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An Analysis of the Multifaceted Role of Cooperatives in Promoting Financial Inclusion in India

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Abstract

In India, member-owned cooperatives provide a unique solution to financial exclusion, a persistent challenge for low-income communities. Unlike traditional profit-driven institutions, cooperatives prioritize social impact and financial viability, bridging gaps through affordable services, tailored offerings, community building, and financial literacy education. This study examines the multifaceted role of cooperatives in promoting financial inclusion, focusing on their contributions to empowering marginalized groups, including rural populations, women, and urban poor. The research highlights their socio-economic benefits, such as poverty alleviation, entrepreneurship, and equitable wealth distribution, while addressing challenges like governance issues, financial mismanagement, and limited access to technology. By conducting a qualitative analysis of secondary data, the study explores how supportive regulations and technological innovations can amplify their effectiveness. Recommendations emphasize the need for strengthened governance, partnerships, and digital advancements to enhance their reach and impact. Ultimately, the findings advocate for fostering a robust cooperative ecosystem, positioning cooperatives as pivotal instruments in achieving inclusive growth and sustainable development in India.

Keywords: *Cooperatives, financial inclusion, Financial Exclusion, financial services, Inclusive Growth.*

Introduction

Cooperatives are special kinds of organizations created by people who voluntarily banded together to fulfill their cultural, social, and economic needs. Members of these voluntary groups have a voice in how the cooperative is conducted since it is democratically administered. The cooperative is jointly owned by its members, which is another difference from regular corporations. With the help of this organization, they may work together to meet their goals and mutual problems. The cooperative movement in India has been commenced in the late 19th century to eliminate rural distress caused by exploitative moneylenders and landlords. The British colonial administration has initiated a major step with the implementation of Cooperative Credit Societies Act in 1904, which allowed the formation of cooperative credit societies in rural areas in India. This laid the foundation for India's formal cooperative movement. The Cooperative Societies Act of 1912 further expanded cooperative activities to non-credit sectors like agriculture and storage. After independence in 1947, cooperatives became crucial in promoting socio-economic development, with Jawaharlal Nehru

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incorporating them into India's Five-Year Plans. During the Green Revolution, cooperatives provided farmers with credit, seeds, and fertilizers, contributing to agricultural growth. Dairy cooperatives, particularly the Amul cooperative in Gujarat state of India, played an important role in the "White Revolution." By the late 20th century, cooperatives diversified into various sectors such as dairy, sugar, textiles, and fisheries. However, they faced challenges related to governance, political interference, and financial mismanagement, prompting the government of India and the state governments to implement reforms, including the Multi-State Cooperative Societies Act of 2002. Now-a-days, the Indian cooperative societies continue to adapt modern challenges, with a focus on technology and financial inclusion, underscoring their enduring significance in the country's socio-economic landscape. Cooperatives offer a unique solution for expanding financial services to underserved communities. Unlike traditional profit-driven institutions, cooperatives are owned and democratically controlled by their members. Cooperatives in India play an important role in financial inclusion, empowering individuals and providing business opportunities for financial market participants (Siddaraju, V. 2012). Various studies revealed that, Cooperatives play a crucial role in financial inclusion and comprehensive development in India, improving the living conditions of poor farmers, rural non-farm enterprises, and other vulnerable groups (Lakshmi, P., & Visalakshmi, S. 2013).

Evolution of Cooperatives in India

A major challenge in India is the large portion of the population is excluded from the formal financial system. This "financial exclusion" leaves them without access to essential financial services, hindering their economic and social mobility. To bridge this gap, the concept of "financial inclusion" has been emerged. This initiative aims to educate the unbanked population about the advantages of formal banking, like secure savings, investment and emergency loans, convenient payment options, and financial management tools. By promoting financial inclusion, India can empower its citizens and unlock their full economic potential.

Financial inclusion means everyone, from all walks of life, has access to important financial instruments. This includes saving money securely, borrowing for investment or emergencies, making and receiving payments efficiently, and protecting themselves financially through insurance. By providing these services, financial inclusion allows people and companies to fully engage in the economy. Financial inclusion is critical to global economic progress. It grants individuals and businesses, regardless of background, access to financial tools like savings accounts, loans, and insurance. Financial inclusion significantly reduces poverty through saving and loan cooperatives, with education level moderating its effect on usage, but not access or service dimensions (Wijaya, R., & Margaretha, H. 2022). According to Kapoor, A. (2014) Financial inclusion in India's economy can contribute to economic growth and equality by 2050, with potential benefits and risks. Now, the forecasting of Kapoor, A . (2014) is going to be successful and the financial inclusion is become a tool for sustainable development by providing suitable education for potential clients with low education and financial literacy, promoting sustainable development in least developed and developing countries (Voica, M. 2017).

