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India's entrepreneurship policy: Future tasks and vision

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Indian entrepreneurship policy framework and startup ecosystem has evolved over the years as one with potential to facilitate new venture creation at ease. The current ecosystem and reformed regulatory framework is much more entrepreneur and small business friendly. However, much needs to happen at the ground level. This article looks at how entrepreneurial ecosystem evolved and emerged in India. How was it envisioned and how it shaped up during the decades under various Indian governments? And it concludes with a note on future task and scope.

Keywords: Entrepreneurship; Startup ecosystem; Businesses; Reforms; Business incubators; Finance for Entrepreneurs

JEL Classification: M130; L51; L53; O3

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Introduction

Entrepreneurs and free enterprises are crucial for economic independence. Mahatma Gandhi gave priority to revitalizing entrepreneurship from the grassroots so that there would be a strong community of entrepreneurs to rebuild India. However, after independence, Indian economy emerged as a mixed economic system, with a plethora of regulations, inspectors, rules managed by a corrupt bureaucracy primarily targeting businesses and entrepreneurs. Even the reforms heralded in 1991 could not completely demolish regulatory overburden that strangles entrepreneurs.

It was connections, privileges, network and affiliation to the ruling politicians and officials that determined the fate of businesses. However, of late that scenario is changing. Starting a business can be much faster today. Registering a small business takes few hours including that of tax registration. There are many options to avail finance. All these were unimaginable a decade ago. In the earlier days, entrepreneurship, private sector and small business management were considered lowly vocations. Youth attitude towards entrepreneurship is also changing. Today there is a supportive environment, institutions, friendly business climate and finance available for entrepreneurs.

This article looks at how entrepreneurial ecosystem evolved and emerged in India. How was it envisioned during the pre-independence days? How it practically shaped up during the decades under various Indian governments? How the reforms and the industrial policies of 1990s and 2000s helped in the evolution of the current entrepreneurial and startup ecosystem and its present shape? And it concludes with a note on future task and scope.

1. Entrepreneurship and startup ecosystem

Entrepreneurship development policy focus has to be on creating a favorable entrepreneurial climate and culture. It has to attract youth to start entrepreneurial ventures. A framework to equip, encourage and educate probable entrepreneurs with necessary skills to start and give leadership to their ventures is core to this. (UNCTAD, 2012; CIPE, 2014) At the policy level, there has to be reduced barriers to business entry. Facilitating of single window processes, reduced licensing requirements, simpler and easy compliance system are part of a better climate for entrepreneurs to pursue their mission. (UNCTAD, 2012)

Entrepreneurship education and training, on various aspects of management, accounting, facilitating seed capital and incubation facilities are all parts of an entrepreneurial and startup ecosystem. According to Mazzarol (2014), the term "entrepreneurial ecosystem", the term help describe the conditions that could bring people 'together and foster economic prosperity and wealth creation'. An entrepreneurial ecosystem have various elements, observes Isenberg (2010) which foster entrepreneurship, innovation

** This paper is also available at <http://www.erenet.org/>. [ERENET Profile](#)

and new venture creation. Following diagram shows major elements which are considered important elements in an entrepreneurial ecosystem.



Figure 1 Elements of Entrepreneurship ecosystem, adapted from Mazzar (Mazzarol, 2014)ol 2014

Free enterprises and village entrepreneurs: Indian Entrepreneurship tradition

India has a strong entrepreneurship tradition. Traders, handicraftsmen, potters, handloom & silk makers-weavers, leather, agro focused manufacturing, a variety of artisan entrepreneurs, diamond and precious stone businessmen and many others formed its entrepreneurial and business tradition. (Roy, 2003) India used to have a major presence in international market. Export of high value products from India helped India dominate in the international trade scenario in the earlier centuries.ⁱ

Indian spices were in much demand in the western markets, which prompted European expeditions. However, India's economy was a village oriented one, with its unique entrepreneurial eco-system, evolved over several centuries, which could accommodate and cater to the needs of its members, within the then social order, which was caste and community oriented.

However, during colonial rule, traditional village economic system declined with increased international exposure. Therefore, strengthening of village economy was one of the agenda pursued during Gandhi's time. (GHITRA, 1949) Charkka and Khadi were popularized, which represent entrepreneurship and economic freedom.ⁱⁱ

