

Entrepreneurship Development in India-the Focus on Start-ups

– Sunita Sanghi & A. Srija¹

Entrepreneurship is not new to India. In fact to quote from the Indian Industrial Commission Report (1916-1918)–"At a time when the West of Europe, the birth place of modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for high artistic skill of her craftsmen. And even at a much later period, when the merchant adventures from the West made their first appearance in India, the industrial development of this country was, at any rate, not inferior to that of the more advanced European nations."

Introduction

India today has reached that stage of the demographic transition wherein more than 60 percent of the population is in the economically active age group of 15-59 years, commonly referred to as the DEMOGRAPHIC DIVIDEND. For India to tap this dividend it is necessary that the economy is able to generate enough job opportunities to productively absorb this economically active population. We do keep mentioning of 500 million strong workforce by 2022 but India faces challenges in reaping this demographic dividend considering that illiteracy levels among the labour force is still high and between 70-80 percent of the labour force have education levels below secondary. Almost 48 percent of the workforce is engaged in agriculture while contribution of agriculture to GDP is not more than 16 percent. This situation may be attributed to the low level of education and thereby inability to access decent jobs in the non-farm sector. In terms of status of employment 52 percent of the workforce is self-employed as own-account workers or helpers, 30 percent as casual workers while only around 18 percent have regular jobs.

This has resulted in more than 90 percent of the workforce engaged in informal jobs and slowing down the structural transition from farm to the non-farm sector. The policy focus in the labour market has therefore been to create decent jobs which can give the workforce a reasonable standard of living. While the emphasis has been on wage employment it has been felt essential to promote self-employment or to be specific entrepreneurship as an entrepreneur would be in a position to create more jobs.

Entrepreneurship¹ in India

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In fact an earlier version of the current Make in India policy was the Swadeshi movement launched in 1905 during the pre-Independence era to boycott British made goods and use Indian made goods. The movement saw the development of the Indian textile industry, the iron & steel industry by the Tatas, publishing of vernacular newspapers, setting up of vernacular medium educational institutions, financial institutions etc.

However, post-independence the policy focus of increased public investment in heavy industries and setting up of PSUs did not provide an ideal environment for entrepreneurship. The main problems faced by an entrepreneur were lack of mentoring facilities, technology support or easy availability of credit. Though different Reports on employment highlighted the need for promoting entrepreneurship as means of self-employment, entrepreneurship did not scale up. To mention a few, in the S.P Gupta "Special Group Report on Targeting 10 million Employment Opportunities Per Year" (2002) recommended "appropriate programmes should be launched to increase entrepreneurial capabilities and skill for self-employment." The Montek Singh Ahluwalia

"Report of the Task Force on Employment Opportunities", July 2001 also mentions about developing entrepreneurship ability among the newly self-employed. The Report even recommends entrepreneurship training for the informal sector. To quote, "A large part of the employment generated by the economy will be self-employment in the informal sector. These self-employed entrepreneurs need training of the multi-skill variety, going beyond production skills to include marketing, finance and accounting and elementary management. Such skills cannot be developed through structured formal training but requires the guidance of "mentors" in actual business conditions".

However, entrepreneurship in India has been confined to being own-account workers with one or more helpers and did not expand in size beyond that. As maybe seen from the Fifth Economic Census 2005, 95 percent of establishments were engaging not more than five workers and they accounted for almost 64 percent of the employment. If the employment size of a unit is taken as not more than 10 workers then 98.5 percent of the establishments are covered. (Table-1)

Table-1 Distribution of Establishments by size class of Employment

Sl.No.	Size by class of Employment	Item	Year		
			1990	1998	2005
1	1-5	Establishments	93.4%	94.0%	95.1%
		Persons usually working	54.5%	58.6%	64.2%
2	6-9	Establishments	3.5%	3.3%	3.4%
		Persons usually working	8.4%	8.3%	10.2%
3	10 & above	Establishments	3.1%	2.8%	1.5%
		Persons usually working	37.1%	33.1%	25.5%

Source: Table 5.12, Chapter V, Fifth Economic Census 2005-All India Report, GoI

To promote self-employment as a means of job-creation and to promote entrepreneurship for further job creation, the Micro, Small and Medium Enterprises (MSME) Act, 2006 was enacted to facilitate the promotion, development and enhancing the competitiveness of micro, small and medium enterprises. Earlier to that the small scale industries (SSIs) were regulated by two sections of the Industries (Development & Regulation) Act, 1951 which led to absence of an institutional regulatory and consultative mechanism to capture and guide the progress of an SSI unit from being a micro unit to a small scale and eventually to medium scale one. The earlier Act also excluded the fast emerging service sector². But even after the implementation of the MSME Act, 2006 the high proportion of unregistered MSME units outside the purview of the Act is a matter of concern.

