

IMCP

INDIA MICRO, SMALL & MEDIUM ENTERPRISES REPORT 2023



ISED SMALL ENTERPRISE OBSERVATORY

Global SME & Entrepreneurship Trends

India First; MSMEs First

Main Street Businesses & Technology Start-ups

MSME Ecology & Linkage Effects

Sub sector Engines & Value Chains

Integrated PLI 2.0.

Decentralised Smart Manufacturing Strategy

Labour Market, Technology & Employment

Outward Orientation & Opportunities

Finance & More

Challenges & Opportunities for India



Institute of Small Enterprises and Development

MSMER 2023

India
Micro, Small & Medium
Enterprises Report
2023

India Micro, Small & Medium Enterprises Report 2023



Published for
**ISED Small Enterprise
Observatory**



Cochin
**Institute of Small
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2023**

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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 global economy, of late, witnesses a serious phenomenon of high inflation, having significant distributional consequences. Its ultimate negative impact is on income opportunities of enterprises at the “bottom of the pyramid”, as these enterprises, with their limited market power, are likely to lose both at the consumption and production side. The crucial question today, is twofold: First, how to sustain and use SMEs as a critical tool of income and employment opportunities. An equally important issue is, how to instill a sense of innovation and growth among these enterprises in such a way that they can act as the pillars of economic democracy in the country.

Inflation, in India, has moderated over the past few months. However, jobs and livelihoods, as elsewhere, are our key concerns today, amid major spurts in technology and productivity. Even amidst such problems, 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. The time, however, demands coordinated action, not only at the administrative level, but also in relation to the role of various development actors.

This twenty-sixth issue of the ‘India MSME Report series’ feels complacent on the opportunities for introspection on new policy directions. While the issues, on the one hand, are much more complex than ever, the responsibility of development practitioners also is on the rise. I am happy to see that this issue of the Report puts forth a new vision and horizon for MSMEs in the country: decentralized smart manufacturing. While the share of manufacturing in GDP remains stagnant, it is important to preserve and sustain India’s legacy in this vital area.

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 2023’.

Chairman, ISED, New Delhi,
June 25, 2023


Kamal Nayan Kabra,

Preface

Globally, this decade, so far, is marked by an enclave of disruptive disruptions, wherein, the year 2023 has its contribution of inflation, as a roadblock. India, with its relatively better position, registers some remarkable initiatives, wherein MSMEs act as the center-point of attention. The G-20 agenda, under India's lead, presents SME innovation to the forefront. The country's 'Amrit Kaal' places it at the center-stage. Besides, the NITI Aayog and the Government of India proposes a new District-focused development agenda, wherein SMEs adorn the hub of the wheel of development.

This twenty-sixth Issue of the India MSME Report (MSMER) comes out with its focal theme, "India First; SMEs First". 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 the development intervention, is the mission of the Report as also of the work at the Observatory. A special focus of this year's Report is the diversity and spectrum of manufacturing opportunities that it puts upfront, under a value chain framework. This Report is the outcome of a coordinated work at the ISED Small Enterprise Observatory. The vision and direction of MSMER-2023 was provided by the international and national Focus Groups of the Project. The team of the Observatory did its meticulous job under the guidance and support of the Project Leaders. Inputs for various chapters were provided by the Knowledge Centres of the Institute. The mainstay of the Report is the field evidences and insights. They were collected under coordination by the four Regional Teams of the Observatory. Official data and evidences were collected from all financial institutions and promotional agencies through a questionnaire, and through in-depth discussions with top executives of selected institutions. The support extended by Reserve Bank of India, Ministry of MSME, and NITI Aayog are gratefully acknowledged.

At the desk, I would like to acknowledge and appreciate the support of J.M.I. Sait, K. Jayakumar, and P. Jagannathan, besides the Teams of the Knowledge Centers. The technical support of Vishnu Vardhanan, Fredy Kamal, P. Gouri Shankar and Febin.J.Kappen deserve special mention.

ISED wishes to thank the generous support and encouragement of Member Institutions of the National Partnership Network (NPN), all through these years. The pains and efforts of all who have worked directly or indirectly, with this project deserve a big salute.

