

# ENABLING ENTREPRENEURSHIP THROUGH SOCIAL SECURITY



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## List of Abbreviations

APY	Atal Pension Yojana
BC	Banking Correspondents
CSC	Common Services Centre
CSR	Corporate Social Responsibility
ESI	Employees' State Insurance
EPF	Employees' Provident Fund
EU	European Union
GAME	Global Alliance for Mass Entrepreneurship
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
ILO	The International Labour Organization
IRDA	Insurance Regulatory and Development Authority of India
KASSIA	Karnataka Small Scale Industries Association
ME	Mass Entrepreneurship
MFI	Micro-Finance Institution
MSMEs	Micro, Small and Medium Enterprises
NASE	National Association for Self Employed
NBFC	Non-Banking Financial Company
NSSO	National Sample Survey Organization
PMJJBY	Pradhan Mantri Jeevan Jyoti Bima Yojana
PMSBY	Pradhan Mantri Suraksha Bima Yojana
SIDBI	Small Industries Development Bank of India
SEWA	Self-Employed Women's Association
SHGs	Self-Help Groups
SMEs	Small and Medium Enterprises
SVA	Social Security Institution for Trade and Industry, Austria
UN	United Nations
USA	United States of America

## Executive Summary

### Context

As a developing nation with 66% of its population within working age, India is presented with a unique economic opportunity to propel national growth. To harness the power of this demographic dividend, we must make strategic investments in several areas such as education, skill development and job creation, to ensure the right capacity and opportunity to add value to the labour force. While India will continue to remain in a demographic dividend window until about 2055, the unemployment rate which currently stands at 7.5% is alarming. Globally Small and Medium Enterprises account for 30-40% of employment, whereas in India this number is only about 11%, indicating a gap in a major source of employment generation.

In addition to other avenues, India must focus on developing a flourishing environment for “mass entrepreneurship” to thrive, where this missing middle - millions of ordinary local businesses - are enabled to grow. Global Alliance for Mass Entrepreneurship (GAME) aims to do just this by supporting the ‘missing middle’ or the mass-entrepreneurs **“who hire or improve the incomes of 5 plus people, use local inputs or solve local problems”** by helping individuals overcome different challenges.

As entrepreneurs establish their venture, they are faced with several challenges, such as lack of access to capital, lack of mentorship, complex regulatory environment, market entry barriers and several others. While private and public sector initiatives address some of these challenges, one of the major inhibiting factors that remains is the personal and financial risks which manifest themselves in several ways, with some examples being dwindling savings, unstable income, financial losses and inadequate resources in exigent circumstances. These risks can place a dampener on entrepreneurial ambitions, as at a minimum they persist during the gestation period of the venture and could even persist for far longer. Entrepreneurs need to consider the absence of a safety net for their personal requirements, in case of troubles in their venture. Specialized social security programmes to assuage risks for entrepreneurs are almost non-existent, and this lack of a safety net hinders several entrepreneurs from taking the plunge to begin their ventures.

To overcome this, through this report, GAME wishes to bring the discussion towards developing a safety net for entrepreneurs and reduce the burden of risk through the provision of social security to entrepreneurs, with the following benefits in mind:

- Enable more job-seekers to become job-creators by taking up entrepreneurship
- Help Micro-entrepreneurs to grow further
- Achieve compounded benefits of employment & innovation for economic growth

### Social Security and Entrepreneurship Promotion

Social Security refers to a measure established by the State to maintain or provide income to an individual or group. These benefits may be provided in cash or kind, with **an intent to protect beneficiaries when all other forms of income have been disrupted** or when

emergency expenditure is to be incurred. Social Security forms an integral part of the governance agenda in India, with various programmes being run by both the central as well as state governments. While there has been increasing social security coverage, most social protection plans had focussed on addressing capability deprivation, such as lack of employment, inadequate and nutrition rather than on providing safety nets in case of contingency shocks like sudden illness and death.