The government has over time implemented policies for the promotion of the small industries which included providing concessional credit, training in entrepreneurship development, marketing assistance etc. But the entrepreneurial growth did not take off in a big way in India as compared to other countries because of the procedural hassles, stringent labour laws, economic regulations etc that the establishments had to face. Further with import liberalization and entry of MNCs into India, the Indian small scale entrepreneurs are not able to face the competition and are finding it difficult to survive. In this context to quote from the Second National Commission on Labour (2002) "New economic changes will provide more opportunities and not enough jobs. Therefore, one has to take advantage of the opportunities. Both in urban and rural areas, there may not be an impressive rise in

wage employment but there will probably be enough scope for self-employment. The emphasis, therefore, has to be not on wage jobs but on creating self-employed persons or entrepreneurs. The entire system of training and education will have to give emphasis on the development of entrepreneurship".

In keeping with this spirit the Ministry of MSME is implementing the entrepreneurship development and skill upgradation schemes through appropriate training facilities. The Ministry has set up three national level Entrepreneurship Development Institutes viz; The National Institute for Entrepreneurship and Small Business Development (NIESBUD)³ (1983) at Noida (Uttar Pradesh), National Institute for Micro, Small and Medium Enterprises (NI-MSME) (1960) at Hyderabad, and Indian Institute of Entrepreneurship (IIE)⁴ (1993) at Guwahati, to inculcate entrepreneurial culture especially among the first generation entrepreneurs. There is the scheme for Providing Support for "Entrepreneurial and Managerial Development of SMEs through Incubators" in implementation since 2008. There is the MSME Technology Centres (earlier Tool Room & Technology Development Centres) which provide high end skill training to the youth. A national award scheme has been initiated by MSME for outstanding performance in Entrepreneurship, Research and Development, Innovation, Lean Manufacturing Techniques and Quality Products.

In addition the creation of Self Help Groups cannot be underestimated. Self Help Group is a homogeneous group of micro entrepreneurs which are formed voluntarily to save whatever amount they can and mutually agree to contribute to a common fund of the group from which small loans are given to the members

for meeting their productive and emergent credit needs on rate of interest and terms decided by the group. These have helped in providing livelihood opportunities to group of women to start their own business and break the shackles of poverty. Some of the best case entrepreneurial models are the SEWA, Kudumbashree etc.

Though entrepreneurship has been privy to India and despite various schemes being in place the country has not witnessed the natural gradation from self-employment to entrepreneurship as part of the growth process excepting a few cases.

What are the factors inhibiting this gradation process? In the entrepreneurial ecosystem the journey of an entrepreneur begins from conceiving an idea to developing it into a project proposal for starting a business. The handholding is required at this stage which is lacking. The entrepreneur is saddled with regulatory hurdles and financial blocks in moving the startup ahead. The availability of risk capital from banks or venture capital companies is limited. Poor infrastructure availability also increases the operational costs for the startups. To quote the National Knowledge Commission, "50% of the entrepreneurs experienced difficulties while seeking statutory clearances and licences. Two-thirds faced hassles while filing taxes and 60% claimed to have encountered corruption. Another hurdle was in accessing reliable information on registration procedures, finance and other schemes. 56% claimed that the paucity of quality infrastructure – especially transport, power, and telecommunications – was a critical barrier⁵." As a result of these hurdles the proportion of closure of units is also high at the startup stage. The entrepreneurial culture

is also lacking as the institutions of learning train students for wage employment rather than in becoming entrepreneurs. A key socio-cultural factor also pertains to social attitudes towards risk and failure. To better understand and manage risk as well as create a supportive social environment for entrepreneurs, it is essential to remove the stigma associated with failure⁶.

Start-up Revolution

However, a change is being witnessed today, as quoted by Prime Minister Shri. Narendra Modi, 'The convergence of technology, integration across diverse fields, distributed architecture and people willing to back an idea, have opened a new world for enterprise. --- I see Start-ups, technology and innovation as exciting and effective instruments for India's transformation, and for creating jobs for our youth⁷. For start-ups today there are different levels of financial support that has come to provide the initial seed capital in the form of incubatorsⁱⁱ, angel fundsⁱⁱⁱ or venture capital funds^{iv} followed by private equity and debt in that order. Between January-September 2015, Angel Funds and VCFs have invested \$7.3 billion in early stage Indian Start-ups⁸. India's first generation e-commerce and mobile entrepreneurs have become angel investors which is a sign of maturing of startup ecosystem. However, there is a danger that too many mentors/ angel investors with little experience may lead to a situation of unsuccessful start-ups⁹.

What is Start-up?