Institute of Small Enterprises and Development,
Cochin
June 25, 2023.



P.M. Mathew
Project Director & Editor

Acronyms & Abbreviations

| | | |
|-----------|---|---|
| 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 |
| ECLGS | - | Emergency Credit Line Guarantee Scheme |
| 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:

Beyond public policy statements and implementation of programmes, the strategic role of micro, small and medium enterprises (MSMEs) in the economy needs to be properly understood and communicated. Such communication is crucial both from the angle of meaningful planning and meaningful implementation of 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 a Development Report; the latter is an exercise in continuous field connect.

IMCP, as a programme of the Institute of Small Enterprises and Development, has been steered by a dedicated knowledge platform, the ISED Small Enterprise Observatory (ISED-SEO). Grown to maturity over the last 26 years thanks to the kind interest and support of its readers and more specially of the members of the National Partnership Network (NPN), the India MSME Report(MSMER) is a well attracted icon of the 'International SME Day'(June 27).

● Whom is it meant for?

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 comprehensively understood against the global, national, and regional experience. As a watch-dog of these developments, the ISED-SEO put together evidences and insights, leading to analysis and policy leads, brought out through this annual Report. It regularly informs the MSME constituency, as to what has happened, and what is likely to happen in the subject area.

● Methodology

The methodology of the project is unique. Having borrowed methodological inputs from best practices around the world, it depends on several sources and forms of data. The Report involves supplementing the official data with stakeholder-based inputs, evidences, and information; such stakeholders include, public promotional agencies, financial institutions, MSMEs and their Membership Organisations, Chambers of Commerce & Industry, government departments, and international organisations. Specific theme-based and area based enquiries add value to the Report every year. 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 of policy and practice at various levels. 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 Series. MSMER provides a review of the happenings annually and comes out with a chronology and historical analysis, not to be missed by MSME enthusiasts and development practitioners.

● Clientele

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 2023: The Twenty-sixth Issue**

From denial to affirmation, the SME constituency today witnesses days of recognition and enthusiasm. The MSMER Series also has had the same experience. This twenty-sixth Report offers new opportunities 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. The theme and lead of this volume is, "India First; SMEs First". At a time when India holds the G-20 Presidency, the country has several best practices to be show-cased, in addition to what it can learn from the rest of the world.

While the issues are much more complex today, the task of policy makers and development practitioners has become more complex than ever. Beyond all these, as noted by late Dr.K.C. Chakrabarty, former Deputy Governor, Reserve Bank of India," this series is a powerful tool for the MSMEs to analyse their own environment, articulate their needs, and understand the 'would be's....."

Overview

1. Background

The year 2023 has been marked by a second-order of transition in the MSME constituency, globally as also in India. Geoffrey Hinton's resignation from Google has triggered debates on the course of the new techno-economic paradigm that is being unfolded. The global experience of inflation and stagflation raises some unique questions of sustainability, which may have country specific implications for SMEs. The unequal growth process gets reflected both in employment opportunities, new entrepreneurial avenues, and of the performance of existing businesses. India MSME Report, as an exercise in 'Development Reporting', seeks to present an update on the country's perspectives and track record relating to MSMEs, from the angle of policy and practice.

2. Background, Purpose and Methodology of the Report

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.

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. This mission of the Report

is built upon the longitudinal knowledge base and transactions thereon by the ISED Small Enterprise Observatory over the past quarter of a century.

3. Techno-economic Paradigm

The ensuing new world order in 2023 is likely to look like with the following features: 1) enhanced digitalization of transactions, under a 'platform economy' framework; 2) an accelerated transition of work process from 'work place' to 'work space'; 3) a re-aligned 'sharing economy', geared to cost reduction at all levels; 4) formalization of labour flexibility under a legitimized 'gig model'; and 5) an acceleration of the paradigm of Fourth Industrial Revolution. AI and 5G have refined the workplace. At the operational level, the introduction of Generative AIS such as, Chat GPT and its new versions have given a test-dose on how they can revolutionize the SME work space and can contribute to productivity.