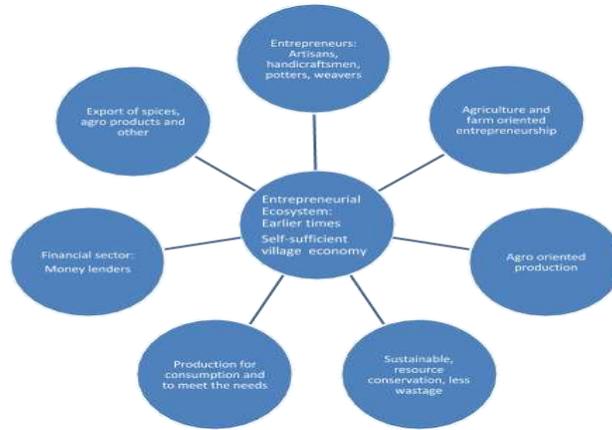


Figure 2: India's Traditional entrepreneurs and enterprise ecosystem

Features of traditional enterprise eco-system:

- Production for the need of the region/village
- Sustainable use of resources
- Principle of conservation in the use of products
- Role of castes/communities in manufacturing and delivery of various services
- Entrepreneurship culture
- Cottage, Micro and small enterprises
- Labor intensive techniques and technologies
- Dependence on rural money lenders
- Role of caste and community orientation in determining one’s profession, business area and enterprise focus

Entrepreneurship development and private sector in the post independent India

During the post-independence era the policy orientations was to build an economy based on State Ownership. Indian State was the new entrepreneur. Many public sector units came up. For the private sector there was a different set of rules, which was based upon regulatory controls, licenses, power of inspectors, corrupt bureaucracy that shaped up India’s business climate over the years. Starting up a business was practically a difficult task, except for individuals from business families (Rao, 2017).

Entrepreneurship policy was embedded in the industrial policy resolutions. In 1948, immediately after Independence, Government introduced the Industrial Policy. (Industrial policy resolution , 1948). After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980. (DC SSI, n.d.)This outlined the approach to industrial growth and development.ⁱⁱⁱ

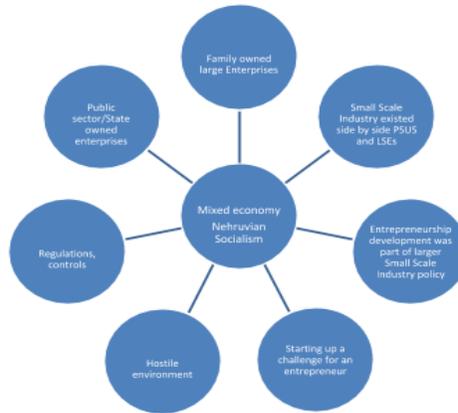


Figure 3 Entrepreneurial eco-system: Post independence era (before 1991)

Post independent enterprise development approach was significantly public sector oriented. Within that mixed economy framework, there was a role for private sector large business houses and they expanded their businesses with State patronage, while atmosphere for new entrepreneur was still not good.

Industrial development and Entrepreneurship policies in the post-independent pre-liberalized era: some highlights

1948 : April 6	Industrial Policy Resolution New Delhi,	<ul style="list-style-type: none"> • Development of Small and COTTAGE SECTOR emphasized • Highlighted cottage and small industries have a role in the national economy. • Small&cottage sector work to complement LSEs • Recommendation to set up Cottage Industries Board as well as Cottage and Small Industries Directorate
1956	Khadi and Village Industries Commission (KVIC)	<ul style="list-style-type: none"> • Khadi and Village Industries Commission Act of 1956' • Promotion of khadi and village industries with other agencies engaged in rural development.
1956: April 30	Industrial Policy Resolution	<ul style="list-style-type: none"> • Stress on cottage and village and small scale industries as they provide immediate large scale employment; • Approach of restricting the volume of production in the large scale sector by differential taxation or by direct subsidies. • Focus on developing self-supporting SSI/cottage sector and they are integrated with that or large-scale industry. • Focus on technique of production and technological up gradation
1977: December 27	Industrial Policy Statement	<ul style="list-style-type: none"> • emphasis on decentralization and on the role of small-scale, tiny and cottage industries
1980, July	Industrial Policy Statement	<ul style="list-style-type: none"> • focus on promotion of competition in the domestic market, technological up gradation and modernization

Entrepreneurship climate and ecosystem before 1991: pre- liberalization



Figure 4: enterprise ecosystem pre-reform 1991 days

Post-1991: New industrial policy and entrepreneurship

In the 1990s a major shift could be seen with regard to entrepreneurship promotion. In 1991 the government adopted economic reforms and a new industrial policy. (GoI, 1991) Private sector role, particularly the role of Small Scale sector has been emphasized. Easing of regulatory burden and creating a single window approach to licenses, permits and clearances was initiated. Such measures contributed in liberating the enthusiasm and potential of millions of entrepreneurs.

