

Bringing MSMEs into inclusive and sustainable global value chains

(GS Paper 3, Indian Economy)

Context:

- Since 2017, **Micro, Small, and Medium Enterprises (MSME) day is observed on June 27**, every year, to recognise the contribution of these industries in the implementation of the Sustainable Development Goals (SDGs) and in promoting innovation, creativity and sustainable work for everyone.
- MSME day was marked by the United Nations General Assembly in its 74th Plenary on April 6, 2017.

Theme:

- The theme of MSME day 2022 is **‘Resilience and Rebuilding: MSMEs for Sustainable Development’**.

Contribution of MSME in India:

- 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.



Challenges during pandemic & Climate Change:

- 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.

Incapable of 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.

“Make in India”:

- 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.

UN Support to MSME in India:

- 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.**

Digitalization:

- 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 solutions 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.
- And under the **Partnership for Action on Green Economy, UNIDO and ILO** work to support government initiatives on inclusive and green transformation strategies for key manufacturing sectors, together with UNDP, the United Nations Environment Programme (UNEP) and the United Nations Institute for Training and Applied Research (UNITAR).
- ILO works in Pune and Ahmedabad to formalise municipal solid waste management for clean food, textile and garment value chains in Odisha and Andhra Pradesh.

Reorganisation of value chains:

- 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.
- This presents a strategic opportunity for India, which the PLI aims to tap into. Supply chain relocation is often accompanied by greater involvement of suppliers in innovation and product development.
- 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.

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.

Way Forward:

- The compelling vision of India as a world-class manufacturing and services hub for the world, moving towards upper middle-income status and achieving the Sustainable Development Goals, can best be achieved with the widespread and transformational uplifting of the MSME segment.
- Government initiatives, supported by UN agencies and partners, have helped demonstrate this is doable if further scaled up, with lessons for enhancement being drawn together, including the Ministry of MSME.
- 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.