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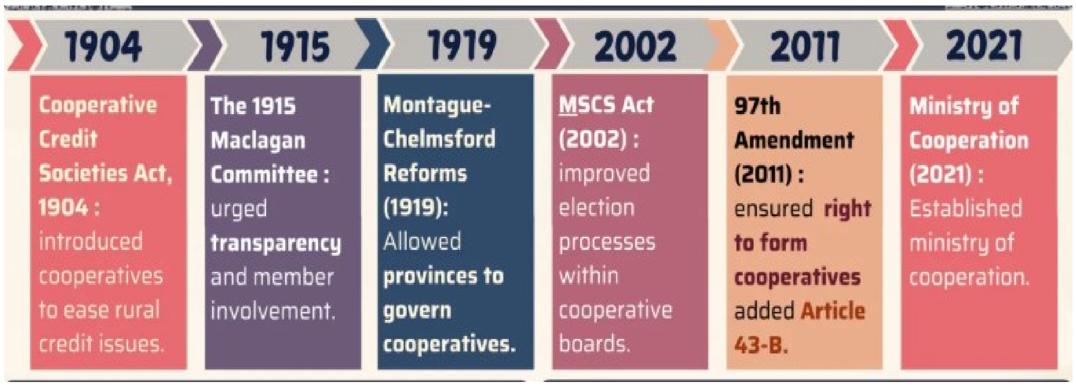

Figure 1 Timeline of evolution of Cooperatives in India

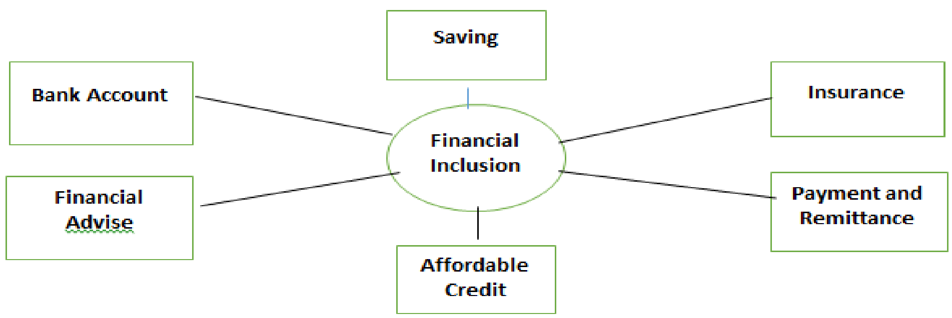

Figure 2 Financial inclusion

Financial inclusion

Financial inclusion through cooperatives has an important role on rural development, particularly the development of women, minority groups, children and those pushed into the bellow poverty line by natural and artificial disasters (Lal, T. 2019). As discussed earlier, the financial inclusion remains a critical challenge, particularly in developing economies. Cooperatives have emerged as powerful instruments for promoting financial inclusion by offering a unique blend of financial services, social capital, and democratic ownership. This study delves into the multidimensional role cooperatives play in empowering communities and fostering inclusive financial systems. This research explores how cooperatives provide access to essential financial services, foster social capital and member ownership, adopt a client-centric approach, build local capacity and financial literacy, and leverage technological innovation for outreach. Additionally, the review examines the importance of supportive regulatory frameworks for enabling cooperatives to effectively promote financial inclusion.

Objectives of Study

1. To examine the Impact of Cooperatives on Financial Access and Inclusion.
2. To analyze the Socioeconomic Benefits of Cooperative-Driven Financial Inclusion.
3. To identify Challenges and Opportunities for Cooperatives in Expanding Financial Inclusion.
4. To check the importance of supportive regulatory frameworks for enabling

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cooperatives to effectively promote financial inclusion.

Review of Literature:

