



Shadow Entrepreneurship

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This article is based on **“Rise of shadow entrepreneurship”** which was published in The Hindu on 18/01/2021. It talks about the benefits and issues associated with the Shadow Entrepreneurship.

Recently, a business school professor allegedly misused his faculty position to provide fake certificates to students. This is one of the many cases whereby people across the globe get cheated, owing to the unregulated nature of online activities.

The abovesaid case highlights the ill-effects of the global rise of shadow entrepreneurship. Shadow entrepreneurs manage a business that sells legitimate goods and services but they do not register their businesses. Shadow entrepreneurship is a key factor affecting economic development, both in a positive and negative sense.

Moreover, India has one of the highest numbers of shadow entrepreneurs in the world and with a rising gig economy, understanding shadow entrepreneurship becomes incredibly important.

Positives of Shadow Entrepreneurship

- **Providing Employment:** Presently, India’s manufacturing sector is unable to provide adequate formal employment opportunities to the youth. Moreover, there is a mismatch between education and job skills in the market.
In this context, the phenomenon of shadow entrepreneurship is seen as a potential driver of job growth and economic development.
- **Bridging Market Gap:** Shadow entrepreneurs can help release the associated distortions and frictions in the market.
They can offer complementary services that traditional service providers may be constrained to offer or consumers might not be able to access.
- **Augmenting Social Services:** Shadow entrepreneurialism may extend welfare support of government schemes, as they can address the accessibility, availability, or affordability issues.

Associated Concerns With Shadow Entrepreneurship

- **Extension of Informal Labour:** As Shadow Entrepreneurship is largely unregulated, it provides little job security and few benefits to its workers like social security, insurance, etc.

Therefore, it is an extension of India's informal labor, which has been prevalent for a long time and has remained unregulated.
- **Hampering Economic Growth:** Shadow Entrepreneurship results in loss of tax revenue, the unfair competition to registered businesses, and also poor productivity - factors that hinder economic development.

Further, as the Shadow Entrepreneurship businesses are not registered, it takes them beyond the reach of the law and makes shadow economy entrepreneurs vulnerable to corrupt government officials.
- **National Security Implications:** Shadow Entrepreneurship may also have cross-border and national security implications. For instance, the recently reported suspicious loans being provided by Chinese instant loan providers online.
- **Increase in Scams:** It will also mean that unscrupulous individuals who are not entrepreneurs per se but are complementary service providers will potentially take more advantage of these post-pandemic market constraints, extracting money from consumers by means such as document forgery.

Way Forward

- **Formalization:** Informal sector entrepreneurship, poverty, and inequality are conditioned by a country's economic and political institutions. Therefore, Government policies could play a big role in helping shadow economy entrepreneurs transition to the formal economy.

Moreover, with proper economic and political frameworks in place, individuals are more likely to become 'formal' entrepreneurs and register their businesses.
- **Harmonization:** There is a need for associated harmonization of activities between competition authorities of governments (in India's case the Ministry of Corporate Affairs in regulating shadow entrepreneurship and government departments in healthcare, education, or finance).
- **Legislation:** Given the magnitude of shadow entrepreneurship in India, it is not possible to formalize it in a short span of time. Therefore, the need of the hour is enabling legislation that regulates and provides social security benefits also.

In this context, the recent **Code on Social Security Bill, 2020**, is a step in the right direction. For the first time, it acknowledges platform workers and **gig workers** as new occupational categories.

Conclusion

Shadow entrepreneurship may temporarily tackle issues like the unemployment crisis or market gap but given monitoring needs of public goods distribution for the developing world, without regulation, the situation could spiral out of control.

Drishti Mains Question

Shadow entrepreneurship is a key factor affecting economic development, both in a positive and negative sense. Discuss.
