

IMCP

INDIA MICRO, SMALL & MEDIUM ENTERPRISES REPORT 2021



ISED SMALL ENTERPRISE OBSERVATORY

Disruptive "New-Normal" & Survival Strategies

Time-bomb Analysis

India's MSMEs: Recent Developments & Imperatives

Rural-Urban Entrepreneurship Locomotive Model

'K-shaped Recovery' & MSMEs

Energizing MSMEs: a Structural Reforms Programme

From 'Credit Delivery' to 'Responsible Banking'

Youth Entrepreneurship: Crisis & Response

'Gender & Enterprise: a New Agenda



Institute of Small Enterprises and Development

MSMER 2021

India
Micro, Small & Medium
Enterprises Report
2021

India

Micro, Small & Medium

Enterprises Report

2021



Published for
**ISED Small Enterprise
Observatory**



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India Micro, Small and Medium Enterprises Report Series

India Micro, Small and Medium Enterprises Report (MSMER) Series, is a flagship project of the Institute of Small Enterprises and Development. Initiated by the Institute's Knowledge Platform, ISED Small Enterprise Observatory (ISED-SEO), it is a tool that addresses the "invisibility syndrome" relating to the small enterprise economy. The aim of the 'MSMER Series' is to put forward an independent and scholarly view of the state of India's micro, small and medium enterprises on an yearly basis, and of the likely happenings for future. The Report is being brought out under the 'India MSME Communication Programme (IMCP)' of the Institute.

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Foreword

The year 2021 is marked by an exceptional concern over jobs and livelihoods around the world. While micro, small and medium enterprises (MSMEs), as a constituency, act as a powerful instrument promoting the social goals of development, the prolonged Pandemic, Covid 19, has virtually disrupted their normal operations. That is why the United Nations and the multilateral agencies consider this Pandemic as a challenge to the 'Sustainable Development Goals'.

Covid 19-led tremors in the economy have contributed to widening the differences between 'Bharath' and 'India'. Even amidst such differences in spatial and social development, there are several positive factors that have the potential of taking the country into a new path of revival and regeneration. The hope lies in the country's diverse industrial structure, where MSMEs play a dominant role. Given their natural resilience, it is likely that the MSMEs can come out of this difficult situation. The time, however, demands coordinated action, not only at the administrative level, but also in relation to the role of various development actors. The foundation of a strong social and solidarity economy has to get shape from this crisis.

This twenty-fourth issue of the 'India MSME Report series' feels complacent on the opportunities for introspection on new policy directions. It adds to the agenda and debates on 'enterprise security', as it has been articulated by the ISED Small Enterprise Observatory. While the issues, are complex, the responsibility of development practitioners also is on the rise.

I thank the ISED Small Enterprise Observatory and the various Knowledge Centers of the Institute for their meticulous drive in bringing out this unique Report as an icon of the 'International SME Day 2021'.

New Delhi,
June 25,2021

Kamal Nayan Kabra
Chairman, ISED

Preface

While presenting this twenty-fourth issue of the India Micro, Small and Medium Enterprise Report (MSMER) Series, the ISED Small Enterprise Observatory (ISED-SEO) has mixed feelings of complacency and concerns. The Observatory has initiated and brought to the limelight the theme of 'enterprise security', as an alternative analytical approach to MSME problems. While it has gained enhanced significance under the ongoing Pandemic, Covid 19, MSMEs have only limited survival options today. The findings of the 'Time-bomb analysis', in the context of USA and of some other countries, is a pointer to the emerging global inequalities, where MSMEs are likely to be at the receiving end.

Management of the base of the enterprise system is likely to be the biggest challenge in the evolving post-COVID 19 global economic order. Having placed MSMEs at the center-stage of the global 'Sustainable Development' agenda, it would be the responsibility of the global community, as also of governments, to meet this challenge.

MSME activity in India happens mostly in regions and sub-sectors, calling for 'bottom-up' development strategies. A knowledge base connecting the micro-meso with the macro processes and influences useful for development intervention is the mission of India MSME Report series.

