



Unlocking Cooperatives' Potential in Empowering MSMEs

For Prelims: [International Day of Cooperatives](#), [Cooperatives](#), [MSMEs](#), [PM Vishwakarma scheme](#), [Multi-state Cooperative Societies \(MSCS\)](#), [RBI](#), [NABARD](#), [White Revolution](#), [IFFCO](#), [PACS](#), [GST](#), [National Cooperative Policy 2023](#), [MUDRA](#), [CGTMSE](#), [FPOs](#). —

For Mains: Cooperatives and their role in the Indian economy and strengthening of MSMEs, Challenges that hinder effective use of cooperatives in empowering MSMEs in India and way forward.

[Source: BL](#)

Why in News?

As India celebrates the [International Day of Cooperatives](#) (5th July, 2025) and marks four years of the **Ministry of Cooperation**, the focus is on **harnessing the potential of cooperatives and MSMEs**, especially through initiatives like the [PM Vishwakarma scheme](#) to **empower artisans** and promote **inclusive economic growth**.

How Can Cooperatives Contribute to Boosting the MSME Sector in India?

- **Financial Empowerment & Resource Pooling:** Cooperatives allow MSMEs to pool **financial resources**, reducing reliance on **high-interest informal loans**.
 - For example, under the **PM Vishwakarma scheme**, artisan cooperatives can access credit at **lower interest rates (5-7%)** compared to individual borrowers.
 - Additionally, cooperatives help MSMEs share resources like **machinery and raw materials**, lowering costs and improving operational efficiency, **particularly for small-scale producers**.
- **Enhanced Market Access:** Cooperatives can help **MSMEs** tap into **larger markets** through **collective marketing, branding, and quality certifications**.
 - This boosts **visibility** and **competitiveness**, allowing **smaller businesses** to **expand their reach** and gain access to **national and global markets**.
- **Technology Adoption:** Cooperatives can set up **cluster-level training centers** for **skill upgradation** (e.g., **carpentry, pottery, tailoring**) and **modern techniques** like **digital tools** and **automation**.
- **Synergy with Government Schemes:** Cooperatives can act as an effective **delivery mechanism** for **government schemes** like the **PM Vishwakarma**, ensuring **MSMEs**, particularly **artisans**, receive **financial, technical, and market support**.
 - This **integration** enhances the **reach** and **impact** of government initiatives aimed at **MSME development**.
- **Sustainable & Inclusive Growth:** MSME cooperatives like **Lijjat Papad** and **SEWA** empower **women entrepreneurs** and support **rural empowerment**, while **waste-sharing** and **recycling initiatives** promote the **circular economy**.

PM VISHWAKARMA SCHEME

Vishwakarma Jayanti is celebrated to honour Vishwakarma - the architect of the gods in Hindu Mythology

Vishwakarma is also believed to be the architect of mythical city Lanka and the great image of Jagannatha at Puri in Odisha

OBJECTIVE

- To uplift traditional artisans and craftspeople
- Preservation of India's rich cultural heritage of traditional crafts
- Transitioning to the formal economy and global value chain

IMPLEMENTING MINISTRIES

- Ministry of MSMEs (Nodal Ministry)
- Ministry of Skill Development and Entrepreneurship
- Department of Financial Services (Ministry of Finance)

TYPE OF SCHEME

- Central Sector Scheme

TIMELINE

- 5 years from (FY23-24 to FY 27-28)

FEATURES

- Collateral-free credit support of up to Rs 3 lakhs @ interest rate of 5%
- PM Vishwakarma certificate and an I-card for enrolled artisans and craftspeople

