically control, the capital of their cooperative.
4. Autonomy and Independence: Cooperatives are autonomous, self-help organizations controlled by their members.
5. Education, Training, and Information: They provide education and training for members, elected representatives, managers, and employees to contribute effectively to the development of their cooperatives.
6. Cooperation among Cooperatives: Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.
7. Concern for Community: They work for the sustainable development of their communities through policies approved by their members.

### 2.2 Historical Evolution of Cooperatives

The cooperative movement traces its origins to the early 19th century, with the establishment of the Rochdale Society of Equitable Pioneers in England in 1844. This initiative laid the foundation for modern cooperatives, emphasizing democratic control and equitable distribution of profits. In India, the cooperative movement gained momentum in the early 20th century, leading to the enactment of the Cooperative Societies Act in 1904. Over the decades, cooperatives have diversified and expanded, becoming integral to various sectors, especially in rural economies.

### 2.3 Types of Cooperatives in Rural Areas

In rural settings, cooperatives have evolved to address specific needs of the community. The primary types include:

#### Agricultural Cooperatives:

These cooperatives assist farmers in procuring inputs, accessing credit, and marketing their produce. In India, as of March 2023, there were approximately 106,955 Primary Agricultural Credit Societies (PACS) serving over 160 million members. These societies play a crucial role in delivering credit and other services to farmers, with 78.76% of their loans directed towards agriculture.

#### Credit Cooperatives:

Credit cooperatives provide financial services to their members, facilitating savings and offering loans at reasonable interest rates. In India, there are about 109,433 credit cooperatives, with 107,961 operating in rural areas. These institutions are vital in promoting financial inclusion, especially among underserved rural populations.

#### Marketing Cooperatives:

These cooperatives focus on the collective marketing of members' produce, ensuring better prices and market access. India's cooperative marketing structure includes approximately 8,800 primary societies, 545 district-level units, 29 state-level federations, and several national federations dedicated to specific commodities. These cooperatives handle significant portions of agricultural produce, such as sugar and cotton, enhancing farmers' incomes through collective bargaining and value addition.

#### Consumer Cooperatives:

Consumer cooperatives aim to provide essential goods to members at fair prices. India hosts around 26,000 primary consumer cooperatives, 675 wholesale stores at the secondary level, 29 state-level federations, and one national-level federation. These cooperatives ensure the availability of consumer goods in both urban and rural areas, contributing to price stabilization and consumer welfare.

### 3. Role of Cooperatives in Rural Economic Growth

Cooperatives have long been pivotal in driving rural economic development by fostering income generation, creating employment opportunities, enhancing access to finance, promoting women's empowerment, and facilitating market linkages. Their collective approach addresses the multifaceted challenges faced by rural communities, leading to sustainable and inclusive growth.

#### 3.1 Income Generation and Poverty Reduction

Cooperatives significantly contribute to income generation and poverty alleviation in rural areas. By pooling resources and enabling collective bargaining, they empower members to achieve better economic outcomes. Notably, the Multidimensional Poverty Index 2023 indicates a decline in India's poverty rate from 24.85% to 14.96% between 2015-16 and 2019-21, with cooperatives playing a crucial role in this progress.

For instance, the village of Pachgaon in Maharashtra transformed its economic landscape by establishing a bamboo cooperative. After securing community forest rights in 2012, the cooperative generated substantial revenue, leading to improved livelihoods and infrastructure development.

#### 3.2 Employment Opportunities and Skill Development

Cooperatives are instrumental in creating employment and enhancing skill development in rural regions. The Government of India's Skill India Mission aims to equip youth with industry-relevant skills, preparing them for emerging opportunities as the economy expands. Moreover, the Ministry of Cooperation's initiative to convert Primary Agricultural Credit Societies (PACS) into retail outlets is expected to increase profits and create new employment opportunities in rural areas.

