

INDIA RANKS THIRD IN NUMBER OF NEW FIRMS CREATED; 1,24,000 NEW FIRMS CREATED IN 2018 COMPARED TO 70,000 IN 2014

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

Ministry of Finance

India Ranks Third in Number of New Firms Created; 1,24,000 New Firms Created in 2018 Compared to 70,000 In 2014

As Against 3.8 % Growth Rate in Number of New Firms Created During 2006-14, Growth Rate During 2014-18 Rises to 12.2%

More Service Sector Firms Created Compared to Manufacturing, Agriculture or Infrastructure; Entrepreneurial Activity Highest in Delhi, UP, Mizoram, Kerala, A&N Islands & Haryana

Entrepreneurial Activity in Manufacturing Sector Highest in Gujarat, Meghalaya, Puducherry, Punjab and Rajasthan

Birth of New Firms Heterogeneous Across Indian Districts & Sectors: Economic Survey

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The Union Minister for Finance & Corporate Affairs, Smt Nirmala Sitharaman presented the Economic Survey 2019-20 in Parliament today. The Survey stated that as per World Bank's Data on Entrepreneurship, it is seen that India ranks third in number of new firms created. The same data shows that new firm creation has gone up dramatically in India since 2014. While the number of new firms in the formal sector grew at a cumulative annual growth rate of 3.8 per cent from 2006-2014, the growth rate from 2014 to 2018 has been 12.2 per cent. As a result, from about 70,000 new firms created in 2014, the number has grown by about 80 per cent to about 1,24,000 new firms in 2018.

The Survey noted that reflecting India's new economic structure, i.e. comparative advantage in the Services sector, new firm creation in services is significantly higher than that in manufacturing, infrastructure or agriculture. Entrepreneurial activity in the services sector is

highest in Delhi, Mizoram, Uttar Pradesh, Kerala, Andaman & Nicobar Islands and Haryana.

The Survey observed that the birth of new firms is very heterogeneous across Indian districts and sectors. Moreover, it is dispersed across India and is not restricted to just a few cities. The literacy and education in the district foster local entrepreneurship significantly. For instance, the eastern part of India has the lowest literacy rate of about 59.6 per cent according to the census of 2011. This is also the region in which new firm formation is the lowest. In fact, the impact of literacy on entrepreneurship is most pronounced when it is above 70 per cent, the Survey says.

The Survey points out that the level of local education and quality of physical infrastructure in the district influence new firm creation significantly. The grassroots entrepreneurship is not just driven by necessity as a 10 percent increase in registration of new firms in a district yields a 1.8 percent increase in GDDP (Gross District Development Product). Thus, entrepreneurship at the bottom of the administrative pyramid- a district – a significant impact on wealth creation at the grassroots level. This impact of entrepreneurial activity on GDDP is maximal for the manufacturing and services sectors.

The Survey further notes that despite being the 3rd largest ecosystem for entrepreneurship in the world, India appears to have lower rates of formal entrepreneurship on a per-capita basis when compared to other countries.

The Survey points out that relative to entrepreneurial capabilities in manufacturing, Services and Infrastructure, entrepreneurial capabilities in the Agriculture sector seem to be distributed evenly across most districts in India. States in the highest quintile of relative entrepreneurial activity in the Agriculture sector are Manipur, Meghalaya, Madhya Pradesh, Assam, Tripura and Orissa. Establishments in the North-East are more likely to be private enterprises in the food business such as organic produce farms and tea plantations while a majority of the establishments in Madhya Pradesh and Orissa are farmer producer companies, designed as hybrids between cooperative societies and private limited companies that organize farmers into a collective to improve their bargaining strength in markets.

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BOOSTING ENTREPRENEURSHIP AT GRASSROOTS

India **3rd**
in the number of
new firms created

1,24,000
new firms set up
in 2018

80%
rise in number of new
firms created in 2018
compared to 2014

10%
increase in new
firms can increase
GDDP* by 1.8%

*Gross domestic district product

Creation of new firms higher in services sector

The Survey notes that the entrepreneurial activity in the Manufacturing sector is highest in the regions of Gujarat, Meghalaya, Puducherry, Punjab and Rajasthan. Within Gujarat, the most entrepreneurially active districts in Manufacturing sector are Surendranagar, Rajkot, Bhavnagar and Surat. Establishments in these regions are focused on textiles, chemicals, metals, plastics, and pharmaceuticals manufacturing.

Measures to increase the literacy levels rapidly through the institution of more schools and colleges will spur entrepreneurship and consequently local wealth creation. The better connectivity of villages through tar roads will likely improve access to local markets and improve entrepreneurial activity. The policies that foster ease of doing business and flexible labour regulations foster entrepreneurial activity, especially in the manufacturing sector. As the manufacturing sector has the potential to create the maximum jobs, states must focus on enabling ease of doing business and flexible labour regulations to foster job creation, says the Economic Survey.



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