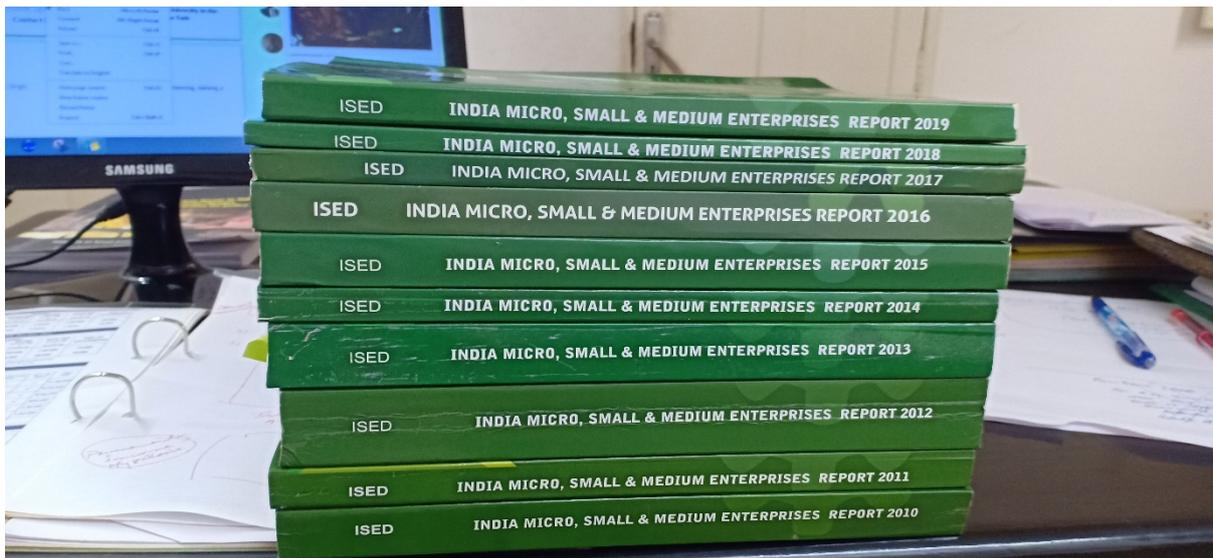


Global SME Day 2025:

Message by Institute of Small Enterprises and Development

On this eighth Global International SME Day, Institute of Small enterprises and Development wishes to greet the global community of SMEs and all its stakeholders, prosperity and a sense of direction in their future activities.



Both inflation and stagflation pose significant challenges for SMEs globally in 2025. Inflation can erode purchasing power and lead to increased costs for businesses, while stagflation (high inflation coupled with slow economic growth) can further squeeze margins and make it harder for them to thrive. Such experience raises some unique questions of sustainability, which may have country-specific implications. The global SME landscape today is characterized by unevenness in growth and performance across different countries and continents. The rising global economic inequality, today, is most evident in the lowest-tier businesses within the enterprise pyramid. The smaller, often informal, businesses at the base of the enterprise structure are disproportionately impacted by economic disparities, while larger, more established firms benefit more. This disparity stems from various factors, including economic shocks, policy actions, and structural characteristics. The tariff issue triggered by the United States in April this year, and the failure of multilateralism in trade are likely to exacerbate inequalities in the global enterprise structure, as the general trend is towards increased trade barriers, which disproportionately affect developing nations and smaller businesses. 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.

The ensuing new world order in 2025 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; 3) formalization of labour flexibility under a legitimized 'gig model'; 4) an acceleration of the paradigm of Fourth Industrial revolution; and 5) an evolving global trade regime that is characterized by a complex interplay of factors, including increased protectionism and the rise of regional trade agreements. Several economic projections suggest a mixed global outlook for the year, with some regions and economies experiencing robust growth, while others face headwinds. India is projected to be the fastest-growing major economy, while the global economy is expected to slow down from 2.9% in 2024 to 2.4% in 2025.

The global production system as also the world of work, are undergoing significant structural changes. In 2025, entrepreneurship growth will be driven by several major global trends. These include widespread adoption of AI and automation, a growing focus on sustainability and corporate responsibility, the rise of hybrid work models, and a demand for personalized customer experiences. Furthermore, digital transformation in finance and operations, along with the rise of digital payment systems, will also significantly impact entrepreneurial success. An unprecedented growth of solopreneurship is a major trend in 2025. This is driven by factors like AI, remote work, and the gig economy. Individuals are increasingly embracing independent work, taking advantage of digital tools and platforms to build and scale their businesses.

Amid the great spurt in technology, on the one hand, and a massive disruption 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.

The GEM reports for 2024/2025 indicate a complex and evolving landscape for entrepreneurship globally, with both positive and challenging trends. While the United States

shows a return to historic highs in entrepreneurial activity, access to finance and regulatory hurdles remain significant obstacles for new businesses worldwide. Besides, a growing fear of failure and uncertainty about the role of AI in business, prompting a need for stronger support systems and educational initiatives.

