



ASIAN CENTRE FOR
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DEVELOPMENT AND EDUCATION
AN INDIA SME FORUM INITIATIVE

Entrepreneurship Growth



Role of Entrepreneurship in Stimulating Growth

The growth of Indian economy has been directly linked to the level of entrepreneurship at grassroot level. Be it the Hindu Growth rate during the Nehruvian where entrepreneurship and profits were looked from a skeptical perspective, to the rapid growth story of the Indian Economy post LPG reforms 1991 led by Entrepreneurs and MSMEs.

Today Indian Economy is eyeing at becoming 5 trillion \$ economy in the next 4 years, this can be possible only when it grows at CAGR of 13%. To achieve this the government is relying on promoting entrepreneurship, innovation and startups as evident in its various policies and schemes such as Startup India, Stand up India, Make in India etc. Today India is having more than 6 lakh MSMEs and 60,000 registered startups as the backbone of the economy.

In this light we shall see what is the role played by entrepreneurship in the growth story of a nation. Also we shall also see how entrepreneurship is not just related to growth but overall development of a society as well. Lastly we shall explore the untapped potential of entrepreneurship in India and how can we tap this potential.

How can Entrepreneurship Stimulate Growth:

1. Capital Formation:

By establishing the business entity, entrepreneurs invest their own resources and attract capital (in the form of debt, equity, etc.) from investors, lenders and the public. This mobilizes public wealth and allows people to benefit from the success of entrepreneurs and growing businesses. This kind of pooled capital that results in wealth creation and distribution is one of the basic imperatives and goals of economic. Rate of capital formation increases which is essential for rapid economic growth. Also where traditionally investment in infrastructure was associated with multiplier effect today governments all over the world are looking at Entrepreneurship and business as something having a large multiplier. Businesses not only create capital assets by investment, it also creates human capital in the process. This human capital can certainly be more impactful in the growth trajectory of a nation. Entrepreneurs convert the latent and idle resources like land, labour and capital into national income and wealth in the form of goods and services.

2. Improvement in Per Capita Income:

Entrepreneurs play crucial role in increasing net national product and per capita income in the country, which are important yardsticks for measuring economic growth. In India the MSME sector contribute to 30% of GDP at the same time employing more than 11cr people. Entrepreneurship employs a bottom up approach of transforming livelihood. Each new

entrepreneur makes use of even more resources like land, labour and capital to develop products and services that add to the national income, national product and per capita income of the country. This growth in GDP and per capita income is again one of the essential goals of economic development.

3. Create Jobs:

Entrepreneurs are by nature and definition job creators, as opposed to job seekers. The simple translation is that when you become an entrepreneur, there is one less job seeker in the economy, and then you provide employment for multiple other job seekers. This kind of job creation by new and existing businesses is again one of the basic goals of economic development. This is why the Govt. of India has launched initiatives such as StartupIndia to promote and support new startups, and also others like the *Make in India* initiative to attract foreign companies and their FDI into the Indian economy. All this, in turn, creates a lot of job opportunities and is helping in augmenting our standards to a global level.

4. Balanced Regional Development:

Entrepreneurs setting up new businesses and industrial units help with regional development by locating in less developed and backward areas. The growth of industries and business in these areas leads to infrastructure improvements like better roads and rail links, airports, stable electricity and water supply, schools, hospitals, shopping malls and other public and private services that would not otherwise be available. Every new business that locates in a less developed area will create both direct and indirect jobs, helping lift regional economies in many different ways. The combined spending by all the new employees of the new businesses and the supporting jobs in other businesses adds to the local and regional economic output. Both central and state governments promote this kind of regional development by providing registered MSME businesses various benefits and concessions.

5. Exports:

Any growing business will eventually want to get started with exports to expand their business to foreign markets. This is an important ingredient of economic growth since it provides access to bigger markets, and leads to currency inflows and access to the latest cutting-edge technologies and processes being used in more developed foreign markets. Another key benefit is that this expansion that leads to more stable business revenue during economic downturns in the local economy. Today MSME sector contributes to 40% to total exports, highlighting the contribution of MSME sector in prosperity of the nation.

Prima facie it may seem that entrepreneurship is only related to growth however things perceived from a broader perspective will likely show that not only entrepreneurship leads to growth but also a growth which is inclusive along with overall development of the society via: -

1. **Standard of Living:**

Increase in the standard of living of people in a community is yet another key goal of economic development. Entrepreneurs again play a key role in increasing the standard of living in a community. They do this not just by creating jobs, but also by developing and adopting innovations that lead to improvements in the quality of life of their employees, customers, and other stakeholders in the community. For example, automation that reduces production costs and enables faster production will make a business unit more productive, while also providing its customers with the same goods at lower prices.

