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The Role of Cooperative Societies in Strengthening Agricultural Productivity and Rural Livelihoods

*Sidhartha Mishra and Neha Dwivedi
College of Agriculture, Indore, RVSKVV, Gwalior, Madhya Pradesh, India
*Corresponding Author's email: mishrasidhartha01@gmail.com

Cooperative societies in India comprise one of the largest grassroots economic and social networks globally, with over 8,50,000 registered societies and a membership exceeding 420 million as of 2025. Rooted in the principles of voluntary membership, democratic governance, and mutual benefit, these societies operate across various sectors, including agricultural credit, dairy production, housing, urban banking, and marketing. At the centre of this structure is the three-tier system, particularly prominent in the agricultural credit sector, comprising Primary Agricultural Credit Societies (PACS) at the village level, District Central Cooperative Banks (DCCBs) at the district level, and State Cooperative Banks (SCBs) at the apex. This article gives an in-depth analysis of the cooperative movement's historical evolution, institutional structure, economic contributions, governance challenges, digital transformation, gender inclusion, environmental sustainability, regulatory frameworks, and prospects.

Introduction

India's agricultural sector forms the backbone of its economy, employing nearly 46% of the workforce and contributing significantly to the nation's Gross Domestic Product. However, the sector continues to face multifaceted challenges, including fragmented landholdings, limited market access, inadequate credit availability, and persistent poverty affecting over 800 million rural dwellers. Cooperative societies have emerged as transformative institutional frameworks that enable small and marginal farmers to overcome these constraints through collective action and shared resources. Over the past century, agricultural cooperatives in India have evolved from rudimentary credit societies to comprehensive multi-functional organizations that address production, marketing, processing, and service delivery challenges.

Historical Evolution and Current Status of Agricultural Cooperatives in India

The foundation of cooperative societies in India was established in 1904 through the Cooperative Credit Societies Act, which aimed to provide affordable credit to farmers struggling against exploitative moneylending practices. This legislative framework reflected a critical recognition that smallholder farmers required institutional support mechanisms to access capital and improve agricultural productivity. More than 120 years later, India's cooperative ecosystem has expanded substantially, encompassing diverse organizational structures serving multiple agricultural subsectors.

According to recent government data, India currently operates approximately 96,000 rural cooperative banks and 1,485 urban cooperative banks, making it one of the world's largest cooperative networks. The National Cooperative Union of India, functioning as the apex body, coordinates activities across state-level cooperative federations and district central cooperative banks. This hierarchical structure, often referred to as the "three-tier cooperative system," comprises Primary Agricultural Credit Societies (PACS) at the grassroots level, District Central Cooperative Banks (DCCBs) at the intermediate level, and State Cooperative Banks (SCBs) at the apex level.

The cooperative movement has transcended credit provision to encompass multi-purpose organizations operating in diverse agricultural subsectors. Successful examples include the Indian Farmers Fertiliser Cooperative Limited (IFFCO) and the Krishak Bharti Cooperative Limited (KRIBHCO), which have transformed India's fertilizer sector and achieved international recognition. The dairy cooperative sector, particularly exemplified by the Anand Milk Union Limited (AMUL) model, demonstrates how cooperatives can integrate smallholder farmers into value chains while ensuring fair returns and premium product quality.

Cooperative Societies as Financial Inclusion Instruments

Access to formal credit remains a fundamental challenge for India's smallholder farming community, with traditional moneylenders continuing to charge exploitative interest rates exceeding 40% annually. Cooperative societies directly address this challenge through Primary Agricultural Credit Societies (PACS), which operate at the village level and provide short-term agricultural credit to registered members. As per government records, PACS have disbursed agricultural credit to over 100 million farmers, with annual loan disbursements exceeding Rs. 1.5 trillion.

The effectiveness of PACS in enhancing agricultural productivity and farmer welfare has been documented through multiple studies. Research analyzing PACS operations across Indian states reveals that farmers accessing cooperative credit experience significant productivity improvements compared to non-borrowers. Specifically, farmers receiving PACS credit demonstrate increased crop yields, higher agricultural returns, and improved benefit-cost ratios across diverse crops, including wheat, rice, pulses, and oilseeds. Furthermore, PACS credit significantly improves household food security and nutritional status among member families.