Some of the key policy developments/milestones/ approach to entrepreneurship: 1990-2000s

1990	INDUSTRIAL POLICY 1990	<p>Changes in procedures for industrial approvals(key points on entrepreneurship)</p> <ul style="list-style-type: none"> • Promotion of entrepreneurship through campaigns in rural areas • Training of women and youth under the Entrepreneurial Development Program(EDPs) • Special cell to assist women entrepreneurs • Focus on addressing red tape and bureaucratic interference • Simplification of procedure • Support to artisans by expanding the scope of Khadi and Village Industries Commission
1990 April	SIDBI- setting up	<ul style="list-style-type: none"> • Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, presently acts as the key Financial Institution for the Promotion, Financing, and Development of the Micro, Small and Medium Enterprise (MSME) sector
1991- July 24	Statement of Industrial policy	<ul style="list-style-type: none"> • Encouragement to entrepreneurship • development of indigenous technology through investment in research and development • bringing in new technology • dismantling/cutting down market regulatory system

1999: October	New ministry creation for SSI sector	Ministry of Small Scale Industries & Agro and Rural Industries
2000 August	Policy Package	Comprehensive Policy Package for the Small Scale and Tiny Sector For more: https://www.dcmsme.gov.in/sido/policypkg.htm
2001	Support for Incubation Centres in Sunrise Industries for the benefit of the Small Scale Sector.	<ul style="list-style-type: none"> • Bio-technology • Information Technology • Tele-communications • Electronics • Non-Conventional Energy Sources
2006	MSME Development Act	<ul style="list-style-type: none"> • Concept of Enterprise • Both service and manufacturing enterprises being recognized • More impetus and focus for Entrepreneurship and new venture creation • Revised definition
2013	New Companies Act	<ul style="list-style-type: none"> • For the first time ever, the concept of “start-up” has been introduced in the company law. • http://www.mca.gov.in/MinistryV2/companiesact2013.html
2015	MUDRA Bank	Access to finance for startup businesses, micro enterprises
	Udhyog Aadhar	Registration of an entity made much easier

Building Startup ecosystem and entrepreneurship: 21st century

India has made significant progress in strengthening its entrepreneurial and startup ecosystem.^{iv} Institutions, entrepreneurship cells to create awareness in colleges, supporting mechanisms, incubators, funding programs that make credit easier for startups are all part of the ecosystem today (Rao, 2017).

Promotional activities and entrepreneurship & startup initiatives could be seen both at regional level as well as at national level. Policy framework underwent drastic changes. (KAZMIN, 2014) India’s position in the ease of doing business ranking improved. ^v Unnecessary rules & regulations are being removed. Process of getting clearness to set up a business is much efficient. (World Bank, 2019)

Technology oriented academia- lab born startups as well as poverty alleviating entrepreneurship all being accorded equal priority. All these contributed to the growing numbers of entrepreneurs in the country.

- *Facilitative role of government and reforms:* Creating a climate for entrepreneurship involves reforming the current system and ensuring that entrepreneurs are not hindered by regulatory and bureaucratic hurdles.^{vi} At the policy and regulatory reform front, government works with following focus: (koshy, 2019)
 - Reforming business laws
 - Scrapping of unwanted and archaic rules and cumbersome procedures
 - Entrepreneur and startup friendly taxation system
 - Faster and quicker registration process

- *Startup India:* At the national level, The Start-up India initiative of the Government of India envisages building a robust Start-up ecosystem in the country for nurturing innovation and providing opportunities to budding entrepreneurs.^{vii}
- *State Startup Missions and State policies:* At the state level, state governments have startup promotional programmes, which include state level startup missions, seed capital provision within incubators/accelerators, regional network of angels and individuals.
- *Ranking of states:* States are ranked on various parameters, in order to encourage them to create a conducive business climate for startups, innovations and a culture of entrepreneurship to take shape within their jurisdictions.
- *Government schemes, institutions for financing startups and entrepreneurs:* Government has come up with a number schemes to promote and make access to finance easier.