Aligned with the global trends, India is experiencing a surge in entrepreneurship. While there are significant problems of data convergence, one has to critically look at several official estimates. The ASUSE 2025 data, brought out by the Government of India, is a comprehensive source on unincorporated non-agricultural establishments. It shows that this sector has witnessed significant growth in number of establishments (by 12.84%), number of workers (by 10.01%) and in GVA (by 16.52%; in current price) during October, 2023– September, 2024 as compared to October, 2022 - September, 2023. The number of "Other Services" registered the highest growth, followed by manufacturing. Enhanced capital investment, greater accessibility to loans, and a stronger trend toward digital adoption, are key features observed and reported. About 58% of the manufacturing establishments were female-owned, registering an increase of 4 percentage points. GVA, which is a key indicator of economic performance rose by 16.52% driven by a 26.17% growth in other services sector. The GVA toppers were Maharashtra, Uttar Pradesh and Gujarat. Use of internet, for entrepreneurial purposes, has increased from 13.50% in 2022-23 to 17.90% in 2023-24 in rural and farm sector. Overall, it increased from 21.10% to 26.70% during the inter-Survey period. Among the broad activity categories, about 35% of trading establishments used internet for entrepreneurial purpose, an increase of 10 percentage points. This indicates a significant trend towards digitisation.

According to the GEM India Report (21-22), the country's entrepreneurial activity expanded in 2021, with its TEA Rate (percentage of adults (aged 18–64) who are starting or running a new business) increased to 14.4% in 2021, up from 5.3% in 2020. The Indian start up ecosystem, as in 2025, is growing rapidly, with over 60,000 start-ups and more than 100 unicorns, solidifying its position as the third-largest globally.

The ISED Small Enterprise Observatory analyses the industrial structure of the country using an innovative framework and model: ISED Entrepreneurship Pyramid Model. It has three segments, ie, the large SSE base, the Main street businesses that constitute the middle, and the innovation-oriented Schumpeterians at the top. Depending upon the hegemonic role of a particular influence that explain the surface, it shows some bias towards either a free or a regulated economy, i.e., either a statist or a market model. 'Entrepreneurial Orientation (EO) and Entrepreneurial Intentions (EI) take shape against such a backdrop.

The Union budget 2025, in its “engine of growth” approach, consider investment as vital to the country’s Vision 2047. Investment in innovation is a forward looking thrust of the Budget which also has several components that are helpful for the interests of the MSMEs, and for value chain development. The Budget give a major thrust on exports, as the fourth engine of its agenda. It envisages the setting up of an Export Promotion Mission, where the thrust given to MSMEs is significant. Unlike in the past, the Budget has a comprehensive futuristic view of the enterprise system, against the backdrop of growth projections of the economy and of the Vision 2047 , as outlined by the Government of India.

India's SMEs can play a significant role in the country's economy and in GVCs. While the government has a number of policies and initiatives to help Indian SMEs integrate into GVCs, such potential has not yet been articulated adequately. While the value chains policy, as a whole, implies a fresh look at the potential of the MSME sector, operationally, from the angle of forward and backward linkages, it is important to delineate such linkages. India's policies for GVCs aim to increase the country's participation in GVCs and transform it into a producer of high-value products. The key products driving it include, coal and petroleum, business services, chemicals, transport equipment etc. However, there is a predominance of forward linkages than backward linkages. The country still depends heavily on exports of raw materials and intermediate products. GVC participation is expected to be enhanced through developing quality trade infrastructure Integrating MSMEs into the GVC network ,streamlining import procedures and reducing hidden trade barriers, and promoting collaboration between domestic and foreign firms.

Financial initiatives and policies primarily aim at improving cash flow for MSMEs and facilitate smoother trade. The Budget pins hopes on the country’s drive for participation in GVCs by focusing on electronics, semiconductors, automobiles, chemicals, and pharmaceuticals. India's electronics sector has grown rapidly, and the government is recognizing the importance of GVCs for expanding electronic manufacturing. India has also expanded its reach in areas like petroleum oils, agrochemicals, and precious stones.

As in 2025, the key problem with a nation-wide impact, relates to the reciprocal tariff issue. In many cases, reciprocal tariffs act as a burden for SMEs; the reasons are, increased costs, squeezed profit margins, reduced competitiveness, supply chain disruptions, market access challenges, and negotiation challenges: Specific Impacts on SMEs have been significantly noted from sectors like steel and aluminium, textiles, auto parts, and engineering.

The recent developments in the global economy, especially the weakening of the multilateral trade regime, makes it imperative for countries to focus their attention on GVCs and to sharpen their strategies around that. Therefore, both at the level of policy and promotion, as also relating to financing, it is critical to sharpen such strategies. Considering the new responsibilities and roles of the public promotional regime as also of the financial system, the role of the Ministry of MSME and of the Reserve Bank of India become crucial. While the Ministry will have to restructure its promotional schemes, the onus of tuning policies in favour of strengthening value chain financing goes to the RBI.