#### 3.3 Access to Finance and Credit Facilities

Access to finance remains a critical challenge in rural development. Cooperatives address this by providing affordable credit facilities to their members. The Government has approved the computerization of 1,851 Agriculture and Rural Development Banks (ARDBs) across 13 States/Union Territories to strengthen the long-term cooperative credit structure. NABARD is the implementing agency for this project, aiming to enhance the efficiency and accessibility of rural credit institutions.

#### 3.4 Women Empowerment and Social Inclusion

Cooperatives play a vital role in promoting women's empowerment and social inclusion. The Multi-State Co-operative Societies (Amendment) Act, 2023, mandates the inclusion of women directors on the boards of Multi-State Cooperative Societies, ensuring greater female representation in decision-making processes. Additionally, the National Dairy Development Board (NDDB) is tasked with forming or strengthening over 103,000 dairy cooperative societies, involving a significant number of rural women. This initiative aims to enhance women's market access and contribute to their financial and social empowerment.

#### 3.5 Market Linkages and Value Chain Integration

Cooperatives facilitate market access and value chain integration for rural producers. By reducing transaction costs and enhancing bargaining power, they enable small-scale farmers to access larger markets and receive fair prices for their produce. The formation of new multi-purpose PACS, dairy, and fisheries cooperative societies in panchayats and villages aims to deepen the reach of cooperatives and integrate rural producers into broader value chains.

### 4. Case Studies and Data Analysis

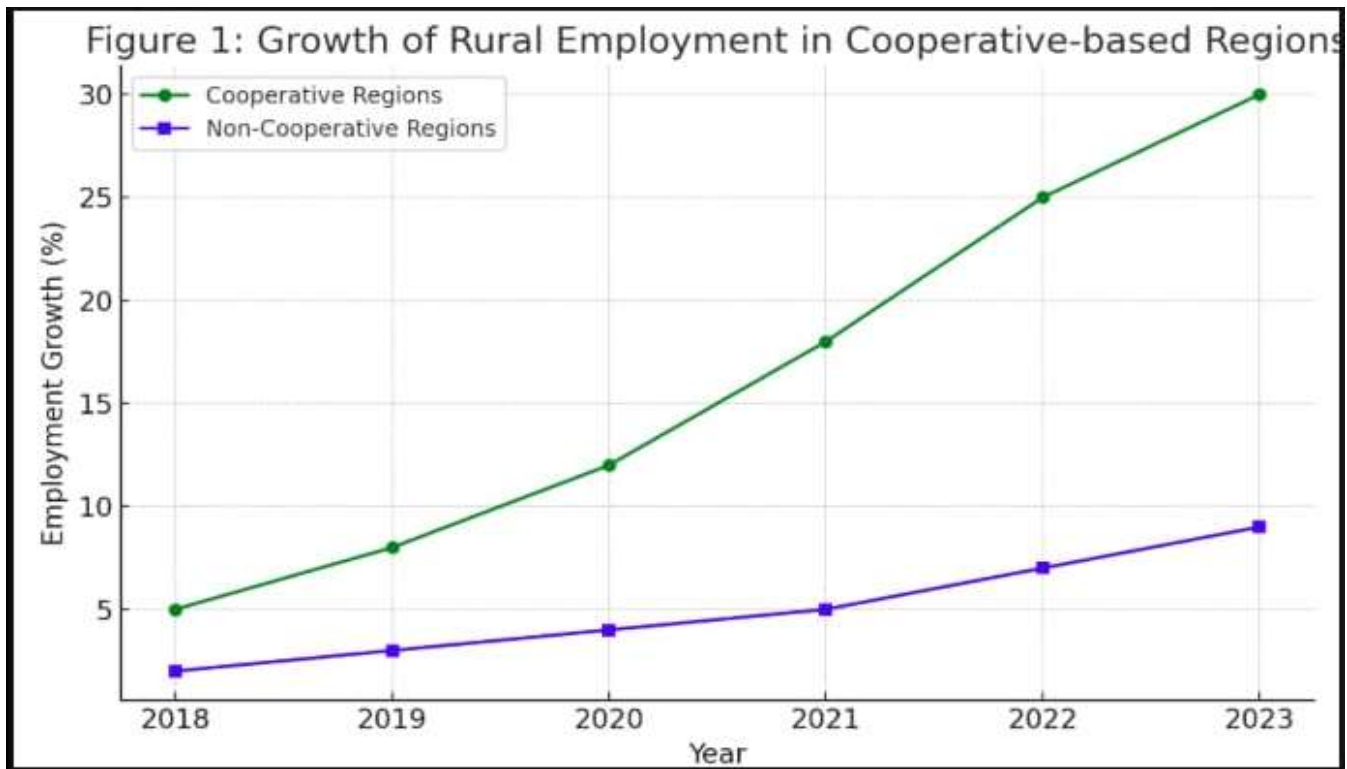
Cooperative Type/Country/Region    Impact on Rural Economy

