'Green' lighting MSME recovery

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Views are personal

In climate action, MSMEs have an opportunity that India cannot afford to squander

SMALL BUSINESSES ARE the backbone of India's economy: it has more than 63 million micro, small, and medium enterprises (MSMEs), the second-largest number in the world after China. MSMEs employ 110 million workers, generate more than a quarter of the GDP, and contribute over 40% of exports. Micro enterprises account for more than 99% of all MSMEs in India, and more than half of the country's MSMEs are rural.

Unfortunately, this sector has been hit hard by the Covid-19 pandemic. The silver lining is that the recovery process is an opportunity to build back better. Focusing on MSMEs' transition to cheaper and cleaner energy could increase their competitiveness and insulate them from fluctuations in fossil fuel prices. It could also help India achieve its climate goals, address socioeconomic inequities, and improve public health outcomes by reducing pollution. India has made ambitious commitments to install 500 GW of renewable energy capacity and to ensure that 50% of its energy sources will be renewable by 2030. Given the MSME sector's substantial contribution to the economy and the number of people it employs, any climate action that neglects the sector will be incomplete.

Green tech support for small businesses

At a time when MSMEs are struggling to fix their finances, switching from conventional to renewable energy would help improve their profitability by reducing fuel costs. However, this transition would require some initial investments and small businesses will be hard-pressed in finding the resources and the technical support for this. Governments, both at the national and subnational levels, need to support such businesses through funding, technical assistance, and capacity building.

Increasingly, the corporate sector around the world is looking at greening its supply chain. So, for many small businesses, adopting green technologies will not only make them more competitive in the domestic and global markets but likely to become crucial for their growth. Therefore, an early start will be advisable.

Focusing on MSMEs' transition to cheaper and cleaner energy could increase their competitiveness

There is also an urgent need to focus on the role of MSMEs in air quality. The Global Burden of Disease study suggests that PM2.5 causes one-fifth of all deaths in the country each year. In 2019, PM2.5 cost an estimated 2 million lives. Considering the high number of MSMEs in India, a shift to clean technology could improve the quality of life of millions of workers, their families, and communities while also helping the MSMEs in a cost-effective and more efficient transition.

Tools and training are key

In making this transition, most Indian MSMEs are hampered by the lack of capital to invest in renewable resources such as rooftop solar, energy usage profiling, and benchmarking of the production process. These gaps must be addressed urgently, not only through financial and technological assistance, but also through an industrial cluster approach.

Stakeholders must have access to relevant tools and methodologies. In some sectors, notably power, India-specific data and benchmarking is not a hurdle, but this is not the case with many other sectors. Tools and training are needed to build capacities amongst MSMEs to monitor their processes, reduce their climate impacts and to help them ensure low-carbon growth.

Finally, a transition to clean energy will favour some and hurt many others. For example, as electricity generation and distribution become increasingly decentralized, the map of energy sector jobs, including ancillary jobs, will be transformed. New jobs will be created in some areas but lost in some others. Thus, it is crucial for policymakers, administrators, and businesses to identify who is likely to suffer, where new opportunities are emerging, and what skilling or reskilling is required.

Skilling women, vulnerable communities for jobs

At present, employment in the MSME sector is heavily skewed in favour of men, with women holding only 24% of jobs. Women's participation in urban areas is lower than in rural ones. A green transition must be treated as an opportunity to increase participation in the economy not only by women, but also by other marginalised groups by offering them adequate and appropriate social safety nets.

Developing well-designed skilling and reskilling programmes for vulnerable communities, pushing for inclusive policies, and supporting women and other disadvantaged groups with the financial and social infrastructure needed to access MSME jobs, will improve their participation in the sector. Facilitating funding for training and skilling and offering retirement benefits for eligible workers whose jobs are likely to be phased out could make this transition just and equitable. It will be important to remember that a fair and 'just' transition is essential to ensure successful attainment of our climate goals.