REGISTRATION

- Common Service Centres in villages

COVERAGE - 18 TRADITIONAL TRADE SECTORS

- | | |
|------------------------------|---|
| ➤ Carpenters | ➤ Cobblers |
| ➤ Boat Makers | ➤ Masons |
| ➤ Armourers | ➤ Basket/Mat/Broom Makers /Cair Weavers |
| ➤ Blacksmiths | ➤ Doll & Toy Makers |
| ➤ Hammer and Tool Kit Makers | ➤ Barbers |
| ➤ Locksmiths | ➤ Garland makers |
| ➤ Goldsmiths | ➤ Washermen |
| ➤ Potters | ➤ Tailors |
| ➤ Sculptor, Stone breakers | ➤ Fishing Net Makes |

STIPEND AND INCENTIVES

- Rs 500 for skill training (stipend)
- Rs 1,500 to purchase modern tools
- Rs 15,000 as toolkit incentive

SIGNIFICANCE

- Recognition/support of artisans and their integration in global supply chain



What are Cooperatives in India?

- **About:** Cooperatives are **people-centred enterprises** owned and run by members to fulfill their **economic, social, and cultural needs**.
 - India hosts one of the **world's largest cooperative networks**, with over **800,000 cooperatives** across sectors like **agriculture, credit, dairy, housing, and fisheries**.
- **Evolution of Cooperative Sector in India:**
 - **First Five-Year Plan (1951-56):** Emphasized **promotion of cooperatives** for comprehensive **community development**.
 - **Multi-State Co-operative Societies Act, 2002:** Provides for the **formation and functioning** of **multi-state cooperative societies (MSCS)**.
 - **97th Constitutional Amendment Act, 2011:** Made **formation of cooperatives** a **fundamental right** (Article 19).
 - Introduced a new **Directive Principle (Article 43-B)** on cooperative societies.
 - Added **Part IX-B (Articles 243-ZH to 243-ZT)** titled "*The Co-operative Societies*".
 - Empowered **Parliament** to enact laws for **MSCS** and **state legislatures** for other cooperatives.

- **Establishment of the Union Ministry of Cooperation (2021)** provides a **dedicated policy framework**, and **empowered grassroots governance** under the vision of **“Sahakar se Samriddhi”**.
- **The Multi-State Co-operative Societies (Amendment) Act, 2022** introduced an **Election Authority**, created a **Rehabilitation Fund**, and allowed **state-level mergers**.
- **Key Contributions:**
 - **Employment Generation:** Cooperatives provide **13.3% of India's direct employment**, engaging 29 crore members across 8.14 lakh societies, creating livelihoods in both rural and urban areas.
 - **Agricultural Development:** Cooperatives disburse **15% of short-term agricultural credit**, manage 30% of sugar production, and handle 35% of fertilizer distribution
 - **Financial Inclusion:** With **20% of cooperatives in banking**, they provide affordable credit to farmers and small businesses, enhancing financial access in remote areas.
 - **Food Security:** Cooperatives like **Amul, NAFED, and IFFCO** play a pivotal role in milk production, dairy exports, and the distribution of agro-products.
 - **Women Empowerment:** Cooperatives like **SEWA and Lijjat Papad** empower women, promote self-help groups (SHGs).

Notable Cooperatives in India:

- **Primary Agricultural Credit Societies (PACS):** Grassroot arms of the **short-term cooperative credit structure**, linking farmers with **Scheduled Commercial Banks**, **RBI**, and **NABARD**.
- **AMUL (Anand Milk Union Limited):** A **dairy giant** and **White Revolution** pioneer, AMUL is a **federation of milk producers in Gujarat** that helped make India the **world's largest milk producer**.
- **IFFCO (Indian Farmers Fertiliser Cooperative):** One of the **world's largest fertiliser cooperatives**, **IFFCO** provides **quality fertilisers and agricultural inputs** to farmers across India.
- **HOPCOMS (Horticultural Producers' Cooperative Marketing and Processing Society):** Known for its **farm produce outlets**, ensuring **fair returns** to farmers.
- **Lijjat Papad (Shri Mahila Griha Udyog Lijjat Papad):** A **women's cooperative** empowering women through **papad production**.

Click Here to Read: [What are MSMEs?, Role of MSMEs in India's Economic Growth?, Recommendations by NITI Aayog on MSMEs.](#)

What Challenges Limit the Effectiveness of Cooperatives in Empowering MSMEs in India?

