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MSMEs as catalysts for food and dairy sector development in India

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a transformative role in India's dairy and food processing sectors by fostering value addition, enhancing rural livelihoods, and strengthening supply chains. This review paper synthesizes recent literature (2023-2025), government reports, and empirical studies to evaluate the contributions of MSMEs in dairy and food sectors. The study highlights their economic significance, role in rural development, technological adoption, and policy support mechanisms. It also identifies key challenges such as financial constraints, infrastructure gaps, and regulatory compliance. The paper concludes with policy recommendations to enhance MSME competitiveness and sustainability.

Keywords: MSME, dairy sector, food processing, India, value chain, rural development

Introduction

India's agri-food economy is one of the largest globally, with the dairy sector emerging as a critical pillar. India continues to be the largest milk producer globally, supported by millions of smallholder farmers and decentralized production systems. Recent studies emphasize that the dairy sector is undergoing commercialization and sustainability transitions due to global competition and environmental challenges (Chaturvedi *et al.*, 2024; Agricultural Systems, 2024) ^[1]. Parallely, MSMEs have emerged as the backbone of India's industrial ecosystem. The MSME sector contributes approximately 30% to GDP, 45-48% to exports, and employs over 110 million people (Ministry of MSME, 2024) ^[3]. Their integration with agriculture-particularly dairy and food processing-has significantly enhanced value addition and income generation.

2. Overview of MSMEs in India

MSMEs encompass micro, small, and medium enterprises categorized based on investment and turnover. As of 2024-25 there are over 63 million MSMEs operate in India out of which nearly 49% are located in rural areas. The sector promotes inclusive and balanced regional development (Prashanti and Siddappa, 2024) ^[5].

MSMEs are recognized for:

- Low capital requirement
- High employment elasticity
- Flexibility and innovation

3. Structure of India's Dairy and Food Sector

India's dairy and food sector is the world's largest milk producer, dominated by smallholder farmers with 80% of milk coming from 2-5 animal farms. The structure is a hybrid of a robust three-tier cooperative system (e.g., Amul) and an expanding private sector, with 70% of marketed milk handled by the unorganized sector. Key players include GCMMF (Amul) and Nestle (Agricultural Systems, 2024).

3.1 Dairy Sector

Recent research highlights regional disparities in production and productivity across states, emphasizing the need for technological intervention (Kumbhar, 2024) ^[2].

- India's dairy industry is characterized by:
- Smallholder-based production systems

- Cooperative and private sector participation
- Rapid growth in milk production and availability

3.2 Food Processing Sector

The food processing industry

- Accounts for significant share of manufacturing GDP
- Bridges agriculture and industry
- Includes segments like dairy processing, packaged foods, beverages, and nutraceuticals
- MSMEs dominate this sector due to low entry barriers and high demand for localized products.

4. Role of MSMEs in Dairy Sector Development

MSMEs are pivotal in dairy sector development, driving rural growth through infrastructure modernization, value addition, and employment generation. They facilitate breed improvement, establish cold storage, and produce value-added products (cheese, paneer), strengthening the organized sector and expanding rural incomes.

4.1 Strengthening Dairy Value Chain

MSMEs contribute across the dairy value chain:

- Milk collection and aggregation
- Chilling and storage
- Processing into value-added products
- Packaging and distribution

These activities reduce wastage and enhance product shelf-life.

4.2 Enhancing Farmer Income

MSMEs act as intermediaries between farmers and markets by:

- Providing assured procurement
- Offering better price realization
- Facilitating access to urban markets

This leads to improved rural income and poverty reduction.

4.3 Technological Adoption

Modern MSMEs are increasingly adopting:

- Cold chain infrastructure
- Quality testing technologies
- Digital platforms

Technological interventions improve efficiency and reduce adulteration risks.

4.4 Sustainability and Innovation

Recent research highlights showed by Agricultural Systems, 2024 represent the importance of sustainable practices in dairy ^[7]:

- Efficient resource utilization
- Waste management
- Climate-resilient production systems

5. Role of MSMEs in Food Processing Sector

MSMEs are the backbone of India's food processing sector, contributing over 70% of total processing units and driving rural industrialization, employment, and value addition. They enhance farmer incomes by reducing post-harvest losses and connecting rural producers to markets. Key roles include modernizing traditional food production and

fostering innovation through support from schemes like PMFME and PLI.

5.1 Value Addition

MSMEs convert raw agricultural produce into:

- Dairy products (cheese, yogurt, butter)
- Processed foods (snacks, ready-to-eat meals)
- This significantly increases product value and shelf life.

5.2 Reduction of Post-Harvest Losses

India faces high post-harvest losses due to inadequate infrastructure. MSMEs:

- Provide storage and processing facilities
- Reduce spoilage
- Improve food availability

5.3 Employment Generation

MSMEs create employment opportunities in:

- Rural areas
- Semi-urban regions
- Women and youth entrepreneurship

5.4 Promotion of Traditional Foods

MSMEs play a key role in preserving:

- Indigenous dairy products
- Regional cuisines
- Ethnic food heritage

6. Economic Contributions of MSMEs

MSMEs are the backbone of the Indian economy, contributing approximately 30-35% to GDP and over 45% to manufacturing output. With over 7.47 crore units, they are the second-largest employer after agriculture, employing over 32 crore people, fostering innovation, and driving regional development. (Ministry of MSME, 2024) ^[3].

6.1 Contribution to GDP and Exports

- MSMEs contribute:
- ~30% to GDP
- ~45-48% to exports

6.2 Employment Generation

- Over 110 million jobs created
- Second-largest employer after agriculture

6.3 Rural Industrialization

Nearly half of MSMEs are located in rural areas, promoting:

- Balanced regional development
- Reduced urban migration

7. Government Policies and Support Mechanisms

7.1 Financial Support

- Pradhan Mantri Mudra Yojana (PMMY)
- Credit Guarantee Fund Scheme

7.2 Infrastructure Development

- Mega Food Parks
- Cold Chain Schemes

7.3 Skill Development Programs

Government initiatives aim to enhance MSME competitiveness and integration with global markets.

- Entrepreneurship development training
- Technology upgradation programs

8. Challenges Faced by MSMEs

MSMEs face significant challenges, primarily revolving around limited access to formal finance, delayed payments, and technological obsolescence. High compliance burdens,

lack of skilled labour, and intense competition from large enterprises further hinder growth. These operational, financial, and logistical bottlenecks often limit scalability and productivity.



8.1 Financial Constraints

- Limited access to credit
- High interest rates
- Delayed payments

8.2 Technological Gaps

- Low adoption of advanced technologies
- Lack of R&D capabilities

8.3 Infrastructure Deficiencies

- Poor cold chain facilities
- Inadequate transportation networks

8.4 Regulatory Compliance

- Complex licensing procedures
- Food safety standards compliance issues

9. Conclusion

MSMEs are indispensable for the development of India's dairy and food sectors. Their contribution to value addition, employment, and rural development underscores their importance in achieving inclusive economic growth. Strengthening MSMEs through policy support, technological innovation, and financial inclusion will be crucial for sustaining India's position as a global leader in dairy and food production.

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