According to the 'World Economic Outlook (2023)', global headline inflation, in the baseline, is set to fall from 8.7 percent in 2022 to 7.0 percent in 2023. Inflation is likely to decline more slowly (IMF, 2023). While the economies of most countries are reeling under inflation, India today has a two year low rate of inflation.

Amid the great spurt in technology, on the one hand, and a massive disruption in the global economy triggered by the Pandemic, a global crisis of entrepreneurship has taken shape. The manifestations of such a crisis have been brought out by various studies and data sources (Martin et. al., 2021; OECD, 2021; Audretsch, 2019; Kauffman Foundation, 2022). Though these studies are mostly based on the experience of the USA and Europe, it gives directional signals to the rest of the world as well. The answer lies in capital formation, with focus on innovation. The new circumstances demand a more focused attention on subsectors

and regional and local value chains that can contribute to multiplier effects in the economy. Though inflation has moderated in India, the stories available at the subsector level, and from the States, give a mixed picture.

4. India's MSME Scene Today

A comprehensive picture of the state of the MSME constituency, as in 2023, necessitates a review of policy approaches, strategic initiatives and output that have emerged therefrom, during the previous year. Such an update on MSME performance needs to be made in relation to the following critical areas: 1) ecosystem management; 2) credit flow; 3) technology, innovation, and growth; and 4) market opportunities. A review focused on the above four areas, lead us to the imperatives and of the way forward.

The track of India's MSME development today is defined in terms of two major streams; a) 'mainstream entrepreneurship'; and b) 'technology start-ups'. While public promotional programmes cover both, the goal, by and large, has been to absorb the additions to the labour market, especially the educated unemployed. While enhanced labour absorption is part and parcel of a labour market policy, the question of choice remains. Given the relationship between education and employment, what proportion of the unemployed can be absorbed as 'wage employed', and as 'self-employed', respectively? While the 'wage employment' opportunities are dependent on the overall job creation capacity of the economy, such capacity is dependent on entrepreneurial motivation. Entrepreneurial motivation, however, is a product of the prevailing macro-economic conditions, on the one hand, and of the so-called 'framework conditions' that influence investment decisions, on the other. Recent global data do not indicate a strong positive relationship between education and entrepreneurship

development. If so, rather than blindly following a 'social capital' based model, enhanced labour absorption would require strengthening of the sectors and activities having a higher employment potential of a sustainable nature. Since manufacture, in general, has a greater potential In this regard, and since India has a strong legacy of decentralized manufacture, here lies the strategic potential for the country today. The lead role, therefore, has to be performed by 'decentralized manufacture' itself, though India's ongoing employment-oriented MSME programs need to continue, considering their short-run importance.

India's present vision and initiatives relating to manufacture and enterprise development opportunities leads to the relevance and imperative for a 'Decentralised Smart Manufacturing Strategy. Innovation and modernisation in the MSME sector is essentially a derived demand, arising out of inter-sectoral and inter- industry linkages. Such demand-driven changes in favour of smart manufacturing is the way forward for India. Capabilities, relevant to this context, need to be identified and nourished.

A new directional change, that places the MSMEs at the centre stage, demands a fresh look and approach to manufacturing that is given by the Government through schemes like National Logistics Policy (2022), Production Linked Incentives Scheme (PLI), ODOP etc. Subsequently, the Government of India came up with the PLI Scheme 2.0 for IT Hardwares. This was followed by similar versions of the Programme in Pharmaceuticals and Textiles. This is expected to result in broadening and deepening of the manufacturing ecosystem by encouraging the localisation of components and sub-assemblies and supply chain development.

Highlighting on inter-sectoral and inter-industry linkages, such a strategic approach demands the launch of an 'Integrated PLI 2.0. Initiative', with the twin goal of nourishing value chains, on the one hand,

and laying down the foundations of a 'Decentralised Smart Manufacturing Strategy'.

