

Bringing MSMEs into global value chains

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Though the growth and achievements of large businesses in India have received much attention, micro-, small and medium enterprises (MSME) actually account for over 99% of businesses. MSMEs are the largest employer in India outside of agriculture, employing over 11.1 crore people, or 45% of all workers. It is no exaggeration to call MSMEs - privately owned enterprise with less than ₹50 crore in investments in plant and machinery and turnover below ₹250 crore - the backbone of the Indian economy.

Every year on June 27, World MSME Day provides us with the opportunity to appreciate their valuable contribution to job creation and sustainable development across the world. Yet, these businesses are the ones that have faced the harshest of environments over the last few years.

The disruption of the pandemic severely impacted MSMEs, especially those in the services sector. Their small size and lack of access to resources meant that many were only beginning to mount a fragile recovery just when renewed war, supply shocks and soaring fuel, food and fertilizer prices presented a host of new threats. And all of this comes against the backdrop of the ongoing climate crisis, the greatest disruption multiplier of all.

At the same time, the potential of India's small businesses is truly immense. India faces a unique moment in history, a potential demographic dividend of tremendous proportions. To leverage this opportunity, India needs to create many jobs, especially for the one million young people entering the labour market every month.

Meeting standards

While some MSMEs operate at the highest industry standards, most do not meet today's standards on productivity, environmental sustainability, and health and safety of workers. This is further exacerbated by the high degree of informality in the sector, with many enterprises unregistered, and both employers and workers are lacking awareness of and commitment to comply with labour and environmental laws. As a result, informal enterprises cannot access



formal MSME support and financing nor participate in global value chains that require full compliance with all applicable regulations.

The Government of India has rightly identified the development of the country's MSME ecosystem as a top priority for achieving *Atma Nirbhar Bharat* (self-reliant India). India's ambitious "Make in India" campaign aims to catapult the country up the manufacturing value chain to position itself as a global manufacturing hub. Initiatives such as the production linked incentives (PLI) schemes and the recently launched zero effect zero defect (ZED) certification are helping to promote and boost the sector.

To help accelerate this process, the UN system in India is supporting these and other MSME development initiatives at the local, State and national levels. Agencies such as the United Nations Industrial Development Organization (UNIDO), International Labour Organization (ILO), United Nations Development Programme (UNDP), UN Women, IFAD and others are working with MSMEs as they navigate a rapidly changing post-pandemic economic landscape shaped by large-scale transitions, chiefly digitalisation, greening and the reorganisation of value chains.

Firstly, digitalisation concerns the integration of digital technologies, such as big data, artificial intelligence and virtual reality, in business processes, also known as Industry 4.0. With few exceptions, digitalisation into smart manufacturing operations is still in its infancy. Therefore, there is a need for replicable digital solu-

tions adapted for MSMEs, including digital enhancements for machinery and equipment currently in use. Government initiatives such as the Digital Saksham and the interlinking of the Udyam, e-Shram, National Career Service (NCS), and Atmanirbhar Skilled Employee-Employer Mapping (ASEEM) portals show the promise of targeted digitalisation schemes.

Environmental impact

Secondly, "greening" reduces the environmental impact of MSME operations and fosters cleantech innovation and entrepreneurship to accelerate the transition to a circular and low carbon economy. Energy efficiency provides a case in point as business and climate benefits go hand in hand. For example, together with the Bureau of Energy Efficiency (BEE), UNIDO provided energy efficiency advisory services to 695 MSMEs in 23 clusters covering brass, ceramic, dairy, foundry and hand tool sectors. As a result, these MSMEs invested themselves during the cash-strapped COVID period ₹157 crore to save 13,105 tonnes of oil equivalent and ₹81 crore in annual operating costs and preventing 83,000 tonnes of greenhouse gas emissions.

Thirdly, to increase the resilience of supply in response to recent shocks, production locations for global value chains are increasingly shifting and diversifying across countries and regions.

To further leverage this opportunity, UNIDO is spearheading the notion of manufacturing excellence.

This means fostering a culture of continuous improvement and innovation that reduces waste and increases productivity, safety and quality. In one partnership with the Automotive Components Manufacturers Association (ACMA), the participating SME component manufacturers have achieved average reductions of in-house and client rejections of 82% and 73% respectively, eliminated hazardous work conditions, and achieved cumulative annual savings of over ₹4.2 crore.

Job creation

The Prime Minister's Employment Generation Programme (PMEGP) is also creating opportunities for self-employment and micro enterprises, with over 7 lakh micro enterprises assisted in becoming economically viable. Similarly, ILO, together with the Federation of Indian Chambers of Commerce & Industry (FICCI) and corporates, is supporting MSMEs in creating and retaining jobs, with over 150 MSMEs having improved productivity, aligned to international standards and integrated into global supply chains, and the Start and Improve Your Business programme helping over a lakh young people across five States launch enterprises.

A forward-looking mindset centres on policy makers and society at large fully recognising and supporting the central socio-economic role that MSMEs play in India, as across the world. In turn, to fully unlock emerging opportunities in the rapidly changing global value chain ecosystem and maximise the demographic dividend, MSME owners need to further commit to formalising their businesses, investing in improved productivity, compliance and most of all, decent work and jobs for India's aspiring youth. As UN Secretary-General Guterres has urged, "Let us renew our commitment to leverage the full potential of MSMEs, rescue the Sustainable Development Goals and build a more prosperous and just world for all."

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