

## Business Asia: Getting Indian Entrepreneurship Right

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Of all the economic tides to sweep across India since it embarked on reform in the 1990s, perhaps the most important is a wave of entrepreneurship. Long viewed with suspicion by socialist leaders and stifled with regulations under the "License Raj," entrepreneurs are now finally coming into their own. This has brought dramatic benefits to the economy, and understanding and nurturing the rising entrepreneurial class should be a top priority for New Delhi.

"Entrepreneur" is a term often used, but seldom defined. We mean someone who produces a product or service of value by spotting an unmet need, and who bears the risk of loss associated with possible failure. This kind of activity is on the rise in India. The Indian Ministry of Micro, Small and Medium Enterprises (MSMEs) suggests that the total number of such companies is rising, to 29.8 million in 2009-2010 from 26 million in 2006-07. In this same time period, MSMEs created around 10 million new jobs, and small and medium sized enterprises (SMEs) accounted for 17% of GDP in 2009, a figure expected to rise to 22% in 2012.

This segment of businesses expects dramatic growth in coming years. The Legatum Survey of Entrepreneurs: India reveals 90% of Indian entrepreneurs expect their business to grow by at least 5-10% over the next twelve months, and just over half of those expect growth of 15% or more.

That makes India a case in point for the maxim that high levels of entrepreneurship are associated with sustainable growth and development. The Legatum Prosperity Index finds that factors related to entrepreneurship and opportunity are more closely correlated with overall prosperity than any other metric such as a strong education system or high levels of social capital. In other words, the most successful countries tend to be those that are the most hospitable for entrepreneurs.

Fostering entrepreneurship can provide Delhi with a huge bang for its policy buck, since even small policy changes can have a large benefit. The relatively simple Credit Guarantee System is a good example. Realizing that small enterprises were having trouble obtaining business loans, Delhi created the program to increase credit flows to entrepreneurs.

The scheme (a joint operation between Indian banks and the [Reserve Bank of India](#)) offers qualified entrepreneurs the working capital they need, without traditional collateral requirements or third-party guarantees. The Reserve Bank now mandates national banks to provide collateral free-lending of 1 million rupees (\$22,500) to small- and medium enterprises. According to the program's chairman, Sushil Muhnot, it has provided credit to more than 300,000 initiatives over the past decade, helping MSMEs to be the "second-largest source of employment" in the country.

The opportunity to make progress through relatively small changes should be welcome in a labyrinthine political system where sweeping reform is often stymied. And there are many ways in which New Delhi could create a

more conducive environment for entrepreneurship.

The respondents to our 2010 Survey of Entrepreneurs identify three factors that matter most to them as businessmen: increasing the speed and ease of issuing permits; lowering taxes; and reducing the time it takes to start a business. A brief look at the data reveals why these concerns exist.

A new start-up is required to go through 37 procedures to obtain a construction permit and obtaining a permanent water connection permit requires a waiting period of 45 days. Further, the overall cost of starting a business in India is currently the 99th highest globally, at a staggering 66% of per capita gross national income (compared to China at 4.9% and Russia at just 2.7%). For all the entrepreneurship India sees despite these hurdles, one wonders how many other would-be entrepreneurs might be left thinking "why bother?" instead of, "when can I get started?"

Another huge problem is corruption, which is not only pervasive but is perceived to be getting worse. According to our Survey, 91% of Indian entrepreneurs think corruption is a problem, and 75% reported corruption is worse now than a few years ago. Furthermore, 44% of respondents said their company had at some point been pressured to pay a bribe, and 32% of respondents believe corruption is the most important issue to address in order for India to grow.

Some tentative progress has been made. The Right to Information Act, for example, allows citizens to report corrupt behaviour by civil servants who are then liable to face fines and prosecution. While it is too early to measure the success of this legislation, it certainly bolsters the popular "anti-corruption movement" that has sprung up following a spate of high-profile corruption scandals.

The Indian government has shown it understands the beneficial impact of entrepreneurship, but there is still great room for improvement. New Delhi can't afford to pass up the opportunity entrepreneurship affords to the economy. Her large and growing population demands jobs and prosperity. Entrepreneurship can help. Indians have shown time and again the drive to create their own opportunities despite adverse conditions. Now it's time to cut them a break.

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