The vision and direction of MSMER 2021 was provided by the International and National Focus Groups of the Project. The detailed two-day consultation held on February 4 and 5 have immensely contributed to shaping the strategic approach of the Project.

This Report is the outcome of a coordinated work at the Observatory, in co operation with the various Knowledge Centres of the Institute. The team of the Observatory did a meticulous job under the guidance and support of the Project Leaders. The chapter on 'Finance' was facilitated by the ISED Centre for Financial Education and Research. Inputs for the Chapter. 7 were provided by the ISED Centre for Social Development. The Center for Enterprise Development took care of the overall co-ordination from the ISED side. The strong support of the Focus Groups and the meticulous work by the Editorial Team has made possible this report into its present form. At the desk, I would like to acknowledge and appreciate the support of J. M. I. Sait, K. Jayakumar and P. Jagannathan. The technical support of Vishnu Vardhanan, Krishnamoorthy, Stevin Dileep, and Shaji Mathew deserve special mention.

The Institute wishes to thank, without fail, the pains and efforts of all who have worked directly or indirectly, with this project

Institute of Small Enterprises and Development,
Cochin
June 25, 2021



P.M Mathew
Project Director & Editor

Acronyms & Abbreviations

ECLGS	-	Emergency Credit Line Guarantee Scheme
ABC	-	Adjusted Bank Credit
ADB	-	Asian Development Bank
AfDB	-	African Development Bank
ALMP	-	Active Labour Market Policies
ASEAN	-	Association of South-East Asian Nations
BDS	-	Business Development Services
BRIC	-	Brazil, Russia, India and China
CAGR	-	Compound Annual Growth Rate
CGTMSE	-	Credit Guarantee Fund Trust for Micro and Small Enterprises
CRR	-	Cash Reserve Ratio
CSO	-	Central Statistical Organisation
DC (MSME)	-	Office of the Development Commissioner (MSME)
DIC	-	District Industries Centre
DPIIT	-	Department of Promotion of Industrial and Internal Trade
ECGC	-	Export Credit Guarantee Corporation of India
ECLAC	-	Economic Commission for Latin America and the Caribbean
EDP	-	Entrepreneurship Development Programmes
EFC	-	Entrepreneurial Framework Conditions
EMDE	-	Emerging Market and Developing Economies
ESCAP	-	Economic and Social Commission for Asia and the Pacific
ESDM	-	Electronics System Design & Manufacturing
ESOP	-	Employees Stock Option Plans
FDI	-	Foreign Direct Investment
FIEO	-	Federation of Indian Export Organisations
FMCG	-	Fast Moving Consumer Goods
FTA	-	Free Trade Agreement
FTEA	-	Female Total Early-stage Activity
GDP	-	Gross Domestic Product
GEM	-	Global Entrepreneurship Monitor
GVA	-	Gross Value Added
GVC	-	Global Value Chains
HDI	-	Human Development Index
ICT	-	Information & Communication Technology
IIP	-	Index of Industrial Production
IMCP	-	India MSME Communication Programme
ISED	-	Institute of Small Enterprises and Development

ISED-SEO	-	ISED Small Enterprise Observatory
LCM	-	Life Cycle Management
LED	-	Local Economic Development
MCA	-	Ministry of Corporate Affairs
MEGA	-	Mission on Employment Generation
MENA	-	Middle East and North Africa
MFI	-	Microfinance Institutions
MGNREGA	-	National Rural Employment Guarantee Act
MSE-CDP	-	Micro and Small Enterprises Cluster Development Programme
MSME	-	Micro, Small and Medium Enterprises
MUDRA	-	Micro Units Development and Refinance Agency Ltd
NABARD	-	National Bank for Agriculture and Rural Development
NBFC	-	Non-Banking Finance Company
NPA	-	Non-Performing Assets
NRLM	-	National Rural Livelihood Mission
NSA	-	Non-state Actors in enterprise development
NSDC	-	National Skill Development Corporation
NSIC	-	National Small Industries Corporation
NSSO	-	National Sample Survey Office
OAE	-	Own Account Enterprises
OBICUS	-	Order Books, Inventories and Capacity Utilisation Survey
OECD	-	Organisation for Economic Co-operation and Development
PMEGP	-	Prime Minister's Employment Generation Programme
PMJDY	-	Pradhan Mantri Jan Dhan Yojana
PMMY	-	Pradhan Mantri Mudra Yojana
RBI	-	Reserve Bank of India
SDG	-	Sustainable Development Goals
SHG	-	Self Help Groups
SIDBI	-	Small Industries Development Bank of India
SLBC	-	State Level Bankers' Committee
SME	-	Small and Medium Enterprise
SPV	-	Special Purpose Vehicle
TEA	-	Total Early-stage Entrepreneurial Activity
TRDS	-	Trade Receivables Discounting System
UAM	-	Udhyog Aadhar Memorandum
UNCTAD	-	United Nations Conference on Trade and Development
UNDP	-	United Nations Development Programme
UNIDO	-	United Nations Industrial Development Organization
WTO	-	World Trade Organisation