Chinmay Naidu (2025) highlights financial inclusion as a key driver of economic growth and poverty alleviation, emphasizing its role in empowering marginalized communities, addressing financial literacy disparities, overcoming banking accessibility challenges in rural India, and advocating for digital banking, institutional frameworks, and policy-driven initiatives to enhance inclusive financial development. According to Gupta & Sharma (2024) Financial inclusion has been a key driver for sustainable economic growth, particularly in rural regions where small and marginal farmers rely heavily on cooperative societies for financial support. Cooperative societies play a significant role in improving access to finance, thereby enhancing corporate governance in the rural sector. This literature extensively discusses the significant benefits and problems associated with cooperative strategies for socioeconomic development. According to Altman (2009, 2014), cooperatives can boost members' income and enhance their socioeconomic status. However, the research by Eseza and Nyakundi (2023) explores the global history and impact of cooperatives. The paper traces their origins in the US and spread to other countries like India and Africa. The authors highlight factors like ease of formation, strong governance, and member unity as reasons for their success. They emphasize the role of cooperatives in empowering women in developing countries, particularly in Africa, where they contribute to economic growth and financial independence. The study acknowledges challenges like fraud, illiteracy, and limited loan sizes, but proposes solutions through education, performance monitoring, and government support. Overall, the research highlights cooperatives as a powerful tool for building a more equitable and sustainable world. However, Sexton and Iskow (1993) present a detailed study viewpoint, indicating that cooperative enterprises may be inefficient in comparison to investor-owned organizations. Their study findings emphasize the nuances of cooperative operational performance and its consequences for socioeconomic growth. Ribas et al. (2022) highlighted cooperative functions and traits, as well as their influence on national economic and social growth. Interestingly, these cooperative groups have also investigated resilience in the face of major disasters like as the COVID-19 pandemic (Dave, 2021). This study also supports their potential contribution to a sustainable and resilient society and environment. Cooperative banks, in particular, have been viewed as a means of reaching out to society's disadvantaged and low-income groups (To & Gangadharan, 2016), as well as viable solutions for inclusive growth and rural development (Nayak, 2012). Tripathi (2013) examines the relationship between urban economic growth and urban inequality, emphasizing the need of inclusive solutions in urban settings. Zimbabwe's economic struggles left many without access to banks. SACCOs, savings and credit cooperatives, could help, but this study by Pasara et al. (2021) found challenges. People often confuse cooperatives with SACCOs, and past economic instability eroded trust in saving (over 90% hesitant). Many SACCOs also lack assets or a large membership base due to inconsistent participation and outdated regulations. Poor financial management makes them high-risk borrowers with high interest rates. The study recommends training for better SACCO operations, improved coordination to reduce risk, and government policies to rebuild trust and financial stability. The study by Siddaraju (2012) examines the role of cooperatives in promoting financial inclusion in India. Cooperatives, which are member-owned and controlled businesses, are seen as a key tool for achieving inclusive economic growth. Financial inclusion efforts empower people financially and create business

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opportunities for financial institutions. The study highlights the challenges faced by cooperatives in India and emphasizes the importance of financial literacy, particularly among women. Financial inclusion is seen as a path to empowerment and broader participation in the economy and society.

On the other hand, Wijaya and Margaretha (2022) investigates how financial inclusion, particularly through saving and loan cooperatives, impacts community welfare. They focused on the "usage dimension" of financial inclusion, which refers to how actively people utilize financial services. The study found that financial inclusion through cooperative usage plays a significant role in poverty reduction, regardless of the member's education level. However, simply having access to financial services or the range of services offered (access and service dimensions) did not show a clear link to poverty reduction. The research employed surveys with cooperative members in Jakarta to reach these conclusions. According to Voica, M. (2017), Financial inclusion aims to educate people, especially those with low financial literacy, about financial tools that can improve their lives. This is critical as billions globally lack access to basic banking. International organizations like the World Bank are working to include millions of adults in the financial system. Financial inclusion is seen as a powerful tool for achieving sustainable development, particularly in emerging economies. Many countries are creating national strategies to promote it, with space for innovation in financial services like microfinance. However, safeguards like consumer protection must be in place alongside this development. The research paper by Kapoor (2014) explores the concept of financial inclusion as a crucial equalizer for economic growth in India. Highlighting India's early efforts in financial inclusion through nationalized banks, the author acknowledges a mixed record of successes and failures. Looking towards the future, the paper attempts to forecast India's economic trajectory by 2050, particularly its potential to rival the US economy. Kapoor emphasizes the interplay between economic growth, social and political factors, and environmental considerations in shaping India's financial inclusion landscape. By analyzing different scenarios, the paper aims to identify the role financial inclusion will play in India's future economy and suggest potential policy measures to achieve a more desirable outcome. This study by Basak (2015) examines the role of Urban Cooperative Banks (UCBs) and Non-Agricultural Cooperative Credit Societies (NACCSs) in achieving financial inclusion in Howrah district, West Bengal, India. Financial inclusion is essential for equitable economic growth and involves providing affordable banking services to underserved communities, particularly low-income groups. Many people in both rural and urban areas lack access to these services, including savings accounts and money transfers. Basak's research explores how UCBs and NACCSs can bridge this gap and design strategies to ensure financial inclusion for the poor and disadvantaged. Mohite (2008) argues that financial inclusion, providing affordable banking services to low-income groups, is crucial. Many small farmers and households in India, a country with over 1 billion people, lack access to institutional credit. The paper highlights the potential of cooperative banks, known as "small people's banks," to bridge this gap and achieve greater financial inclusion in India. Cooperative banks are seen as well-positioned to play a constructive role in expanding access to financial services for underserved communities.