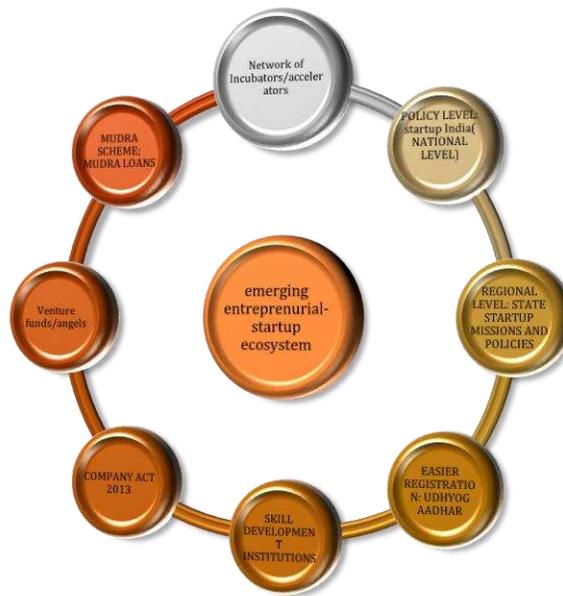


Figure 5: emerging entrepreneurial and startup ecosystem in India

In order to help entrepreneurs to get funds, government has come-up with the MUDRA scheme that refinance financial institutions that lend to entrepreneurs, up to INR One million, based on the specific eligibility criteria. Angel investors, who provides capital in the form of debt or equity, are an important source funding. There are a number of angel networks and venture funds in India, where their portfolio of investments focus on certain sectors like IT, AI, Robotics, FMCG and high-technology intensive sectors. Developing entrepreneurship from the non-traditional business communities and entrepreneurial classes has also been a priority for the government, which comes from the realization that the potential entrepreneurial talent is critical for employment generation, poverty alleviation and attaining sustainable development goals.^{viii} (SDG)

- Skill development, mentoring and other kinds of support: Further nurturing the prospects of first-time entrepreneurs and ventures, there are mentoring and training and skill development mechanisms available.
- Business incubators and accelerators: Business incubators are another aspect of the startup programme. There are many incubators of different varieties in India. ^{ix}Number of tech-startup up emerged out of educational institutions. Incubation programmes such as Atal Incubation Centers (AICs); ASPIRE: Livelihood business incubators, incubators under TIDE Scheme of the ministry of electronics and information technology are few examples in this context. (Startupindia, n.d.)

To Conclude:

Fair rules, business friendly environment and institutions that support startup creation such as incubators and network of entrepreneur-startup financing agencies would all go a long way in economic development. Economic freedom within a defined framework and understandable rules and laws are essential.

Indian entrepreneurship policy framework and startup ecosystem has evolved over the years as one with potential to facilitate new venture creation at ease. The current ecosystem and reformed regulatory framework is much more entrepreneur and small business friendly. However, much needs to happen at the ground level. Though there is a balanced approach to building institutions like incubators, which is really positive. Livelihood and rural technology incubators as well as technology intensives business incubators created in universities showcase a well balanced approach. However, the benefit of currently evolved startup eco-systems seems to be not really percolating to the entrepreneurs in all the regions.

Enterprises emerged through MUDRA scheme and other such schemes too need business support services, mentoring and periodical counselling etc. Their potential to scale up indeed need professional help, which is often missing. Many of these entrepreneurs find it difficult to hire professionals and the support that they may get from the officials posted in the government agencies are often not adequately equipped, not well versed with the issues, technology and skills and do not match with the requirements of current markets.

A wide network of enterprise service centers, which would also help them in different matters such marketing, recruiting, Business Development, Technology-Digital transformation are much needed today (PrasaAd, 2016). Often such entrepreneurs fail and experience stunted growth due to lack of such effective support services.

India at last has a focused approach towards promoting entrepreneurs. Today, it has a maturing startup ecosystem. However that doesn't mean that all is well. There are issues to be addressed. There will be failures, depressions and recessions. But India has unleashed its entrepreneurial potential by creating an ecosystem, which can create entrepreneurs to come up with solutions, innovations and new approaches to tackle various social, economic and developmental issues.

END NOTES

ⁱ Brassware, leather, carpets, silk, textiles, cotton and silk textiles, metal and precious stones, diamond/gold and spices all were part of export basket.

ⁱⁱ In 1934 Mahatma Gandhi directed the Congress to include constructive work as a part of the Congress Programme, and to work on reviving village industries.

ⁱⁱⁱ It emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution.

^{iv} For the first time ever, the concept of “start-up” has been introduced in the company law by the MCA. There are also few operational and compliance relaxations for a “start-up company”. As per this definition, a start-up company means a private company incorporated under the Companies Act, 2013 and recognized as a “start-up” in accordance with the notification issued by the Department of Industrial Policy and Promotion.

The MCA has not only defined “start-up” through an executive order under the Companies Act, 2013, but has also given few operational and compliance relaxations for a “start-up company”.

^v India's position in Ease of Doing Business Report is 63 for the year 2020 with a DB Score of 71.0.

^{vi} Cumbersome procedures, regulatory burden and red-tape was also causing the growth of informal sector, with entrepreneurs keeping away from time consuming and corrupt government apparatus.

^{vii} <https://www.startupindia.gov.in/> is the Startup India portal, which is according to them is the “largest online entrepreneurship platform allows startups to network, access free tools & resources and participate in programs & challenges.”

^{viii} Stand Up India Scheme facilitate bank loans between 10 lakh and 1 crore to at least one scheduled caste (SC) or Scheduled Tribe, borrower and at least one women per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur.

<https://www.standupmitra.in/>

^{ix} A list of incubators could be found < <https://www.indianweb2.com/complete-list-incubators-india/>>

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