About MSMER Series

- **Background and Importance:** The crucial role of micro, small and medium enterprises (MSMEs) in the economy needs to be properly understood and communicated; both from the angle of ensuring direct benefits to these enterprises, as also for meaningful planning and implementation of development programmes. India MSME Communication Programme (IMCP) is a unique umbrella initiative meant for this.

IMCP has two key components: a) 'India MSME Report' series; and b) 'India MSME Darshan'. The former provides a strong evidence-base to the MSME constituency through reporting, and the latter seeks to connect the reporting exercise with the field, in order to ensure its authenticity.

IMCP, as a programme of the ISED, has been steered by a dedicated knowledge platform, the ISED Small Enterprise Observatory (ISED-SEO). Grown to maturity over the last 24 years thanks to the kind interest and support of its National Partnership Network (NPN), the India MSME Report (MSMER) is a well attracted icon of the 'International SME Day' (June 27).

- **Scope**

India's MSME constituency is uniquely huge, with substantial latent potential. For harnessing such potential for the country's sustainable development, it needs to be more comprehensively understood against the global, national, and regional experience. As a watch-dog of these developments, the ISED-SEO, from time to time, have analyzed, informed and tried to educate policy makers, financial institutions, entrepreneurs, and other stake holders, on what has happened, and what is likely to happen.

- **Methodology**

The methodology of the project is unique. It has borrowed methodological inputs from best practices around the world: U.S Small Business Administration, and the European Observatory of SMEs, Economist Intelligence Unit, Japan, and Enterprise Observatory of South Africa. The methodology of MSMER, therefore, involves supplementing the official data with specific theme-based and area based enquiries. New and promising areas are brought into the stream of active discussions from time to time.

- **Output**

This iconic report, a point of convergence in the subject area, seeks to assist and support in agenda-setting at the national level. It discusses the critical themes and areas of MSME development on the basis of the latest analysis and insights. The Institute also brings out some special studies in related areas, in the form of Policy Briefs and Discussion Papers, reinforcing the work of the MSMER. While MSMER, provides a review of the happenings annually and also comes out with a chronology and historical analysis, not to be missed by MSME enthusiasts and development practitioners.

- **Cientele**

The clientele of this flagship Report is varied. Policy analysts would find good leads on what worked and what did not in particular historical contexts. Financial institutions would gain lessons on credit delivery, regionally and at subsector levels. Government departments and promotional agencies get to learn from success and failure stories of schemes. Researchers would find it a good source of longitudinal analysis. Entrepreneurship promotion and training institutions would gain significant cases and insights from the field.

- **MSMER 2021**

The ongoing Pandemic, COVID 19, according to many media projections, leads to a likely rout of SMEs. But, it would be out of place to jump into such a conclusion. This twenty-fourth Report while describing such new opportunities, calls for introspection and search for new policy directions and strategies. It makes a call for turning the pages of the earlier volumes of the Report as well. The debate on 'enterprise security', as mooted by the 'ISED Small Enterprise Observatory' since 2013, has become all the more relevant today. While the issues are much more complex today, the task of policy makers and development practitioners has become more complex than ever.