The study by Siddaraju (2012) examines the role of cooperatives in promoting financial inclusion in India. Cooperatives, which are member-owned and controlled businesses, are seen as a key tool for achieving inclusive economic growth. Financial inclusion efforts empower people financially and create business opportunities for financial institutions. The study highlights the challenges faced by cooperatives in India and emphasizes the importance of financial literacy, particularly among women. Financial inclusion is seen as a path to empowerment and broader participation in the economy and society. However the research by Lakshmi and Visalakshmi (2013) focuses on the role of cooperatives in achieving financial inclusion in India. Financial inclusion is a key policy goal in many countries, aiming to improve the lives of underprivileged groups like farmers and rural businesses. Despite its recognized importance, there's a lack of data on how much credit reaches these small borrowers in India. The authors argue that India's market-driven economy hasn't fostered inclusive growth. Their study aims to bridge this gap by assessing the extent of financial inclusion and highlighting the crucial role of cooperatives as instruments for achieving this goal in India.

Research Gap

This comprehensive review of existing research has been instrumental in identifying key research questions and gaps in our current understanding. These gaps and questions form the foundation for the current study's objectives. By critically analyzing previous research, we can ensure our study addresses areas where knowledge is limited and contributes meaningfully to the existing body of work. It is found that most of the papers highlight, that Co-operatives in developing countries, like India, play a vital role in promoting financial inclusion by providing affordable banking services to disadvantaged and low-income groups, as mandated by new banking policies. Some papers also highlighted that, Cooperative businesses, through financial inclusion strategies like saving and loan cooperatives, play a significant role in improving community welfare by reducing poverty in developing countries. In this regard this study is an attempt to fill the following research gaps by explaining the role cooperatives play for financial inclusion;

- Role of co-operative banks in financial inclusion needs further exploration.
- Evaluation of financial inclusion extent and cooperative participation in India
- Importance of financial education, especially for women and weaker section through cooperatives.
- Lack of reference to cooperative literature in microfinance governance.
- Legal framework and governance structure for cooperatives in India.

Research Methodology

This study adopts a qualitative research approach, relying exclusively on secondary data sourced from academic journals, government reports, and industry publications. The methodology involves an extensive review of existing literature to explore the role of cooperatives in financial inclusion in India. By analyzing patterns, trends, and insights from prior studies, the research examines the socio-economic benefits, challenges, and opportunities associated with cooperatives. It focuses on synthesizing information to provide a comprehensive understanding without quantitative analysis. This approach ensures a thorough conceptual framework for discussing the multifaceted contributions of cooperatives to financial inclusion.

Cooperatives: Bridging the Gap in Financial Access and Inclusion

Financial inclusion, ensuring everyone has access to essential financial services, remains a global challenge. Traditional financial institutions often overlook underserved communities due to high operating costs and strict eligibility requirements.

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However, Co-operative banks play a crucial role in financial inclusion by providing affordable banking services to disadvantaged and low-income groups (Kavitha AP, 2022). This is where cooperatives step in, offering a unique and impactful approach to financial inclusion.

a. Accessibility for All:

Cooperatives, member-owned institutions with lower membership fees and minimum deposits compared to traditional banks, play a significant role in financial inclusion. This accessibility benefit, as highlighted by James (2017), allows them to serve marginalized populations often excluded from mainstream financial services. Unlike profit-driven institutions, cooperatives prioritize member needs and social impact, with local branches fostering closer relationships with communities, as noted by Rajesh Chakrabarti (2011). This unique model empowers individuals and communities towards financial security and equitable growth through impactful financial inclusions. Cooperatives in developing countries, like Ecuador, have significantly contributed to financial inclusion by providing microfinance services, reducing exclusion, and fostering community growth based on equality and social equity (A.M. Morels, et. al. 2021).

In order to achieve financial inclusion, cooperative financing is essential, especially for underprivileged rural populations. The fact that Primary Agricultural Credit Societies (PACS) offer loans at lower average sizes than other lenders indicates that they reach the "bottom of the economic pyramid." For example, in 2020, PACS issued 45% of Kisan Credit Cards, with an average outstanding balance per card that was significantly lower than that of commercial banks and Regional Rural Banks (RRBs). PACS's contribution to financial inclusion is becoming more widely acknowledged, even though it is not subject to the same direct regulations as banks are (National Bank for Agriculture and Rural Development). Additionally, the cooperative system provides online banking services and savings products through State Cooperative Banks (SCCBs) or District Central Cooperative Banks (DCCBs) in rural areas.