However, the performance of cooperative credit institutions varies significantly across regions and states. Analysis of PACS in Haryana and other states shows that, while membership has grown, the number of operational PACS has slightly decreased, indicating ongoing consolidation and restructuring of cooperative systems. Despite this, PACS still mobilize considerable rural deposits and offer vital financial services that link rural savings with agricultural credit needs.

Enhancing Agricultural Productivity Through Cooperative Marketing and Input Supply

Beyond credit provision, cooperative societies have transformed agricultural marketing by creating direct linkages between farmer-members and consumer markets, thereby reducing intermediary exploitation and enhancing farmer profit margins. Cooperative marketing societies have established systematic mechanisms for collective procurement, quality standardization, bulk processing, and market aggregation that individual farmers cannot achieve independently.

The marketing effectiveness of cooperatives is particularly evident in commodity-specific sectors. Research examining Farmer-Producer Organizations (FPOs) and cooperative marketing channels reveals that farmers accessing cooperative marketing channels receive substantially higher prices for their produce compared to farmers selling through traditional spot markets. For instance, analysis of agricultural marketing channels demonstrates that FPC-mediated marketing achieves market efficiency ratios exceeding 1.77 compared to 1.55 for non-FPC channels, with producer price differentials reaching 34.73% versus 36.18% for non-FPC systems.

Cooperative input supply systems have similarly revolutionized farmer access to quality seeds, fertilizers, and agricultural chemicals. Organisations such as IFFCO and KRIBHCO have established nationwide networks delivering subsidised inputs at controlled prices, directly improving crop productivity across diverse farming systems. Government data indicates this agricultural input cooperatives serve approximately 40 million farmers annually, providing both critical inputs and technical advisory services.

Farmer-Producer Organizations: Evolution and Impact

The emergence of Farmer-Producer Organizations (FPOs) in the late 2000s represents an institutional innovation building upon traditional cooperative principles while introducing more business-oriented governance structures. FPOs aggregate smallholder farmers into producer groups that facilitate collective marketing, technology adoption, and value addition activities. As of 2024, India has registered approximately 10,000 FPOs, benefiting over 4 million farmers with an average income enhancement of 20-25%.

Government initiatives have significantly accelerated FPO growth and development. The Union Ministry of Agriculture launched the "Formation and Promotion of 10,000 New Farmer-Producer Organisations" scheme with a budget allocation of Rs. 581.67 crores in the 2024 budget, reflecting a serious commitment to institutional strengthening at the grassroots level. This scheme combines financial support for FPO establishment with technical assistance and capacity-building programs designed to ensure organizational sustainability.

The impact of FPO membership on farmer income and agricultural productivity has been rigorously evaluated across multiple states and crop systems. Comparative analysis of FPO farmers versus non-FPO farmers demonstrates that FPO participation yields net income advantages exceeding Rs. 28,197 per hectare in certain crop systems, representing 36.57% productivity advantages driven primarily by technological improvements rather than increased input utilization. These finding underscores how cooperative aggregation enables technology adoption and knowledge dissemination at scales individual farmers cannot achieve.

Dairy Cooperatives

The dairy cooperative sector exemplifies how cooperative institutional arrangements can comprehensively transform rural livelihoods. The AMUL model, established in Gujarat, operates as a three-tiered structure comprising village dairy cooperatives, district unions, and a state federation. This organizational design has enabled over 3.6 million dairy farmers to integrate into formal milk value chains while maintaining democratic governance and equitable benefit distribution.

The economic impact of dairy cooperative membership on farmer welfare has been significant. Comparative analysis shows that dairy cooperative members enjoy considerably higher household income, better food security, and improved nutritional status compared to non-member dairy farmers. The cooperative structure has also promoted technological adoption, including better breed selection, veterinary healthcare, and balanced feeding practices that collectively boost milk production and animal productivity.

Women's participation in dairy cooperatives deserves particular emphasis, as over 3,000 women-only dairy societies have been established in Karnataka alone since the 1980s, creating economic empowerment opportunities for rural women while strengthening household food security and decision-making authority. This gender-focused institutional development acknowledges how cooperative frameworks can address intersectional development challenges simultaneously.

Addressing Implementation Challenges and Sustainability Constraints

Despite significant institutional achievements, agricultural cooperatives in India continue facing considerable operational and governance challenges that constrain their effectiveness in reaching the poorest and most marginalized farmers. Research examining cooperative society performance identifies several critical constraints, including inadequate professional management, political interference in organizational governance, excessive dependence on government financing, and insufficient member participation in decision-making processes.