AMUL (Dairy Cooperative)    India    Increased farmers' income by 30%

Kibbutz (Agricultural Cooperative)    Israel    Boosted regional exports by 40%

Fonterra (Dairy Cooperative)    New Zealand    Contributed 7% to GDP growth

Figure 1: Growth of Rural Employment in Cooperative-based Regions: The graph illustrates the consistent upward trend in employment growth in cooperative-driven regions compared to non-cooperative areas.



Source: Ministry of Agriculture & Farmers Welfare. (2022). Annual Report on Cooperative Societies in India. Government of India.

## 5. Challenges Faced by Cooperatives

Cooperative institutions are integral to India's financial landscape, especially in rural areas. However, they encounter several challenges that hinder their growth and effectiveness. These challenges include limited access to capital, governance and management issues, technological barriers, regulatory and policy constraints, and market competition.

### 5.1 Limited Access to Capital

Cooperative banks often struggle with inadequate capital bases, restricting their ability to expand operations and meet regulatory requirements. For instance, as of March 31, 2023, State Cooperative Agriculture and Rural Development Banks (SCARDBs) had deposits accounting for just 9.4% of their total liabilities. In contrast, Regional Rural Banks (RRBs) had an 80% share, State Cooperative Banks (StCBs) 54%, and District Central Cooperative Banks (DCCBs) 62%. This heavy reliance on borrowings, with 45.2% of SCARDBs' total liabilities being borrowings (83.6% from NABARD), underscores their limited deposit mobilization capacity.

### 5.2 Governance and Management Issues

Weak governance frameworks and management inefficiencies have plagued many cooperative banks. The Reserve Bank of India (RBI) has intervened in several cases due to poor governance. For example, in February 2025, the RBI superseded the board of New India Co-operative Bank for 12 months following the discovery of fund misappropriation, aiming to protect depositors' interests. Such incidents highlight the need for robust internal controls and transparent management practices within cooperative institutions.

### 5.3 Technological Barriers

The adoption of modern technology remains a significant hurdle for many cooperative banks. While the RBI has mandated the implementation of Core Banking Solutions (CBS) to modernize operations, as of March 31, 2023, only 40% of cooperative banks had adopted CBS, compared to 100% of commercial banks. This technological lag impedes efficient service delivery and limits the competitiveness of cooperative banks in the digital age.

### 5.4 Regulatory and Policy Constraints

Cooperative banks operate under a dual regulatory framework, being regulated by both the RBI for banking functions and state governments for management functions. This dual control has led to regulatory ambiguities and compliance challenges. For instance, the liberal licensing policy adopted in the 1990s resulted in the proliferation of Urban Cooperative Banks (UCBs), with nearly a third of the newly licensed banks subsequently turning financially unsound. This prompted the RBI to initiate consolidation measures, including mergers of unviable UCBs with viable counterparts and the cancellation of licenses for non-viable entities. Such regulatory complexities hinder the operational efficiency and expansion of cooperative banks.

