



## **Making MSMEs efficient, innovative and inclusive for growth and job creation**

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India's economy has shown strong post pandemic recovery and growth. While India's large enterprises may dominate the narrative, they are critically dependent on parts, services and other inputs from Micro, Small and Medium Enterprises (MSMEs). These MSMEs employ over 11.1 crore people, some 45% of all workers in India, and contribute around 27% to the national economy. MSMEs essentially stitch together India's socio-economic fabric and drive its economy.

World MSME Day on June 27 puts the spotlight on the job creation and sustainable development contribution of MSMEs, and reflects on the opportunities and challenges for MSME development in changing market and societal contexts.

The critical role of MSMEs is recognised in the recently signed Government of India-United Nations Sustainable Development Cooperation Framework (UNSDCF 2023-27) -- the UN Country Team's collective partnership with India. Among other sectors, the Cooperation Framework prioritises economic growth and diversification along with creating fulfilling, safe, and secure jobs and livelihoods. The United Nations Industrial Development Organization (UNIDO) and the International Labor Organization (ILO) lead this work with further engagement from 13 other UN agencies and programmes, like UN Women (UNW) and the United Nations.

Development Programme (UNDP) all supporting in a coordinated manner. These collective efforts together with government leadership and other partners target the systemic challenges MSMEs face, including bridging gaps in human, organisational and technical resources.

MSMEs need to determine and execute their business strategy and plans in complex and rapidly changing market, business, and societal contexts. Small firms are often observed to have relatively weak entrepreneurial competencies, business and operational planning and management, and technical, analytical, problem solving and team working skills, leading to short-termism and ad-hocism.

UNIDO, therefore, for example, supports manufacturing excellence in the automotive components sector, through hands-on training and mentoring and empowering of shopfloor teams. So far, 269 MSMEs have collectively achieved annual cost savings of 8.2 crores, reduced rejects by on average 77% and improved workforce morale with lower absenteeism and reduced rotation in their workforces. ILO recently presented a macro-economic rationale for skills development and lifelong learning with population and workforce outcomes and suggestions for policy and best practices.

Entrepreneurial competencies, such as opportunity seeking and initiative, calculated risk taking and self confidence, are chiefly acquired through practice and nurtured with mentoring. UNIDO mentored 66 cleantech start-ups of which nine have since commercialised and a further 30 raised commercialisation funding.

These include, for example, Zerocircle--a women-led start-up that developed a seaweed-based plastic alternative for packaging of perishable produce – and MiniMines - a start-up with technology for recovery of high purity metals from waste lithium batteries.

The use of outdated and ill-maintained machinery is common among MSMEs, resulting in lower productivity, higher energy use and costs, more waste and greater hazards. The recently completed National Manufacturing Innovation Survey, by UNIDO, found that just 15% of micro-enterprises had implemented innovations in products, services or business processes, against 30% and 39% respectively for small and medium enterprises.

The underlying reasons are plentiful -- lack of financing, unwillingness to invest beyond the investment limit of the firm's current size classification, risk aversion, short-terminism and inability to access reliable and impartial knowledge on appropriate technology.

UNIDO catalogued and promoted feasible energy efficiency and renewable energy solutions for 26 clusters, such as the leading Belgaum, Coimbatore and Morbi clusters, covering brass, ceramic, dairy, foundry and handtool sectors. Aware of suitable technologies, 770 MSMEs invested ₹253 crores, to achieve annual savings of ₹146 crore and 24,315 tonnes of oil equivalent with reduction of 147,000 tonnes of greenhouse gas (GHG) emissions.

As in larger firms, MSMEs stand to benefit from increased women's participation and gender diversity. Currently women hold one out of five factory jobs in India, and these are highly concentrated in wearing apparel, food processing and electronics sectors and in four southern states (Andhra Pradesh, Karnataka, Kerala and Tamil Nadu). Expanding jobs and livelihood opportunities for women in manufacturing and investing in the care economy, which already employs many women, will both be crucial.

Investing in India's care economy could generate 11 million jobs by 2030, of which 32.5% would be for women according to ILO. Job security and better working conditions, including social protection, are needed to ensure decent employment. ILO supports government, workers' and employers' organisations with formalisation and development of the care economy, through policy, standards and capacity building, creating new opportunities for MSMEs.

In manufacturing, there is much scope to encourage women-friendly workplaces, in the board room, business and technical departments, and on the shopfloor. Select MSME manufacturers already experience that gender equality creates a more productive and healthy work environment with lower absenteeism and workforce turnover.

Expanding women's entrepreneurship has multiplier effects for decent employment, poverty reduction and economic growth. ILO, therefore works with stakeholders and partners to increase economic opportunities for women-led MSMEs by supporting them in starting, strengthening and expanding their enterprises.

MSMEs can lead the way to a self-reliant India, provided MSMEs take their business future in their own hands and embrace change. Competencies and skills, technology and innovation, diversity and inclusiveness are all proven entry points to leverage the full MSME business potential and unlock India's exceptional demographic and gender dividend potential.

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