Overview

As the twenty-fourth volume of the 'India MSME Report' is being released on this International SME Day (June 27), this lower layer of the enterprise system is seriously shocked under the strains and pains of a unique Pandemic, Covid 19. Lives and livelihoods alike continue to be significantly disrupted. Against an unprecedentedly fractured global economy, humanity has been forced to search for new solutions and for a new world order. According to the latest research findings, the global economy is moving towards a 'k-shaped recovery' process, involving significant unequal pattern of growth and distribution. The ensuing new world order in 2022 is likely to look like with the following features: 1) enhanced digitalization of transactions, under a 'platform economy' framework; 2) a re-aligned 'sharing economy', geared to cost reduction at all levels; 3) formalization of labor flexibility under a legitimized 'gig model'; and 4) a hesitant pace of the Fourth Industrial revolution.

Despite a short break, the transition in the techno-economic paradigm from 'flexible specialization' to 'Industry 4.0' is likely to get accelerated. This would imply a unique shift in labor-use, and the distribution of knowledge. Smart manufacture and just-in-time production are likely to drastically change the manufacturing landscape, despite the setbacks and disruption on the global value chains. 'India has peculiar problems and opportunities against the above background. As per CMIE data, India's GDP has plummeted into a six year low level; unemployment, as in June this year is 9.17 per cent.

Globally, the evolving consensus in development theory and policy today, based on 'Time-bomb analysis', assumes a 'K-shaped recovery' as the reality. This trend is likely to exacerbate the rapid pace of 'servitisation' of the economy, on the one hand, and economic and social inequalities on the other. Countries and communities will have to think in terms of 'boot-strap development' strategies, which would essentially mean meticulous

attempts to harness their natural advantages and capabilities, against the global market opportunities. Hence, there arises the imperative for strengthening manufacturing base of countries, both for their self-interest, and for building up an equitable global order. While capital formation has constraints, the new circumstances demand a more focused attention on subsectors and regional and local value chains.

India's MSME scene today is a continuation and acceleration of a tendency towards slow growth since 2019. The policy response has come in the form of fiscal relief measures, administrative reforms, and various financial and welfare packages by the Union government and the States.

The mission of the Report is three-fold: First, it attempts to provide a summarised view of the MSME constituency in India today. Secondly, it discusses the strategic options available to the country in this transitional stage. Thirdly, it analyses some of the key policy and strategy issues and options.

Methodological Approach

India MSME Report is an exercise in 'Development Reporting'. The basic character of a 'Development Report' is its focus on synergy of theory and practice, with focus not simply on data, but as well on strong evidences that can lead to some meaningful conclusions. Evidences available from all major stakeholders, macro, regional and subsector levels have been used in this Report. The coverage includes individual entrepreneurs, membership organisations of SMEs, financing institutions, promotional agencies, consumers, and community organisations. Besides, all available macro and meso level data have been used appropriately.

Field level Evidences

The uniqueness of India's manufacturing demography is characterized by its decentralized structure. Our survey and field level evidences cover the four broad structural categories of MSMEs: 1) outward-oriented units; 2) manufacturing ancillaries; 3) wage goods providers; and 4)

decentralized services. While this enterprise geography has got evolved over time, much more on the strength of the market forces along with policy support, the time has come for a review and consolidation of this base, and to improve upon it. The more recent field evidences, as in June 2021, on various MSME subsectors, provide useful insights. While the survey collected evidences from industry associations, such evidences were further validated through qualitative data collected from individual entrepreneurs belonging to such subsectors. While the constraints of field data collection are admitted, the survey covered twelve selected subsectors, belonging to the above four structural categories. The peer level data and evidences were cross checked on the basis of detailed case studies. The important findings of the current year are summarily as follows:

Key Issues

1. The Pandemic has had a two-stage effect on MSMEs. In Stage I (January-May, 2020), the liquidity effect was dominant; in Stage II (since May 2020), it has been a capacity utilization effect, depending upon partial or full shutdown of factories.
2. A unique and significant adverse impact was reported in the life history of most subsectors. Four critical problems stand out: a) liquidity; b) underutilization of capacity; c) labour shortage; and d) fluctuating raw material prices.
3. The spread of the pandemic into the rural areas has created a “scissors crisis” of lives on the one hand, and labour shortage in the MSME sector in the other, leading to a cumulative poverty effect.
4. Productivity enhancement is a partial answer to the capacity utilization crisis. Though strategies and methods of bringing down the transaction costs of MSMEs are critical, there are no sufficient evidences to conclude that these have been seriously discussed by promotional agencies and the development finance institutions (DFIs).