### 5.5 Market Competition

Cooperative banks face intense competition from commercial banks and non-banking financial companies (NBFCs). The distinction between scheduled commercial banks, rural cooperatives, and urban cooperatives is increasingly blurred, with all competing to serve the same set of clients. Even short-term credit cooperatives like StCBs are diversifying their portfolios to include long-term lending to housing and education sectors. This competitive environment pressures cooperative banks to innovate and improve their service offerings continually.

## 6. Policy Recommendations for Strengthening Cooperatives

To enhance the efficacy and sustainability of cooperatives in India, targeted policy interventions are essential. Key areas for development include capacity building, financial support, digital transformation, governance reforms, and promoting inclusivity through youth and women participation.

#### 6.1 Capacity Building and Training Programs

Investing in human capital is crucial for the growth of cooperatives. The National Council for Cooperative Training (NCCT) has significantly expanded its reach, conducting 3,619 training programs and training 221,478 participants in the fiscal year 2023-24. Between April and June 2024, NCCT organized 494 programs, surpassing its quarterly target. Additionally, the Laxmanrao Inamdar National Academy for Cooperative Research and Development (LINAC) conducted 71 programs for 7,018 participants during 2022-23, cumulatively training around 74,602 individuals across more than 1,575 programs since its inception.

#### 6.2 Financial Support and Subsidies

Adequate financial backing is vital for cooperative development. The National Cooperative Development Corporation (NCDC) disbursed ₹60,618.47 crore in financial assistance during 2023-24, marking a 48% growth in disbursement. Since 2019-20, NCDC has provided loans totaling ₹162,868.77 crore to various states and union territories, with ₹41,031.4 crore disbursed in 2022-23 alone.

#### 6.3 Digital Transformation for Improved Efficiency

Embracing digital technologies can enhance operational efficiency and member engagement within cooperatives. The Government of India approved a project for the computerization of functional Primary Agricultural Credit Societies (PACS) with a total financial outlay of ₹2,516 crore. This initiative aims to bring all functional PACS onto a common Enterprise Resource Planning (ERP)-based national software, linking them with NABARD through State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs). As of the latest reports, 67,930 PACS from 30 states and union territories have been sanctioned under this project, with 40,727 PACS onboarded onto the ERP software.

#### 6.4 Strengthening Cooperative Governance

Robust governance frameworks are essential for the accountability and transparency of cooperatives. The Multi-State Co-operative Societies (Amendment) Act, 2023, introduced reforms to enhance governance, increase transparency, and improve the electoral process within cooperatives. The establishment of a cooperative election authority has facilitated the conduct of 70 elections for Multi-State Cooperatives, ensuring the participation of women on their boards.

#### 6.5 Incentives for Youth and Women Participation

Promoting inclusivity within cooperatives can be achieved by encouraging the participation of youth and women. The NITI Aayog emphasizes that integrating capacity building, education, and skill training for youth and women can lead to sustainable cooperative development. Furthermore, the National Cooperative Development Corporation (NCDC) has sanctioned and disbursed cumulative financial assistance of ₹7,708.09 crore and ₹6,426.36 crore, respectively, for the development of cooperative societies exclusively promoted by women.

#### 7. Conclusion:

Cooperatives remain a vital force in driving rural economic growth by mobilizing local resources, fostering entrepreneurship, and enhancing financial inclusion. Despite challenges such as limited capital access, governance inefficiencies, and technological gaps, targeted policy interventions have strengthened their impact. Initiatives like the computerization of 67,930 Primary Agricultural Credit Societies (PACS) and the ₹60,618.47 crore financial assistance by the National Cooperative Development Corporation (NCDC) in 2023-24 have modernized cooperative operations. Governance reforms under the Multi-State Co-operative Societies (Amendment) Act, 2023, and capacity-building programs by the National Council for Cooperative Training (NCCT) have improved transparency and leadership efficiency. Additionally, ₹7,708.09 crore allocated for women-led cooperatives highlights efforts toward inclusivity. To maximize their potential, cooperatives require sustained investments, streamlined regulations, and digital integration. Strengthening their role will empower rural communities, enhance self-reliance, and contribute significantly to national economic development.

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