A new approach, as above, and associated strategies, demand a fresh look at the structure and performance of India's manufacturing capabilities at the subsector level. This research makes a meticulous effort to see the MSME performance and opportunities of the country from the angle of fourteen MSME dominant subsectors. It opens up a new terrain for more detailed investigations from a policy angle. The new approach put forward by the study has, as its vision, "India First; SMEs First". This vision is grounded on a new realisation and need for presenting India's unique manufacturing capabilities and potential upfront at the international level. India's G-20 presidency is an appropriate occasion for this.

5. Policy Challenges & Strategic Approach

The discussion, as above, leads one to a look at some concrete issues on the following lines:

Issue of Convergence

As pointed out by several evaluation studies, there has been important elements of mismatch of Central schemes relating to infrastructure and implementation in the regional setting. Several expert committees also have looked into the question, and have made recommendations relating to flexibility of schemes. This is an issue that demands closer examination. The reality of inadequate and unequal capital formation at the State level continues. The time has come for a shift in emphasis from physical to other than physical capital formation, in line with changes in techno-economic paradigm.

Critical Supplies of Inputs

Critical supplies of inputs such as power, water, and other inputs, is a major area where the States have serious constraints.

Enhanced involvement of new market-driven mechanisms in this area, is a major imperative today.

Finance & Credit Flow

A meticulous look at the end-use of credit, from the angle of aligning it with the national policy, SDG Goals, and India's interests under the G-20 platform, is critical today.

Demographic Monitoring and Health Management

The problem of MSME health and demography management in India is still in its infancy. A beginning in this direction has to come through a regular Development Reporting Series. In the year of G20 presidency, there is substantial need and scope for streamlining India's MSME demography management system, with focus on health, longevity, and sustainability of its enterprises.

Review of Non-Farm & Urban Micro enterprise Sectors

While the disruptive environment brought in by Covid 19 and the new technologies has led to a churning in opportunities and incomes for the rural and urban poor, the "bottom of the pyramid", the time has come for restructuring the existing development programmes and schemes from an objective footing. The value chains and linkages of this constituency need to be brought out through scientific studies; a restructuring of programmes and schemes need to follow.

Institutional Restructuring and Reforms

As regards enterprise development, the arbitrary spatial and scalar definitions, on which the Development Banks have been set up, have lost their relevance over time. Besides, other institutional forms that directly deal with the BoP economic activities, such as the MUDRA and the NBFCs, have already taken over their functions in a more meaningful manner. This changed situation hints at the need

for major institutional reforms. On lines of the restructuring of the public sector banks, the need for such a restructuring of the Development Banks has come now. NITI Aayog may review the functions and relevance of the three development Banks, viz., SIDBI, NABARD and the India Exim Bank.

Competition Policy

A key area demanding immediate attention is the role of MSMEs in relation to the competition policy of the country. Scientific studies need to be initiated by the NITI Aayog.

Disruptive Technologies: Need for a Dual Policy

The disruption arising out of disruptive technologies need to be addressed in terms of two types of measures: a) short-term hedge; b) long term innovation policy. There is need for building up a strategy of promotion of inter-industry linkages with the active role of MSMEs. Such a strategic approach can lead to the foundations of Decentralised Smart Manufacturing in the country. This demands the launch of an Integrated PLI 2.0. Programme.

Outward Orientation and Trade Issues

While SME outward orientation is a key policy thrust in countries like, Germany, Japan, and the European Union countries, India's initiatives in this regard are relatively small. Beyond export promotion, this needs to be a new policy thrust for the country.

India is committed to removing international trade barriers and lowering of tariffs. In this context, analytical studies are needed to establish the basic cost differences in the exporting and importing countries and relating the same to the type and size of assistance to be provided.

Start-up Policy: A Revisit to its Macro Fundamentals

While the goal of "*Viksit Bharat*" is ambitious, there is an imminent need to brainstorm on the

present enterprise development strategies at the State level. There are two strategic choices in entrepreneurship development: 'Mainstream Entrepreneurship' and 'Technology Start-ups'. For Mainstream Entrepreneurship, there is often a beaten track, which is familiar to promotional agencies. Technology start-ups, on the other hand, are structurally distinct in terms of their innovation content. Some global studies indicate. That enhanced social spending on education itself act as a deterrent to the growth of entrepreneurship (see, Solomon et.al, 2002).