5. The second stage of the pandemic is characterized by the shortages and price hike of critical raw materials of strategic importance to MSMEs (oxygen, steel, PVC etc.).
6. Despite several initiatives by the Government, MSME receivables remain the key problem contributing to liquidity crisis.
7. MSMEs face the problem of high overheads and transaction costs, and thereby find it difficult to compete with the larger firms. Reasonable benefits of ‘ease of doing business’ (EoDB) strategies, at the State level, have not been reported.
8. A critical gap in the supply of ‘real services’ or business development services (BDS) has been reported. Entrepreneurs raise a number of issues and questions that can best be responded by qualified BDS providers.
9. The overall field observations and findings indicates a trend toward a ‘K-shaped recovery’ experience, with all its attendant constraints and challenges.
10. The potential of MSME Associations in delivering demand-driven services, during this crisis, remain underutilized.

Public Policy Response

The public policy response to the above problems is as follows:

1. Evidences from the States indicate that, the sensitive nature of MSME business has not been properly taken care of while Covid-19 protocols are enforced. There is a need for selective State level and regional policies for economic governance.
2. The effects of the credit-easing measures of the RBI, during the second phase of the Pandemic, have been widely debated; but, scientific studies are yet to take place. ‘Time bomb analysis,

would be useful to arrive at urgent corrective steps.

3. Both the Union and the State governments have given a dual focus on protecting lives and livelihoods. To what extent India could ensure a convergence of the two, is a matter that deserves examination.
4. Marketing remains a significant problem under the Pandemic. But this offers a potential as well for promotion of E-commerce.
5. While financial packages need to be supported and integrated with BDS, at the ground level, there has been a serious gap of 'real services'.
6. There is an opportunity and need for a restructuring of the schemes of the Ministry of MSME, towards an integrated innovation framework.
7. The Pandemic demands a fresh look at rural- urban divide in innovation, and in relation to the work of the DFIs and the R&D institutions.

Response by MSMEs

1. Most businesses belonging to subsectors surveyed by the Observatory show lack of clarity on the way forward. The scope of innovation remains unclear, where survival itself is the top priority. The Skill India' programme has helped significantly to bring down critical skill-gap in the country. However, its supportive role in promotion of innovation requires serious examination.
2. The individual entrepreneurs are on a constant search for solutions to the emerging problems. In fact, many of these problems have generic dimensions. This wastage of energy and resources need to be resolved through appropriate institutional platforms. There is an urgent need for creating/ strengthening the

government-business communication platforms at the subsector level.

3. Entrepreneurial perceptions, both at the firm level and at the level of SME Associations, was found to be relatively individualistic rather than collective. While the crisis demands a solidarity-oriented approach, reasons for such sectarian behaviour need critical analysis at the subsector and regional levels. Macro level policies are likely to be less effective unless they are supported by a meaningful engagement of these vital stakeholders.
4. The Pandemic has provided an unusual objective ground and opportunity for the creation of a solidarity platform for MSMEs in the local economy. While this opportunity could not so far be meaningfully tapped, a massive entrepreneur education programme could be useful in this regard.
5. While the financial package, as announced by the Government and the RBI is an answer to the liquidity problem, at least in the second phase of the pandemic, the supply of 'real services' (business development services) have become extremely important.
6. While firms often remain ignorant or incompetent to handle productivity enhancement strategies and innovation, there are no evidences of such significant initiatives by the MSME associations.

Policy Challenges & Strategic Approach

The Covid 19 episode has already crossed two phases of its transition. The third phase is expected to be much more devastating in relation to its health dimension, and naturally, with disruptive economic effects. Translating such negatives into opportunities is the challenge both for businesses and for the country.