According to a March 2022 survey, commercial banks account for 61% of the credit amount given to Self-Help Groups (SHGs), with RRBs accounting for 33% and cooperatives for 6%. While loans to cooperatives and RRBs continued to rise in 2021, commercial banks' disbursements to SHGs declined. This could mean that SHGs were able to access these agencies more easily than commercial banks.

b. Geographic Reach and Tailored Services:

India's agricultural and social history has been greatly influenced by cooperatives, and future historiography will need to take a more nuanced approach that takes social stratification and the economy into account (Kamenov, N. 2019). Even though Rural Cooperative Banking and Credit Institutions (RCBCIs) play a vital role in meeting rural India's credit needs, British policies and division left the nation with a severely damaged economy in 1947. Even though services and agriculture have advanced since independence, poverty persists in several regions, including the state of Rajasthan. Before implementing financial solutions like microfinance, which hasn't gained the same traction in Rajasthan compared to southern states, a thorough understanding of the local context and livelihood systems is required due to Rajasthan's unique blend of agro-climatic zones, regional disparities, and cultural variations (Singh, M. 2016). In distant locations where traditional banks are

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frequently absent, cooperatives can open branches. The people who need financial services the most are closer to them thanks to this geographically dispersed network. Cooperatives also have the ability to customise their goods and services to meet the unique requirements of its members. For example, they may provide savings plans tailored for people with variable income or microloans appropriate for small companies. According to research conducted by the International Cooperative Alliance, more than 60% of cooperatives worldwide provide microloans, indicating their dedication to meeting the monetary requirements of marginalized communities.

c. Empowerment Through Ownership and Education:

Gaining momentum after India's independence, cooperatives were embraced as the backbone of a planned economy, offering economic opportunities in both rural and urban areas (Dubhashi, M. 2005). While cooperatives of various sizes have achieved successes across diverse sectors, the varying degrees of recognition suggest there's potential for further development and optimization to fully harness their impact. A key strength of cooperatives is their democratic structure. Members have a say in how the cooperative operates, fostering trust and a sense of ownership over their financial well-being. This participatory approach empowers individuals and communities to manage their finances effectively. Furthermore, cooperatives often provide financial literacy programs, educating members on responsible saving, budgeting, and borrowing practices. A study by the Cooperative Development Institute found that members who participated in financial literacy programs offered by their cooperatives increased their average savings by 25% within a year. This highlights the positive impact of financial education on improving financial health within cooperative communities.

d. Beyond Profit: A Socially Responsible Approach:

Unlike profit-driven financial institutions, cooperatives prioritize member needs and social impact alongside financial objectives. Profits are often shared among members, translating to potentially lower interest rates on loans and higher returns on savings plans. Additionally, cooperatives may reinvest profits back into the community, supporting local development initiatives. This focus on social responsibility fosters a sense of shared prosperity and contributes to sustainable development within the communities they serve. Cooperatives provide essential services and support for individuals and communities, promoting economic growth, social inclusion, and environmental protection (Zamagni, S., & Zamagni, V. 2010). In India, cooperative societies have been a driving force behind progress in agriculture, banking, credit, and various other sectors like agro-processing, storage, marketing, dairy, fisheries, and even housing. Their contributions to poverty alleviation, food security, and job creation are undeniably significant. Economic cooperatives in India can improve income for women, but alone cannot address gender inequalities (Mayoux, L. 1995). As per the study I can ensure that, Cooperatives can play a significant role in promoting inclusive growth and addressing social and economic inequalities. Here are some examples of major sectors are discussed as under;

i. **Agricultural cooperatives empowering small farmers**:

Agriculture is the backbone of the economies of developing countries like

India. Agriculture sector contributes around 18.3% towards the Gross Domestic Product (GDP). It also provides employment opportunities to about 44% of the working force. Fisheries, horticulture, animal husbandry, dairy farming, poultry, and milk manufacturing are industries associated with agriculture. The economy of the nation is greatly impacted by any changes made in the agriculture sector. The primary sources of raw materials for the largest industries—textiles, food processing, milk, jute, and sugar—come from agriculture. Agricultural cooperatives like Amul in Gujarat and OMFED in Odisha empower small farmers by providing a collective platform to market their produce, eliminating middlemen and securing fairer prices. This direct connection with consumers increases their income, improves livelihoods, and fosters inclusive growth within the agricultural sector. The National Bank for Agriculture and Rural Development (NABARD) played a crucial role in providing financial support and guidance to the agricultural cooperatives.

As per the National Cooperative Database(NCD)-2023, the agricultural domain of Indian Cooperatives includes the Short-term Cooperative Credit Structure (STCCS) comprises 1,03,304 Primary Agriculture Credit Societies (PACS) and 351 District Central Cooperative Banks (DCCBs). For long-term rural credit, the operation involves 14 State Co-operative Agriculture and Rural Development Banks (SCARDBs) and 533 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs). The report encompasses a wide array of cooperative entities, including Credit and Thrift Societies, Urban Cooperative Banks, Dairy Cooperatives (1,41,807), Fishery Cooperatives (25,649), and 26,798 Primary Agriculture and Allied Cooperatives. Significant roles are played by Labour cooperatives, consumer cooperatives (21,067), and marketing cooperatives (9,121). In the housing cooperative sector, there are 1,91,734 societies, while 44,545 labour cooperatives and 19,576 Handloom Textile & Weaver Cooperative Societies address specific needs. The sugar sector sees the involvement of 281 cooperatives, and there are 22,735 Primary Agro Processing/Industrial Cooperatives. Livestock cooperatives (16,677) make essential contributions to the cooperative network.