The above dual crisis raises some important questions on public funding for entrepreneurship promotion and of SME development strategies. Start-up, growth, and maturity are three distinct stages of an enterprise life cycle. From the angle of sustainable enterprise development, it is important to give a due weightage to all these three stages both in public policy and public funding. India's agenda of enterprise development, needs greater balance at these three stages

6. Summary Recommendations

A 'Viksit Bharat' agenda for the MSME sector needs a significant thrust on harnessing the energies and capabilities of job creators in the country. A self-reliant India requires a strategy of "unleashing entrepreneurship", as visualised by the UN Commission on Private Sector Development (2004). This is a rich latent potential embedded in the MSMEs of the country. The thrust of the Government of India, as it comes through the Union Budget and the various policy pronouncements by the Prime Minister, needs to be taken to the next level, in order to translate MSMEs into a more resilient constituency. Towards this direction, we propose a Structural Reforms Programme (SRP) with four strategic areas of intervention. SMEs, obviously, have a huge potential to provide the nuts and bolts for transforming India into a manufacturing power house. For this, the following concrete action points deserve examination.

- Integrated PLI 2.0. Programme
- National Business Birth Rate Strategy
- Entrepreneurship Resource Policy
- Labour Market Policy
- Entrepreneurship Budget
- Entrepreneurship Voucher Scheme
- Entrepreneurship Index for States
- ‘Udyami Panchayaths’
- Entrepreneurship Bonds
- Labour Market Cess.
- Institutional Restructuring /Reforms
- ‘Prakriya Kshamata Abhiyaan’
- Family Entrepreneurship Policy
- Social & Solidarity Economy Policy
- Sub sector Development Council (SDC)

- ‘Think MSMEs First’ Programme
- Kanganroo Policy on Value Chains
- National Entrepreneurship Development Board (NEDB)

7. Conclusion

The motto of ‘India First; SMEs First’ is not squishy. It does not also mean just a hype in the context of G 20 Presidency of the country. India’s legacy and the implicit capabilities relating to decentralised manufacturing still remains inadequately explored and show-cased. The challenge and opportunity of the country this year is to showcase it and to translate that into actionable strategies. The country has significant process and product capabilities in a regional setting. The exercise has to start from the States. The challenge and opportunity is to translate them into growth drivers, obviously with the lead role of the Government of India.

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Global Economy : Where are the SMEs Placed Today?

1.0. Introduction

The critical role of entrepreneurship in economic development has been emphasised by the mainstream literature of economic development. While entrepreneurship is the engine of economic development, SMEs provide its wheels. This is because, most entrepreneurship stories emerge and grow from the micro stage; most businesses germinate as micros. SMEs can be an important part of the solution to global unemployment, but it is important to address the challenges they face and to create an enabling environment for their growth and success. While having such a pivotal role, SMEs face a number of challenges that can limit their ability to create jobs and contribute to economic growth. These challenges include limited access to financing, inadequate infrastructure, and regulatory barriers. To fully leverage their potential for job creation, it is important to address these challenges and to create an enabling environment. While many of these constraints are macroeconomic in nature, others are specific to the immediate environment of the individual firms. While the former demands macroeconomic policy corrections, such as creating a regulatory framework that encourages SME growth and innovation, the latter can involve providing targeted support, such as access to finance, infrastructure, training and skills. The purpose of the following discussion is to situate the SME constituency^[1] in the evolving global economy that is prone to shocks and structural transformations.

2.0. Global Economic Outlook Today

According to the World Economic Outlook (2023), global headline inflation, in the baseline, is set to fall from 8.7 percent in 2022 to 7.0 percent in 2023. On the back of lower commodity prices but underlying (core) inflation is likely to decline more slowly (IMF, 2023). Such a predominant global tendency towards inflation in the global economy is likely to constrain the operational and market opportunities for SMEs.