The social aspects of SME development come in a big way today, in relation to two key areas: 1) labour market absorption in favour of self-employment; and 2) genderpreneurship. The coexistence of mounting unemployment, and the corresponding growth of solopreneurship brings in some questions in policy and strategy. The "labour to entrepreneurship" strategy refers to a shift from relying primarily on wage employment to pursuing opportunities in self-employment and entrepreneurship. Within self-employment, solo self-employment is a new trend. This includes various professions, from IT professionals to hairdressers, indicating a shift in work arrangements across different industries. Hybrid self-employment, another new trend, involves combining wage employment with self-employment, allowing individuals to leverage both traditional and flexible work options. The gig economy, characterized by short-term, contract-based work, also contributes to the rise of self-employment.

Beyond the traditional view of simply working for oneself, the "new theory" of self-employment recognizes its complexity. It acknowledges factors like non-pecuniary motives (such as, work-leisure choice), diverse income streams, and the role of social connections in influencing self-employment choices. In contrast, the "old theory" primarily focused on self-employment as a means of generating income and often overlooked the broader motivations and social contexts surrounding it. This transition reflects a growing recognition that entrepreneurship can create jobs, foster innovation, and drive economic growth, especially in developing countries. While this paradigm shift is critical in India's development strategy, from the point of view of the 'Vikasit Bharat' agenda, the strategy needs to be taken to its next level. This would demand a critical review of all the existing programmes in the area from the point of establishing synergies and ensuring complementarities.

What about the motivation for self-employment? Public policy has to address this basic question before self-employment /SME programmes are designed and implemented. While, from the perspective of value creation and transfer, several models of SME development can be identified, these demand a critical review and adaptation, based on the specific objective setting of the States and Union Territories.

India's unique capabilities lie in its decentralised manufacturing system. Given this essentially decentralised manufacturing structure, the challenge and opportunity lies in triggering such capabilities on a 'smart manufacturing' mode. While we put forward this major imperative in

2025, the global scene of trade and investment has gone through a dramatic experience, which gives immense lessons for India as a manufacturing giant: this is the time for introspection on its policy preferences of the past- inward orientation or a strong move for outward orientation?

Genderpreneurship demands a fresh look from two angles: 1) scope and sustainability of promotional programmes; and 2) value chain implications as they relate to gender. According to the 'potential opportunities approach' underlying the framework of analysis at the ISED Small Enterprise Observatory, there is an accelerated need for redefining the conventional programmes and schemes of women entrepreneurship development. Gender and GVCs provide a new dimension to it. In India, women constitute a smaller shares of entrepreneurs (14%), but oversee a notable percentage of MSMEs (20%). They make up a larger proportion of the workforce in firms participating in GVCs (36.7%). It is important that this potential opportunity is meaningfully addressed and acted upon.

At any particular historical juncture, where should be the priority- on employment generation or growth? While both are important, from the angle of strategic decision making and policy correction, one has to go back to subsector level evidences. Seen from the perspective of value chains, the SME development strategies need a significant review and reorientation. Such an exercise has to happen based on a close understanding of the developmental issues at the subsector level. A review of the experience of ten strategic subsectors, provide important insights on the way forward.

Both the world of SMEs and the global SME scene have undergone a significant transformation over time, in terms of economic systems, development policies, and strategies. But such transformation have been largely on account of the country level experience and policy preferences, rather than by a specific global agenda. Against the rapidly changing techno-economic paradigm, there is need for a revisit of the world of SMEs in terms of its structure and transition. Where is India placed against this backdrop? Of late, there have been significant changes in India relating to the policy regime and strategic approaches . These may be identified in relation to the following areas: 1) alignment with the flagship programmes; 2) Enhanced focus on sunrise sectors having significant GVC implications; 3) Growth of strategic sectors; 4) Value chain focus' and 5) scale to scope focus.

India's MSME vision for the "Amrit Kal" has already been outlined by the India MSME Report Series through its earlier issues. That vision is grounded on 'decentralised smart manufacturing'. It means, shifting from a single, centralized factory model to a more distributed network of production units, based on the country's basic strength of a strong

decentralised manufacturing structure. This shift leverages technology to create a flexible, agile manufacturing ecosystem that can adapt to changing market conditions.

Taking 'decentralised smart manufacturing' to the operational level, demands a policy of manufacturing convergence. This has to happen in the States. Competitive federalism has ensured the ground setting. How to take it forward? Between the external framework conditions that support enterprise development and the internal performance of a firm, there is need for a balance. While external factors like policies, infrastructure, and market conditions are essential for growth, a company's internal capabilities, efficiency, and resource management are equally vital. Effective enterprise development requires both a conducive external environment and robust internal performance. Sustainable enterprise development considers the economic, social, and environmental impacts of business operations. By balancing these two aspects – framework conditions and internal performance – businesses can foster a healthy environment for growth and achieve long-term success.

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 Brundtland Report. 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. 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 are recommended.

- 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
- Outward orientation and GVC policy

The challenge and opportunity of the country this year is to showcase its manufacturing capabilities and to translate that into actionable strategies. A strategy of outward orientation and value chain development need to follow. The exercise has to start from the States, as the country has significant process and product capabilities in a regional setting. They need to be translated into growth drivers, obviously with the lead role of the Government of India.