- **Misconceptions:** Many **MSME owners** perceive cooperatives as **government-controlled or political bodies**, not as **business enablers**.
 - There is a **lack of awareness** about various **cooperative models** like **producer cooperatives, credit societies, and marketing federations**.
- **Weak Financial Support:** **Cooperative banks** often face **liquidity crises**, limiting **MSME lending**, while **traditional banks** hesitate to lend to cooperatives due to **perceived risk and lack of credit history**.
- **Regulatory Complexity:** **Multiple laws** like the **Cooperative Societies Act, State Cooperative Laws**, and **GST compliance** create confusion, while **excessive bureaucracy** delays **registration and operational approvals**.
- **Lack of Digital Adoption:** Many **cooperatives operate in isolation**, missing **economies of scale**, and **low tech adoption** (e.g., **digital accounting, e-commerce**) limits their **market reach**.
- **Governance Deficits:** Many **cooperatives** suffer from **poor transparency, accountability, and internal audits**, weakening their role as reliable intermediaries for MSMEs.

What Measures are Needed to Strengthen Cooperatives for Empowering MSMEs in India?

- **Policy & Regulatory Reforms:** Provide **tax benefits** to MSMEs in cooperatives (e.g., **lower GST**), **prioritize them in public procurement**, **reduce compliance burdens** (e.g., **simplified GST filing**), and **align state laws** with the [National Cooperative Policy 2023](#).
- **Financial & Credit Support:** **Expand cooperative banking access** by strengthening **PACS** for non-farm MSMEs, linking cooperatives to **MUDRA**, **CGTMSE**, and **NABARD**, and promote **cooperative fintech platforms** and **digital banking training**.
- **Infrastructure Upgradation:** Adopt **digital tools** like **e-commerce integration** (ONDC, GeM), build **Common Facility Centers** for production, testing, and packaging and **logistics cooperatives** to reduce transport costs.
- **Market Linkages & Branding:** Promote **collective branding and certification** through **“CoopMade” labels** and boost **e-commerce** by linking cooperatives to platforms like **Amazon Karigar**, and develop **export clusters**.
- **Awareness & Advocacy:** Launch **national campaigns** like **“Cooperatives for Atmanirbhar MSMEs”** to showcase **success stories** through media, and drive **grassroots mobilization** by engaging **SHGs**, **FPOs**, and **industry associations**.

Conclusion

Cooperatives, strengthened by **policy reforms**, **digital adoption**, and **financial inclusion**, can revolutionize **MSME empowerment** in India. By addressing **governance gaps** and enhancing **market linkages**, they can drive **inclusive growth**, particularly for **artisans** and **women entrepreneurs**. The **synergy** between cooperatives and schemes like **PM Vishwakarma** can fuel India's **Atmanirbhar Bharat** vision.

Drishti Mains Question

Discuss how cooperatives can play a transformative role in empowering MSMEs in India.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q. Consider the following statements with reference to India : (2023)

1. According to the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the 'medium enterprises' are those with investments in plant and machinery between ₹15 crore and ₹25 crore.
2. All bank loans to the Micro, Small and Medium Enterprises qualify under the priority sector.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (b)

Q. With reference to 'Urban Cooperative Banks' in India, consider the following statements: (2021)

1. They are supervised and regulated by local boards set up by the State Governments.
2. They can issue equity shares and preference shares.
3. They were brought under the purview of the Banking Regulation Act, 1949 through an Amendment in 1966.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (b)

Mains

Q. “In the Indian governance system, the role of non-state actors has been only marginal.” Critically examine this statement. (2016)

Q. “In the villages itself no form of credit organisation will be suitable except the cooperative society.” – All India Rural Credit Survey. Discuss this statement in the background of agricultural finance in India. What constraints and challenges do financial institutions supplying agricultural finance face? How can technology be used to better reach and serve rural clients? (2014)

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