The government has also come a big way in promoting startups. The question therefore what needs to be answered is what is a start-up? A start-up is a company that is in the first stage

of its operations. These companies are often initially bank rolled by their entrepreneurial founders as they attempt to capitalize on developing a product or service for which they believe there is a demand¹⁰. The start-up and SMEs appear to be of the same size with limited revenues, high cost of operation, job creating but they operate on entirely different business models. The difference between a start-up and a SME unit is that a startup is new organization designed to search for a repeatable and scalable business model. A start-up according to Steve Blank –‘is searching for answers to the product it will sell, the customers it will serve and the way it will make money from delivering value to its customers’. A SME, according to the U.S. Small Business Administration (SBA) is an “independently owned and operated, organized for profit, and not dominant in its field.” SMEs generally sell known products to known customers in known local markets¹¹. These startup needs an appropriate ecosystem to thrive which includes adequate funds for startups to help them grow; government to create an environment of ease of doing business; ready availability of essential services like office space, location, supplies telecom connectivity etc.; and mentors to provide strategic advice¹².

Latest Policy Initiatives for Start-ups

To simplify the regulatory framework the government introduced the Ease of Doing Business wherein an MSME unit has to fill in a single one page self-declaration online form called **Udyog Aadhaar**. The Apprentices Act, 1961 was amended to enable even the MSME units engage apprentices which will enable the units to get trained labour as well as in turn supply skilled labour. Under the Apprentice Protsahan Yojana, 50 percent of the stipend payable to the apprentices would

be reimbursed by the Government for the first two years which is an incentive for MSME units to take in more apprentices.

To give boost to the Make in India programme, the MSME Ministry has launched the ASPIRE scheme in March 2015, a Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship. The objective of the scheme is to set up a network of technology and incubation centers to accelerate entrepreneurship and also to promote start-ups for innovation and entrepreneurship in agro-industry.

To ease the credit availability requirements of startups the Government had announced the MUDRA scheme- Micro Units Development & Refinancing Agency, operated by SIDBI for providing refinance to micro units. This would improve the liquidity of the micro units who right now have to borrow from NBFCs and moneylenders at high rates of interest.

Atal Innovation Mission (AIM)- This programme operated from NITI Aayog is about an Innovation Promotion Platform involving academics, entrepreneurs and researchers and draw upon national and international experiences to foster a culture of innovation, R&D and scientific research in India. The platform will promote a network of world-class innovation hubs and grand challenges for India. The overarching purpose of this mission is to promote a culture of entrepreneurship and innovation in India. The key objectives of the AIM are:

- To create an umbrella structure to oversee innovation eco-system of the country;
- To provide platform and collaboration opportunities for different stakeholders;
- To study and suggest best and novel practices to be adopted by different

stakeholders in the innovation chain;

- To provide policy inputs to NITI Aayog and various Government Departments and Organizations.
- To create awareness and provide knowledge inputs in creating innovation challenges and funding mechanism to government; and,
- To develop new programmes and policies for fostering innovation in different sectors of economy.

SETU (Self Employment and Talent Utilization)- SETU meaning bridge in Hindi is a Techno-Financial, Incubation and Facilitation Programme to support all aspects of start-up businesses and other self-employment activities, particularly in technology driven areas operated from NITI Aayog. An Expert Committee on Innovation & Entrepreneurship for working out the detailed contours of the Atal Innovation Mission (AIM) and SETU was constituted by NITI Aayog. The Expert Committee has identified five major drivers for creating a vibrant entrepreneurial eco system viz; (i) catalytic government policy and regulatory framework (ii) easy access to equity capital and debt (iii) businesses as entrepreneurial hubs (iv) culture and institutions which encourage entrepreneurship over careerism (v) adequate and effective collaboration forums.

Electronics Development Fund-The Ministry of C&IT has launched the Electronics Development Fund (EDF) to promote innovation, research and development, and product development in the field of semiconductors, nano-electronics, IT and associated sectors by bringing in established companies and startups on board¹³. The objective is to do research, design and

develop electronic products within the country for which the startup units would be provided supportive financial assistance from the EDF.

Digital India-Digital India Programme has been launched to provide broadband connectivity in rural and urban areas. Introduction of digital rural connectivity would give a big boost in developing traditional rural arts, crafts or other innovative ideas into business models.

Intellectual Property Rights-With the growing number of startups it is essential to protect one's products from impersonators. The startups need to go for design patents, trademarks, copyright or trade secrets protection as the need may be before marketing their product.