2. **Community Development:**

Economic development doesn't always translate into community development. Community development requires infrastructure for education and training, healthcare, and other public services. For example, you need highly educated and skilled workers in a community to attract new businesses. If there are educational institutions, technical training schools and internship opportunities, that will help build the pool of educated and skilled workers. A good example of how this kind of community development can be promoted is Azim Hashim Premji, Chairman of Wipro Limited, who donated Rs. 27,514 crores for promoting education through the Azim Premji Foundation. This foundation works with more than 350,000 schools in eight states across India. So, there is a very important role for entrepreneurs to spark economic development by starting new businesses, creating jobs, and contributing to improvement in various key goals such as GDP, exports, standard of living, skills development and community development.

3. **Local entrepreneurship addresses the UN SDGs**

Being plugged into the local culture gives entrepreneurs in developing nations a unique sense of what's needed, allowing for local solutions to local issues. Entrepreneurs are fighting social problems like waste and pollution, climate change, poverty, empowering women etc. Entrepreneurs like Akshat Jain through his startup NAMO E-WASTE collects disposed e-waste, treats and recycles it into usable items. Anshu Gupta founded **Goonj**, a social enterprise that collects used clothing from the urban crowd, sort them, fix and later distribute among the poor and needy. Santosh Parul hekar worked to create job opportunities for the unemployed youth in rural India by starting 'Pipal Tree', a company that aims to impart formal training to the youth and provides them with reputable jobs in companies across the country. The names might go on and on in this area. Social problems

which governments despite having all resources and manpower were unable make an impact are being solved by entrepreneurs and their innovative mindset.

Untapped potential of entrepreneurship in India

Today India is having 60000+ startups, ranking 3rd largest in startup numbers, however when such stat is compared with per capita basis it reflects the gloomy picture of the entrepreneurship of the culture in India. As per Bain Co. 20% of MSMEs are run by women, however a majority of them are only owned by women on paper. As per India's entrepreneurial confidence Index by KPMG Indian entrepreneurs are fairly confident about their Ecosystem, entrepreneurs have rated the Indian entrepreneurial ecosystem at 3.10 out of 5. The pictures of entrepreneurship in India might be changing post LPG reforms and opening up of the Indian economy. Be it India's ranking at 63rd in World Bank ease of doing business index to India being the centre of 60+ unicorn startups. However having the vision of being a 5 trillion \$ economy in the next 4 years, the entrepreneurial ecosystem in India still seems to be in the budding stages

India has entered into the phase of demographic dividend, however the current unemployment rate has been 45yr old high as per official stats. Sooner than later this demographic dividend can turn into a demographic burden in case India fails to produce jobs. Moreover, by 2030 almost 40% of the population is expected to reside in urban centers this requires some innovative solution to solve the unemployment crisis in waiting. The future might be challenging however entrepreneurship and innovation can be relied upon as a solution in the long term.

How can we tap this potential to stimulate growth?

1. Introduction of Entrepreneurship in education curriculum

- ☐ The conducive environment for entrepreneurship can be created when young minds look upto it from a positive perspective.
- ☐ We need to take inspiration from programmes like Business Blasters of Delhi government which is a part of 'entrepreneurship mindset curriculum', whereby Rs 2,000 were given as seed money to class 11 and 12 students to develop their entrepreneurship ideas and further were provided a platform to pitch investors.
- ☐ Delhi Skill and Entrepreneur university aims to create a win-win for the youth and the industry by filling the existing gaps in skill training. The focus will be on teaching both self-reliance for life-long independence and the wisdom towards nurturing and valuing interdependence

2. Improving access and awareness regarding finance and other government schemes-

- Need is to focus on financial literacy programmes for the MSMEs entrepreneurs covering the various financial products, processes and institutions, preferably using a cluster approach.
- Banks need to shift their focus to cash flow based lending rather than insisting only on the collateral security, by developing alternative methods of credit appraisal for at least the first time entrepreneurs.
- Awareness about CGTMSE, Small Finance Banks, Bill discounting facility (either through own bank, or through TReDS), need to be created by way of adequate credit counseling and financial literacy programs.
- According to the website of Gol “startupindia.gov.in”, there are in total only 61,138 start-ups that are registered and recognized by DPIIT. Accordingly, even today majority of companies/startups are deprived of a host of benefits due to their lack of awareness and non-registration on DPIIT portal. Thus, it is necessary that Gol should take appropriate measures to ensure proper training and learning platforms for start-ups and encourage them to get registered and avail benefits to scale their business.

