

INDIA HAS LOW RATES OF FORMAL ENTREPRENEURSHIP

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

The Economic Survey on Friday said that India currently ranks third globally in the number of new firms created with about 1.24 lakh new entities coming up in 2018. However, India has lower rates of formal entrepreneurship on a per-capita basis compared to other countries.

As per the Survey, new firm creation had gone up dramatically since 2014. While the number of new firms in the formal sector grew at a cumulative annual growth rate of 3.8% from 2006 to 2014, the growth rate from 2014 to 2018 had been 12.2%. “As a result, from about 70,000 new firms created in 2014, the number has grown by about 80% to about 1,24,000 new firms in 2018,” said Chief Economic Adviser Krishnamurthy Subramanian.

However, on a per-capita basis, India had low rates of entrepreneurship in the formal economy. “Between the 10-year period from 2006 to 2016, the mean number of new firms registered per year per 1,000 workers was 0.10. In contrast, the mean entrepreneurial intensity for the U.K. and the U.S. was 12.22 and 12.12, respectively.”

The Survey also pointed out that in contrast to the other countries, a large number of India’s enterprises operate in the informal economy which was not captured in the data.

The data showed that new firm creation in services sector (at around 85,000) was significantly higher than that in manufacturing (a little less than 15,000), infrastructure (about 5,000) or agriculture (less than 5,000).

Further, the Survey added that entrepreneurship at the bottom of the administrative pyramid — a district — had a significant impact on wealth creation at the grassroots level. “... a 10% increase in registration of new firms in a district yields a 1.8% increase in GDDP (gross district domestic product). Thus, entrepreneurship at the bottom of the administrative pyramid — a district — has a significant impact on wealth creation at the grassroots level.

It added that enhancing ease of doing business and implementing flexible labour laws in job-creating sectors, such as manufacturing, can create the maximum number of jobs in districts and thereby, in the States. Literacy, education and physical infrastructure are the other policy levers that district and State administrations must focus upon to foster entrepreneurship and thereby, job creation and wealth creation, the Survey said.

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