ii. **Women-led cooperative enterprises promoting gender equality**:

Women-led cooperatives, exemplified by the Self-Employed Women's Association (SEWA) in India, are powerful tools for advancing gender equality and inclusive growth. SEWA, combining trade union and cooperative elements, empowers women in the informal sector. It provides them with a platform for collective action, access to financial services and training, and a way to market their products together. This comprehensive approach helps women transition from low-paying, exploitative informal work towards more dignified and financially rewarding livelihoods. As per the report of NCD 2023, Women's Welfare Cooperatives promote women’s well-being and

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empowerment through cooperative principles. These cooperatives address women's socio-economic challenges, incorporating education, healthcare, economic empowerment, and social support. The sector has 24,261 societies with 54,21,424 members. Madhya Pradesh has the highest count of cooperatives (11,073), followed by Rajasthan (4,218) and Assam (2,885). Notably, Telangana has the highest number of registered members (30,96,825), followed by Rajasthan (6,23,324) and Assam (6,18,927).

iii. **Urban cooperative societies addressing urban poverty:**

Urban cooperative societies like India's National Slum Dwellers Federation (NSDF) are tackling urban poverty through collective action. By mobilizing slum residents, the NSDF empowers them to advocate for essential services like housing, sanitation, and electricity. This network leverages cooperative principles to improve living conditions, ensuring slum dwellers have a voice in shaping their communities and participating in urban development.

iv. **Cooperative Banks and Credit Societies are promoting Financial Inclusion**:

Cooperative Banks and Credit Societies play a crucial role in promoting financial inclusion. They cater to the banking needs of individuals in rural and semi-urban areas, offering various financial services, including savings, credit, and insurance. These institutions significantly reduce the dependency on traditional moneylenders and empower individuals with limited access to mainstream banking. Urban Cooperative Banks (UCBs) with 11 federations are operational in 1,502 societies. Notably, Maharashtra, with 428 UCBs and 60,21,811 membership count, boasts the highest number, followed by Karnataka, with 279 societies having 23,35,863 members, and Gujarat with 187 societies and 14,91,531 members. The Credit and Thrift Cooperatives have a membership of 4,32,75,731 in 79,999 societies. Telangana records the highest number of societies (24,024), while the highest number of memberships is recorded in Maharashtra (2,27,27,861).

Roadblocks to Inclusion: Challenges Faced by Cooperatives

Cooperatives have the potential to be effective instruments for financial inclusion because of their member-owned structure and emphasis on social benefit. However, the cooperative sector faces a number of difficulties in spite of a complex institutional and statutory framework for regulation. According to the National Cooperative Policy of 2002, the cooperative sector has a number of obstacles that prevent them from completely promoting financial inclusion;

❖ **Challenges of Governance and Management:**

Ensuring effective governance presents a double-edged sword for cooperatives. While strong leadership and professional management are crucial for long-term success, attracting and retaining qualified personnel can be challenging, especially for smaller cooperatives. Additionally, balancing democratic participation by members with

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efficient decision-making processes proves difficult. Striking the right balance is key to remaining responsive to member needs while operating effectively.

- **Lack of awareness on rights among members of the cooperatives:**

  A major hurdle for cooperatives is member rights awareness. Many members, unaware of their voting power or ability to influence decisions, may be hesitant to participate or hold leadership accountable. This lack of knowledge weakens the cooperative structure and hinders its effectiveness.

- **The Challenge of Scaling Cooperatives:**

  Scaling up operations while maintaining the core cooperative principles of member ownership and democratic control can be difficult. The strength of the cooperatives is the principle of 'People's money, people's control', reinstating the power of decision-making to its members. But making the cooperatives sustainable requires significant investments in capacity building and a long period of handholding. Interference by government officials and politicians also works as a deterrent to the acceptance of cooperatives as empowering organizations leading to these organizations becoming more Government-driven than member-driven

- **Financial frauds and mismanagement**:

  Financial frauds and mismanagement in cooperative banks pose a serious threat, jeopardizing the savings of low-income individuals who can least afford such losses. This is particularly concerning in states like Kerala, with over 1,600 primary agricultural cooperative banks. Here, numerous cases of mismanagement have come to light, with over a hundred societies defaulting on deposit repayments, highlighting the vulnerability of these institutions.

- **Indian Cooperatives in a Changing Landscape:**

  Cooperatives in India have achieved success and acclaim, but face threats from competitive environment and political atmosphere, requiring innovation and re-establishment as business entities with social concerns (Dubhashi, M. 2005).