India Aspiration Fund- A Rs. 2000 crore India Aspiration Fund (IAF) was launched by SIDBI in August 2015 to boost the startups fund-of-funds ecosystem in the country. This fund would invest in various venture capital funds for meeting the equity requirement of MSME start-ups. A SIDBI Make in India Loan for Small Enterprises (SMILE) Scheme of Rs.10,000 crore has also been launched to catalyze tens of thousands of crores of equity investment in start-ups and MSMEs, creating employment for lakhs of persons, mostly educated youth over the next 4-5 years. The objective of SMILE is to provide soft loans in the nature of quasi-equity and term loans on relatively soft terms to MSMEs to meet the required debt-equity ratio norm. The 25 sectors under the 'Make in India' programme' would be the focus with emphasis on financing smaller enterprises in the MSME sector. There will be concessional terms for the enterprises promoted by (SC) / (ST) / Persons with Disabilities (PwD) and women. The scheme is expected to benefit approximately 13,000 enterprises, with employment for nearly 2 lakh persons¹⁴. These two schemes

Till date the startups have been successful in e-commerce, and other IT based applications of service sector. The startups in manufacturing sector are yet to take off in a big way. The launch of the above-mentioned policy initiatives should give a boost to startups in manufacturing as well. As of 16th November 2015, 806 startups have taken off during the year and the main sources of funding were seed funding and private equity and the products were mainly IT based applications in the service sector .

are in addition to the Rs.20000 crore MUDRA scheme. Together the three finance schemes should boost the startups as well as MSMEs already in the transition phase and create good number of jobs in the years to come.

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In the Global Competitiveness Index (GCI) 2015-16 India has scored 16 points and moved up from its earlier ranking of 71 to 55 out of a total of 144 countries. Region-wise among the emerging and developing Asia India ranks sixth after Malaysia (18), China (28), Thailand (32), Indonesia (37) and Philippines (47)¹⁶. India does have the potential to move ahead of these countries. In the World Bank's Ease of

Doing Business Ranking 2015 India is placed at 142 place out of a total of 189 economies. But on the startup front India ranks third position globally with 4200 startups. The new initiatives in promoting startups would enable India to move up to the top position.

To conclude, a startup ecosystem has been created through the new policy initiatives which would not only promote startups particularly in the manufacturing sector but also the micro units would be able to graduate faster as small and medium units. If this objective is achieved the goal of job-realization through self-employment would be complete as self-employment is the answer to providing jobs to the huge proportion of population in the economically active age group. This process would be fast tracked by the flagship programmes well supported by the Skill India Mission which would facilitate availability of right skilled manpower as entrepreneurs complains about skill mismatch. Given that startups are emerging as major job creators, governments both at the Centre and States need to put in place appropriate policy framework for the start-ups.

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15. *Source: <http://trak.in/india-startup-funding-investment-2015/>*
16. *Figures in brackets indicate GCI rankings*
 - i. *'Entrepreneurship is the professional application of knowledge, skills and competencies and/or of monetizing a new idea, by an individual or a set of people by launching an enterprise de novo or diversifying from an existing one (distinct from seeking self-employment as in a profession or trade), thus to pursue growth while generating wealth, employment and social good'. Source: Entrepreneurship in India, National Knowledge Commission, 2008.*
 - ii. *Incubators: Incubators are institutions which help entrepreneurs to develop their ideas to a point where investors can see the viability of the business model. Incubators usually provide hard infrastructure (for example, plug and play office space) and services such as mentoring, advisory, access to technology experts and potentially seed funding. Incubators could be run by government, private sector and educational institutions. Incubators usually charge a small fee from the entrepreneur and could take a stake in the venture. Source: Creating a Vibrant Entrepreneurial Ecosystem in India, Report of The Committee on Angel Investment & Early Stage Venture Capital, June 2012.*
 - iii. *Angel investors: Angels are generally high net worth individuals (HNWIs), successful serial entrepreneurs or senior professionals. Such angels operate either individually or through formal or informal networks. They not only provide capital but they also act as great scouts of emerging ideas, helping them scale at a stage where institutional seed and venture funds would typically not invest. Source: Creating a Vibrant Entrepreneurial Ecosystem in India, Report of The Committee on Angel Investment & Early Stage Venture Capital, June 2012.*
 - iv. *Venture Capital and Seed Funds: These are institutional investors which invest capital in firms with a proven business model and need capital to scale the business up. Such investors typically follow incubation or angel investments. A VC Fund is a pooled investment vehicle where institutional and high net-worth individual investors pool their money which is then managed by an asset management company (AMC). The AMC typically comprises of a small group of professionals with entrepreneurial / operational experience and / or financial / investment experience. The Fund typically pays the AMC a fee of 2.0 to 3.0 % of the total corpus on an annual basis (depending on the size of the fund) and 20% of the upside, subject to a hurdle rate. There is a private placement memorandum which defines the contract between the investors and the fund managers, outlining the areas in which investments will be made, size and number of investments, etc. Institutional investors in a Fund normally are banks, pension funds, insurance companies, university endowments, corporates, family offices and government. Source: Creating a Vibrant Entrepreneurial Ecosystem in India, Report of The Committee on Angel Investment & Early Stage Venture Capital, June 2012*