Inflation can have both positive and negative effects on them, depending on various factors such as the nature of their business, the industry they operate in, and their respective financial position. The inflation impact on SMEs can be broadly on the following lines:

1. Increased costs: Increase in the cost of raw materials, labor, and other production inputs can impact on profit margins of SMEs that rely heavily on these inputs.
2. Decreased purchasing power: Inflation can also impact the purchasing power of consumers. As prices rise, consumers may cut back on their spending, reducing demand for SMEs' products or services.
3. Increased borrowing costs: Inflation can lead to higher interest rates, leading to higher costs and lower availability of finance.
4. Increased competition: Inflation may attract new firms that may enter the market to take advantage of rising prices. This can make

it more difficult for SMEs to differentiate themselves and compete effectively.

5. Opportunity for growth: Inflation can also create opportunities for SMEs. For example, if they are able to increase their prices and maintain their profit margins, they may be able to grow their business and expand their operations.
6. Corrections by the market mechanism, obviously, can help the SMEs to come out from the present stagflationary situation^[2] in the global economy. However, macro policy corrections and meso level interventions are crucial, as the present trend towards stagflation is a continuation of the market rigidities brought in by the disruptive situation on account of Covid 19.

3.0. Effect on Entrepreneurship

Amid the great spurt in technology, on the one hand, and a massive disruption in the global economy triggered by the Pandemic, a transition in entrepreneurship and small business development is in the making. The manifestations of such a change have been brought out by various new studies and data sources (Martin et. al., 2021; OECD, 2021; Audretsch, 2019; Kauffman Foundation, 2022). Though these studies are mostly based on the experience of the USA and Europe, they give directional signals to the rest of the world as well.

According to the OECD (2021), the COVID 19 pandemic has caused an economic crisis in advanced economies greater than the one in 2008. While entrepreneurship activity is an important factor to be considered to reduce this negative, the effects of the pandemic crisis on entrepreneurship and sustainable development are reported to be highly significant. The study by Martin et.al. (2021) tries to estimate the global scene using a model built upon Partial Least Squares (PLS) method. It shows that entrepreneurship, as a factor that favours sustainable development, was also affected negatively by the Pandemic. While entrepreneurship is an attribute that often cuts across cyclical trends in the economy, it is important to look into the dynamics of the problem based on available data and evolving perceptions from the business world.

There are a few such data sources and evidences available at the global level which can provide us inputs for a critical thinking on the growth of entrepreneurship. Globally, there has been a euphoria created by unicorns and the growth of selected investment destinations that are characterized by the clustering of start-ups. It is a point where one needs to examine the phenomenon of 'start-ups' from the very technical meaning of the term. To the economist, 'start up' is a functional category involving businesses of a particular age group. In the language of investment and of public policy, it implies a segment of 'entrepreneurs' who demonstrate certain specific attributes.

Available literature on entrepreneurship discusses the psychological basis of entrepreneurship in relation to two types of perceptions: 1) necessity orientation: and 2) opportunity orientation^[3]. While, historically, these two forms of orientation have shaped the state of entrepreneurship, it is important to have a little more of understanding on such orientation and their causatives.

The latest Report of the Global Entrepreneurship Monitor(GEM) has come out with some important findings on the state of entrepreneurship. Entrepreneurship, or the act of starting and running a new business, is a key catalyst of economic development. It is also an important driver of economic recovery: from the effects of the recent COVID-19 pandemic as well as more recent shocks, such as the Russia-Ukraine War, with its related supply chain issues and rising energy costs. At any time, but especially during times of crisis, it is vital that the entrepreneurship dynamics and national frameworks to promote entrepreneurship are carefully defined and measured. Global Entrepreneurship Monitor (GEM) research can provide significant metrics to policymakers along the road to economic recovery, which enable informed and astute – but, most importantly, effective – decision-making. The latest volume of the GEM Report adds another round of extensive national surveys to an already substantial GEM database of entrepreneurial results.

In 2022, over 170,000 individuals were interviewed across 49 different economies, adding their views and experiences to over 3 million previously interviewed for the GEM Adult Population Survey