- **Challenges of increase in Non-performing Assets:**

  Cooperative banks play a crucial role in rural India, but face challenges like regulatory overlap, high non-performing assets, and decreased depositor trust (Aggarwal, D., Sonam, M., & Bhushan, D. 2023). The underwhelming performance of cooperative assets might stem from two possibilities. One, they may be serving a clientele with a lower capacity to repay loans. Alternatively, the borrowers could have been disproportionately impacted by the pandemic or other external factors. Finally, it's also possible that the cooperatives themselves are facing challenges in collecting outstanding loans.

- **Challenges in a globalized, market-oriented landscape:**

  Integral to India's rural economy, credit cooperatives face new challenges in a globalized, market-oriented landscape. As processes like decentralization, agricultural industrialization, and rural migration reshape the environment, these cooperatives must adapt and reinvent themselves. By reevaluating their role and practices, they can remain relevant and continue their far-reaching impact on agricultural growth and rural development (I., & Patra, M. 2013).

- **Challenges of Customer Relationship Management:**

  Mid-sized urban cooperative banks in India have potential for growth and sustainability,

ISSN(online): 2582-659X

but need better customer relationship management and business strategies to capitalize on their strengths and overcome challenges (Srivastava, D. 2021).

Strategies to overcome the Challenges and enhance the role of Cooperatives in Financial Inclusion

There is potential for the cooperative sector to make a substantial contribution to India's equitable development. There are several ways to improve its function in guaranteeing inclusive growth in general. The following tactics can help cooperatives overcome current obstacles, improve their operational efficiency, and become more crucial to the goal of financial inclusion, especially for low-income and distant populations;

- ✓ **Cooperative Ecosystem need to be Strengthening:** Fostering a strong cooperative ecosystem is essential for their success. This requires an enabling policy environment that acknowledges the unique characteristics and contributions of cooperatives. Such policies should address the specific challenges they face, creating a space where cooperatives can thrive and contribute to a more inclusive financial landscape.
- ✓ **Enhancing Governance Structures**: Strong governance is the cornerstone of a healthy cooperative. By fortifying governance mechanisms, cooperatives can enhance accountability, transparency, and democratic decision-making. This includes promoting fair elections, encouraging active member participation, and establishing robust monitoring and evaluation systems. These efforts will ensure the cooperative remains responsive to member needs while operating with integrity and long-term sustainability.
- ✓ **Expansion in Financial Inclusion**: To accelerate financial inclusion, fostering "cooperative-friendly" financial institutions is crucial. These institutions, recognizing the distinct needs of cooperatives, can offer tailored solutions: accessible credit facilities to fuel growth, investment capital for expansion, and risk management instruments to navigate challenges. This targeted support will empower cooperatives to better serve their members, particularly those in underserved communities.
- ✓ **Investing in Skills Development**: Investing in capacity-building & skill enhancement is key to a cooperative's long-term health. By offering training programs, workshops, and mentorship opportunities, cooperatives can equip their members and managers with the technical, managerial, and entrepreneurial skills they need to succeed. These programs should address core areas like financial management, cooperative governance, marketing, and value chain development, ensuring cooperatives can operate effectively and sustainably.
- ✓ **Fostering Partnerships and Collaboration:** Fostering collaboration between cooperatives, government agencies, and civil society organizations holds immense potential for achieving inclusive and sustainable development. Partnering with government departments creates a win-win situation. Cooperatives gain access to technical support, infrastructure, and policy advocacy, while governments benefit from cooperatives' deep community roots and member-centric approach. This collaborative effort paves the way for a more inclusive and prosperous future for all.
- ✓ **Implement technologies and innovations:** By embracing digital technologies and innovation, cooperatives can unlock significant improvements in efficiency, productivity, and outreach. Investments in technological infrastructure, coupled with

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training in digital literacy and e-commerce, empower members and staff. This, alongside the development of digital platforms for cooperative operations and marketing, creates a more agile and connected cooperative ecosystem, allowing them to reach new customers and better serve existing ones.

A multi-pronged approach is key to unlocking the full potential of India's cooperative sector and its contributions to inclusive growth. Overcoming existing barriers requires coordinated efforts from policymakers, cooperative leaders, development agencies, and all stakeholders. By implementing strategies that strengthen governance, enhance financial inclusion through tailored products, invest in capacity building, foster collaboration, and leverage technology, cooperatives can create a more enabling environment for themselves. This collaborative effort will ensure their long-term sustainability and empower them to play a more significant role in achieving equitable development for all.