3. Labour Law Reforms to Create an Atmosphere of Trust and Consideration -

- The Modi government’s Labour and Employment Ministry drafted four Labour Codes - the Code on Wages; the Code on Industrial Relations, the Code on Occupational Safety, Health and Working Conditions; and the Code on Social Security. The new codes distinguish themselves by simplifying, merging and rationalizing the relevant provisions of the existing Central Labour Laws. State governments must introduce reforms on similar lines.
- India ranks 86th in the Corruption perception index, there is a lingering fear of bureaucratic roadblocks and bribes. To overcome such a situation digitization along with improvement of bureaucratic culture should be the way forward.

4. EODB 2.0

- Transforming bureaucratic image from red tapism to red carpet for investors.
- active involvement of the states, digitization of manual processes and interventions, integration of the central and the state-level systems through IT bridges, single-point access for all citizen-centric services, and standardization and removal of overlapping compliances.
- expand the scope of a single-window portal - PARIVESH - to provide information to the applicants
- Cluster based approach of development of business ecosystem such as industrial

estates, flatted factories, SEZs, NIMZ etc with due cooperation between centre and state governments.

5. Exit Policy

- ☐ It is suggested that, when there is need for exit of enterprise from the market, there has to be proper framework for the revival and rehabilitation of such industries.
- ☐ There should be fast track courts for quickly disposing of routine commercial matter like those around negotiable instruments or contracts. Government should be discouraged from appealing against a matter where its argument has been turned down. This will bring down the pendency of legal cases.

6. Decrement in penalties; relaxation of timelines and fewer compliance under Companies Act, 2013

- ☐ GoI should ensure further relaxation(s) in compliances under the Companies Act, 2013 more focused on boosting and easing the functioning of startups. There should be a decrease in penalties and fees for non-compliance to avoid unnecessary hassles and deterrents for young companies. Also, entrepreneurs should be provided with lenient timelines to enable them to focus on their core activities rather than being burdened by statutory abidance.

7. Taxation related measures

- ☐ Extending benefit of composition scheme to other service providers – Like manufacturers, traders and restaurant service providers, benefit of composition scheme must be extended to other service providers also.
- ☐ Amending Section 129 of the CGST Act to restrict levying of penalties only in cases where there is intent to evade taxes – Section 129 of the CGST Act must be amended to restrict levying of penalties only in cases where there is intent to evade taxes.
- ☐ Tax and compliance disputes should be resolved quickly in a time bound manner. Arbitration for old disputes related to tax and compliance should be simplified and fast tracked.
- ☐ Various taxes (service tax, income tax, VAT, etc.) that are paid at different points during the course of operation should be consolidate. Flexibility should be allowed for taxes to be paid once/twice a year. Retrospective application of taxes should be discouraged.

8. Rationalization of approvals/permits/clearances

- Blanket requirement for redundant approvals such as pollution certificate for service and IT sectors should be done away with.
- At present, the same rules and regulations govern a small business as also a large public company. Regulatory compliance for MSMEs should be delineated and minimized.
- Micro enterprises should be promoted by exempting them from regulatory compliance. Micro enterprises should be registered on the basis of self-declaration (of land, labour and machinery) with random checks by concerned authorities.
- Third party certification/accreditation – Third party certification should be recognized. Recognized Industry Associations could be allowed to certify on behalf of government agencies with random checks and stiff penalties for fraud (akin to self-employed individuals filing tax returns and declaring income with random checks by the IT department).

9. Single Window System

- A single window for facilitating and fast-tracking registration; obtainment of various clearances and permits; tax compliance; and exit from the business should be put in place. To facilitate and fast track the regulatory process, the ministry of MSMEs could set up STPI-like 1 nodal agencies. The nodal agency would co-ordinate with all departments (Registrar of Companies (ROC), Income Tax, Service Tax, VAT, etc.) to specify all required documents, avoid duplication in the application process, speed up the regulatory process, and promote transparency by tracking the progress of the application through an online portal.
- Ministry of MSME could identify and develop private agencies/consultants to train and accredit them for providing a host of services for MSMEs along the concept of e-seva centres. These agencies could be one-stop-shop for obtaining all statutory compliances at a single window. Ministry of MSMEs could facilitate and benefit these agencies/consultants by funding 75% of their total consultation fee

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