India has a unique strength of its MSMEs, based on some of the key industrial subsectors. ISED Small Enterprise Observatory proposes

to utilize this strength for reviving and re-energizing the MSME constituency from its present development ratchet. The idea of the 'Structural Reforms Program' (SRP), as proposed, offers a joint platform for businesses of various size categories and governments of different tiers to come together with a common goal. The common goal should be to lift the total enterprise system from its present 'ratchet' to a level of sustainable development. This, again, offers an opportunity and need for different stake holders to come together on the basis of some shared interest- the need for innovation to take the Indian economy forward. The challenge and opportunity is on harnessing 'collective efficiency' of the enterprise system, subsector-wise. SRP seeks to reduce the adverse effects of the pandemic, and to "keep the lights on" through a sustainability support, which implies long-term strategic measures, including subsector assessments and reporting, preparation of vision documents, recasting of schemes, and governance reforms, based on ground level experience and lessons.

This Report examines and discusses the components of the SRP under ten focal areas. While, each of these components demands the lead role of a particular stakeholder, the Programme visualises a coordinated initiative at the subsector level.

The evolving experience of economic recovery, out of the Pandemic, is likely to be significantly iniquitous. This study makes a special attempt to look into the MSME relevance in the context of two selected social categories: women and youth. While the nature of this problem is essentially structural, it is important to examine its dimensions. With a substantial rural urban divide in development, it is now time for the country to debate on a dual development agenda: For the rural sector, it should thrust on enhanced labor absorption, wherein, the role of its legacy industries is critical. The urban agenda need to be focused on smart and clean production, so that it leads to sustainable benefits. Such an approach can contribute to a more resilient MSME constituency in the country.

1

Global Economy under COVID-19, the Pandemic

1.0. Introduction

The critical issues to be debated on the global economy in 2021 are unequivocal. The Pandemic COVID-19 which has triggered a global disruption in lives and livelihoods, obviously, re-shapes the present as also the economies and of humanity as a whole. However, while appreciating such rigors, it is a challenge and opportunity for humanity to outlive such constraints. Shaping new development strategies and promotion of enterprise and entrepreneurship alone can be the solution to this impasse. That means, we need to start speaking of the impacts on the “bottom of the pyramid”, and to examine how they get shaped. The mass base of entrepreneurship is something that really matters in a country like India where mass unemployment is the critical problem that needs to be solved on a war footing. The ISED Small Enterprise Observatory at the ISED has been closely monitoring the developments on the enterprise scene, with special focus on the “bottom of the pyramid” since 1997. Based on such experience, we have been able to gain some understanding and to provide indications on the emerging scene. This has been regularly reported and communicated through the ‘India MSME Report’ series. This twenty-fourth report under the Series looks into lives and livelihoods, initiative and drive, and the evolving political economy of enterprise development with focus on MSMEs.

2.0. Global Economy in 2020

Ever since the Pandemic was announced by the World Health Organization (WHO) in January 2020,

the discussions on a “new normal” began to catch up. There has been extensive academic debates on the kind of recovery, V-shaped or not, and in terms of its intensity. There have also been such discussions on the distributional effects, country wise and among different sections of society. As rightly pointed out by various multilateral agencies such as the World Bank, IMF, ILO and the United Nations, the evolving global order is likely to be significantly inequitable, and policy makers at the international and national levels need to be meticulous on bringing down such inequalities.

Looking back at the history of business cycles, it would be instructive to draw lessons from the early 20th century global experience. From the “roaring 1920s” to the Great Depression, the world has experienced and learned a lot of lessons in terms of trouble and tribulations in life, as also chronic poverty in many of the developing countries. It was the greatest attack on global capitalism. The two phases of prosperity on the one side, and massive disruption and decline that followed, within a limited period of about half a decade, gives enough lessons for the humanity. The “roaring 1920s” was triggered by the great spurt in technology: the automobile revolution. It was also a trigger of the prosperity of the United States on the manufacturing front. But technology and the consequent prosperity, again, led to the growth of a leisure class, which Torstein Veblen had warned in the 1880s itself (Veblen, 1899). The prosperity of the United States slowly fell into the trap of a rapid global decline, which practically shook the capital of world capitalism, the United Kingdom. This led