The Regulatory Landscape of Cooperatives in India

India's cooperative sector operates under a complex, dual regulatory framework with oversight coming from both central and state governments. This structure aims to balance the autonomy of cooperatives with ensuring accountability. Let's delve deeper into the key components of this framework:

1) **Central Level Regulation:**
    - **The Multi-State Cooperative Societies Act, 2002 (MSCS Act):** This Act governs multi-state cooperative societies, those operating in more than one state. It dictates their formation, functioning, and winding up procedures.
    - **Model Cooperative Societies Act, 1999:** This Act serves as a guiding framework for state-level cooperative legislation. While not directly binding, many states have adopted its principles in their own laws.
2) **State Level Regulation:**
    - **State Cooperative Societies Acts:** Each state has its own cooperative societies act that governs the formation, functioning, and winding up of primary cooperatives operating within their boundaries. These state-level acts may differ in detail but typically address aspects like membership requirements, capital structure, election processes, management practices, and dispute resolution mechanisms.
3) **Regulatory Bodies:**
    - **Ministry of Cooperation:** Recognizing the immense potential of cooperatives, the Indian government took a significant step in 2021 by establishing a dedicated Ministry of Cooperation. This ministry serves a crucial role in streamlining policy development for cooperatives. It aims to bridge the gap between central and state levels, fostering better coordination and collaboration. Ultimately, this ministry is dedicated to propelling the growth and impact of cooperatives across the nation. Established on July 6th, 2021, it separated from the Ministry of Agriculture, Cooperation and Farmers Welfare. With a focus on "**Sahakar se Samriddhi**" (prosperity through cooperation), the Ministry of Cooperation prioritizes modernization, transparency, computerization, and strengthening the overall cooperative ecosystem in India.
    - **National Development Council (NDC):** The National Development Council (NDC) 1958 focused on the

ISSN(online): 2582-659X

development of the cooperative societies for rural transformation.

- **National Cooperative Development Corporation (NCDC)**: The National Cooperative Development Corporation (NCDC) is a central agency for the financial affairs. It formulates policies for the promotion and planning for the production, storage and marketing of various agro products and fertilizers. It is mainly involved in financing of the cooperative enterprises.
- **Central Registrar of Cooperative Societies:** This office, under the Ministry of Cooperation, oversees the implementation of the MSCS Act and maintains a national-level database of multi-state cooperatives.
- **State Registrars of Cooperative Societies:** Each state appoints a registrar to oversee the implementation of their respective cooperative societies act and maintain records of primary cooperatives within the state.
- **Reserve Bank of India (RBI):** The RBI regulates certain cooperative banks, particularly Urban Cooperative Banks (UCBs). It sets prudential norms for their operations, ensuring financial stability and consumer protection.

The ongoing efforts to improve coordination, address inconsistencies, and promote a more enabling environment will be crucial for the future growth and success of the cooperative sector in India. Striking a balance between autonomy and accountability remains a key objective for the regulatory framework.

Key Findings on the Cooperative Sector and Inclusive Growth in India

This research examined the potential of the cooperative sector to contribute to inclusive growth and equitable development in India. Following are of the key findings of this study made by us;

A. **A Path Towards Inclusive Growth:** The study identified cooperatives as a significant force for positive change. By providing access to essential services like financial products and markets, cooperatives empower underserved communities. They create income-generating opportunities and foster entrepreneurial initiatives, putting individuals and communities on a path to self-reliance. Additionally, the member-owned structure of cooperatives inherently promotes a fairer distribution of wealth, leading to a reduction in socio-economic disparities.

B. **Challenges to Address:** Despite their potential, cooperatives face several challenges that hinder their full impact. Weak governance practices, such as lack of transparency or member participation, can lead to inefficiencies and hinder effectiveness. Limited access to capital and financial resources can restrict their growth and ability to deliver essential services, particularly in rural areas where infrastructure deficiencies may further impede access. Existing societal inequalities create barriers to participation for certain groups, and a lack of technical and managerial skills among members and leaders can limit the efficiency of their operations.

C. **Strategies for Enhanced Impact:** The research highlights several strategies that can unlock the full potential of

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cooperatives. Creating a supportive ecosystem through policies that address cooperative-specific challenges and encourage growth is crucial. Strengthening governance by implementing transparent and accountable practices, promoting member participation in decision-making, and building strong leadership is essential. Expanding financial inclusion through tailored products and services for underserved communities, along with facilitating access to credit and investment opportunities, can empower them further. Investing in capacity building initiatives through training and development programs will equip members and managers with the skills necessary for successful cooperative operations. Finally, fostering collaboration between cooperatives, government agencies, and civil society organizations allows them to leverage expertise and resources for wider impact, creating a more inclusive and equitable future for all.

Conclusion and Recommendations for the future research

Cooperatives in India have emerged as a powerful mechanism for financial inclusion, bridging gaps left by traditional financial institutions. By focusing on community-driven initiatives, they empower marginalized sections of society, including farmers, women, and urban poor, fostering sustainable development. Despite their significant contributions, challenges such as governance issues, financial mismanagement, and limited resources hinder their full potential. To maximize their impact, a robust policy framework, capacity-building programs, and enhanced access to technology are essential. Strengthening collaboration among cooperatives, governments, and private entities can amplify their reach and effectiveness. Future research should focus on innovative cooperative models, comparative analysis, and quantifying socio-economic impacts to optimize strategies for inclusive growth.

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