



International  
Labour  
Organization

## ► Concept Note: Policy Dialogue Building a market responsive, resilient, and inclusive MSME ecosystem for job rich and sustainable growth

Friday, 28 January 2022 | 14:00 – 16:00 hrs IST

### ► Background

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Experiences of the last decade or so, reveals the private sector has contributed to a sharp decline in the share of the population living below the poverty line from 52 per cent to 22 percent in developing world. Driven by their underlying business models, private sector is at the core of essential transformative processes necessary to build a future premised on environmental integrity, social inclusivity, and resilience. Sustainable business models can open economic opportunities worth \$12 trillion and create 380 million jobs<sup>1</sup> by 2030, with more than 50 per cent in developing countries.

However, shifting to private sector led growth leads to winners and losers. Understanding which sectors of the economy and society will be affected is critical to ensure supportive policies are put in place to reduce the cost of transition, especially on more vulnerable populations and traditional sectors of the economy, apart from managing political buy-in. Sequencing and speed of introducing policy measures, alongside effective design, targeting and implementation matters. Institutional capacity and shifting away from general subsidies are important

considerations to free up fiscal capacity for targeted social protection and productive investments.

The Micro, Small and Medium (MSME sector's) development is broadly synonymous with private sector development. It is a significant player in shaping the wider market eco-system, linking local players to global markets, evolving sectoral leadership, and competitiveness of value chains. Start-ups and young firms, which are generally small or micro firms, are the primary source of net job creation in many countries and are the driving force of innovation and sustainability in the private sector. MSMEs create 7 out of 10 new jobs in the formal sector, which represents approximately 90 percent of employment<sup>2</sup>.

There are about 365-445 million MSMEs in emerging markets of which only 25 per cent are formal but primarily micro, implying high prevalence and co-existence of informality. Most are led by the working poor, women, youth, and other marginalized and vulnerable groups at risk of falling into poverty and being left behind. Inclusive value chain development and the promotion of sustainable MSMEs in private-sector-led growth models through the social

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<sup>1</sup> Business & Sustainable Development Commission (2017) Better Business Better World: The Report of the Business & Sustainable Development Commission

<sup>2</sup> [World Bank SME Finance: Development news, research, data | World Bank](#)

dialogue<sup>3</sup> process, has the potential to serve as a useful bridge between the informal economy of traditional or family-run enterprises, and the formal corporate sector. However, this necessitates the development of a wider system of rules, regulations and supporting functions surrounding value chains and markets<sup>4</sup> which will promote entrepreneurship, improve productivity and working conditions to enhance MSME competitiveness; innovation; and digitalization.

The 2008 financial crisis and the ongoing COVID-19 have abundantly made clear the fragility of MSMEs and the need for designing evidence-based comprehensive MSME policy initiatives, and well organized and integrated government support, targeting and coverage of all MSMEs, especially the micro and the informal ones, to catalyse economic diversification and job-rich growth.

Central to this is intragovernmental policy coordination, including central and local or regional government. Greater synergy among policy actions and effectiveness can emerge from more extensive coordination among public-private stakeholders, including support by employers and business membership organizations, and through the process of social dialogue, besides greater access to the labour market, especially by women and other vulnerable sections of the population.

An analysis of the economic growth models in emerging economies in the Asia-Pacific region and their transformation into sectoral leaders or global sourcing hubs, reveals that there are both common trends and divergences across nations. MSMEs are at different stages of evolution in their respective economies; their relative roles and contributions also differ. Thus, the constraints they face, and the corresponding policies aimed at strengthening their competitive performance are expected to vary.

Nevertheless, there are also basic similarities in the broad challenges faced by MSMEs in the region which provides fertile ground for peer learning

Against this backdrop, the Policy Dialogue 'Building a market-responsive resilient and inclusive MSME ecosystem for job-rich growth' will provide a platform for knowledge sharing on the efforts made by select countries in transforming to market-based economy by transitioning from low-value agrarian to high-valued manufacturing products and emerging as sectoral leads or sourcing hubs. This dialogue being organized by the ILO initiative, 'Promoting Sustainable Enterprises in India (PSEI)' and supported by Korea International Agency for Cooperation (KOICA), will specifically delve upon the strategies adopted for enabling promotion of sustainable enterprises, developing the missing segments in the value chain, promotion of MSME clusters based on regional comparative advantage and for economies of scale; and enabling them to be productive and market-responsive to graduate to the next level. The dialogue will also discuss how to seize the opportunity provided by the COVID-19 wake-up call to accelerate building resilient and help formal and sustainable MSMEs sustain global competitiveness of sectors.

The dialogue is specially designed to support knowledge building of two states in India – Andhra Pradesh and Odisha – in designing of evidence-based policy initiatives for catalysing sector-led growth through investment in value-chain development, entrepreneurship, and start-ups, and strengthening MSME competitiveness. The experience of Indonesia, Vietnam and Bangladesh offers relevant comparator due to commonality in natural resource endowment, and the objective to adopt market-oriented approach complemented with strengthened focus on social sectors.

<sup>3</sup> Social dialogue is defined by the ILO to include all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic

and social policy. For details : [Social dialogue \(GOVERNANCE\) \(ilo.org\)](https://www.ilo.org/governance)

<sup>4</sup> For details : [Inclusive Markets & Value Chains \(ENTERPRISES\) \(ilo.org\)](https://www.ilo.org/enterprises)

## ► Objectives

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Against the above background, this event will discuss the following issues:

- 1) What sectoral and MSME policy approaches and initiatives have been adopted in emerging economies which has led to their rise as global sourcing hubs and sector leads?
- 2) How was the objective of formalization, job creation and inclusiveness been embedded in the transition pathway from low to high-value added sector-led growth models? What measures have been adopted to promote gender mainstreaming and equality?
- 3) What policy lessons have been learnt from the COVID-19 crisis to prevent similar impact on MSMEs in future?

- For more details on PSEI : [www.ilo.org/newdelhi/info/public/pr/WCMS\\_763363/lang-en/index.htm](http://www.ilo.org/newdelhi/info/public/pr/WCMS_763363/lang-en/index.htm)

### Contact details

**Ms. Sudipta Bhadra**  
Project Manager  
Project: Promoting Sustainable Enterprises in India (PSEI)  
ILO Decent Work Team for South Asia and Country Office for India

T: +91 11 4750 9200  
E: [bhadra@ilo.org](mailto:bhadra@ilo.org)