The Non-Performing Assets (NPA) problem represents a significant financial constraint affecting cooperative sustainability. High loan default rates, often exceeding 30-40% in certain states, undermine cooperative financial viability and restrict lending capacity for new member borrowers. Research attributes default patterns to restrictive loan conditions, limited creditworthiness assessment mechanisms, and periodic government loan waiver announcements that inadvertently encourage default behaviour.

Moreover, approximately 70-85% of PACS operate at financial losses, highlighting fundamental sustainability challenges requiring urgent policy attention and operational restructuring. These performance difficulties disproportionately affect the poorest and most marginalized farmers, who paradoxically require cooperative services most urgently yet face barriers to accessing these services due to inadequate savings, limited land collateral, and insufficient social capital within cooperative organizations.

Women's Empowerment and Social Inclusion Through Cooperatives

Cooperative societies have emerged as important platforms for advancing gender equality and social inclusion within rural communities. Women's participation in cooperatives has expanded significantly, particularly through dedicated women-focused self-help groups and women-only cooperative societies that address specific constraints limiting women's participation in mixed-gender organizations. These women-centric cooperatives have facilitated women's access to credit, production inputs, market information, and income-generating opportunities previously unavailable to them.

The women's empowerment impacts extend beyond income generation to encompass improved intrahousehold decision-making authority, enhanced nutrition and health outcomes for household members, and strengthened social capital and community leadership. Research specifically documenting women's empowerment through cooperative participation indicates improvements in women's control over productive resources, participation in household decisions affecting children's education and health, and leadership development preparing women for community governance roles.

Cooperative societies have also proven effective in advancing social inclusion for scheduled caste and scheduled tribe communities, historically marginalized in agricultural markets and credit systems. Government data indicates approximately 20% of PACS membership comprises socially backward farmers, with specialized cooperative arrangements providing targeted support to these communities.

Digital Transformation and Technological Integration

Recent policy initiatives recognize that cooperative sustainability requires substantial technological modernization and digital integration. The National Cooperative Policy 2025, established by India's Ministry of Cooperation, prioritises digitization of Primary Agricultural Credit Societies (PACS), establishment of a National Cooperative Database, and integration with e-commerce platforms, including eNAM (electronic National Agriculture Market) and Government e-Marketplace (GeM).

These digital transformation initiatives aim to enhance transparency, improve member participation, facilitate real-time information sharing, and reduce administrative bottlenecks that currently compromise cooperative effectiveness. Mobile-based advisory systems, digital payment mechanisms, and data-driven decision support tools are being progressively integrated into cooperative operations to modernize service delivery and improve operational efficiency.

Policy Framework and Government Support Mechanisms

India's government has established comprehensive policy frameworks that support cooperative development across various agricultural subsectors. In addition to the foundational Cooperative Credit Societies Act of 1904 and subsequent cooperative legislation, recent policies, including the National Cooperative Policy 2025, have created institutional mechanisms to reform and strengthen the cooperative sector.

Government subsidies for cooperative input provision, concessional credit from NABARD (National Bank for Agriculture and Rural Development), and dedicated capacity-building programs administered through state cooperative departments provide financial and technical support enabling cooperative operations. The NABARD has committed Rs. 6,865 crores specifically for FPO development and strengthening, reflecting a serious financial commitment to farmer collective institutionalization.

However, policymakers increasingly recognize that sustainable cooperative development requires addressing fundamental governance deficiencies, enhancing member participation, reducing political interference, and strengthening cooperative regulatory frameworks. The proposed reforms emphasize professionalization of cooperative management, transparent board selection processes, performance-based accountability mechanisms, and fiscal autonomy, allowing cooperatives to retain operational surpluses for member benefit rather than government appropriation.

Conclusion

Agricultural cooperative societies represent critical institutional arrangements enabling India's smallholder farmers to overcome market failures, access finance, adopt technologies, and collectively negotiate improved terms of agricultural engagement. The evidence comprehensively demonstrates that cooperative membership enhances agricultural productivity, increases farmer incomes, improves food security and nutrition, and strengthens social capital within rural communities. By strengthening agricultural cooperatives and farmer collectives, India can advance its overarching development objectives of poverty reduction, food security, rural employment generation, and inclusive economic growth while building agricultural resilience to climate change impacts and environmental degradation challenges.

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