The World Social Protection Report 2017-19 found that only 19% of the population in India was covered by at least one social protection benefit, well below the Asian average of nearly 39%. Moreover, these schemes are not focussed on entrepreneurs in particular and do not specifically provide solutions to many of the unique risks faced by entrepreneurs. The Indian ecosystem therefore does not offer a suitable safety net, strong enough to support entrepreneurs in case of exigent circumstances, which lowers their ability to go out and take risks.

Entrepreneurship promotion strategies in India have largely focussed on increasing credit access and skill development among other areas, but there has been limited focus on mitigating the financial & personal risks and developing safety nets for entrepreneurs. There is in fact significant literature to support that social security and safety nets can enable entrepreneurs to take risks, face uncertainty and allow individuals to exit the job-lock scenario to take a leap of faith. Many countries across the globe have therefore put in place social assistance and social assurance programmes to support entrepreneurs, with tangible positive benefits. These range from access to unemployment benefits to early stage entrepreneurs in countries such as Israel, France and Portugal, to comprehensive social insurance programmes catering to entrepreneurial business needs, in countries like Austria and Finland.

### Redefining Social Security

While social security is usually looked at as a product of state action, this definition misses out on several other non-state initiatives, such as private sector products and community support, which generate their own manner of a safety net for citizens, and in this case, entrepreneurs. In a developing country like India, where there is limited fiscal space and diverse national priorities, it is increasingly important to look at private sector mechanisms and community action, to promote social security, as areas for collaboration or partnerships between the public and private sectors for greater reach and impact. For instance, private sector initiatives such as micro-insurance products and community action such as benefits offered by professional associations, can create their own forms of comprehensive, viable safety nets.

Therefore, for the purposes of this report, the definition of social security has been widened beyond the traditional understanding of social security as state initiated social assistance or social assurance programmes, and **instead as any mechanisms arising from state or non-state actors, creating a viable, comprehensive and robust safety net for entrepreneurs against personal and financial risks.**

## Casting the Safety Net

GAME undertook a detailed research to ideate, contextualize and suggest various mechanisms of social security to create safety nets for entrepreneurs through a combination of primary and secondary research. Secondary research included a review of:

- Research studies and literature on social security frameworks
- Social Security frameworks and systems in India
- Literature on linkages between Social Security and Entrepreneurship
- Cases of Social Security Frameworks for entrepreneurs globally

Based on this secondary research, a preliminary set of recommendations were identified and contextualized for the Indian case. These were then validated and refined through a series of detailed conversations and in-depth interviews with stakeholders, such as entrepreneurs, bureaucrats, industry experts and service providers. Finally, a crystallized set of recommendations encompassing both private and public action for creating social security safety nets for entrepreneurs were developed, compared and are presented in the report. These recommendations are:

Solutions	How	Primary Actor
<b>Public Social Insurance for Entrepreneurs</b>	Extension of the ESI scheme or development of similar social insurance scheme to receive contributions and provide coverage to entrepreneurs.	Government
<b>Insurance Products designed for Entrepreneurs</b>	Traditional & Micro-Insurance Products specifically designed to cater to unique risks and needs of MSMEs and Micro-entrepreneurs.	Public or Private Sector Service Providers
<b>Extension of Unemployment Benefits</b>	In states with existing systems for unemployment benefits, allow first time entrepreneurs to access unemployment benefits for fixed period.	Government
<b>Provision of Entrepreneurship Allowance</b>	Development of national framework to provide entrepreneurship allowance, as a monthly allowance to eligible first-time early stage entrepreneurs.	Government
<b>Establishment of Entrepreneurship Associations</b>	Set up of associations of entrepreneurs at various levels to provide different kinds of support systems for entrepreneurs.	Private Sector with Government support
<b>Promotion of 'Jobbaticals'</b>	Unpaid leaves or breaks from employment to pursue entrepreneurship, which may initially be organized on a voluntary basis and later institutionalized.	Private Sector

## Acknowledgements

The Global Alliance for Mass Entrepreneurship (GAME) is a platform for mission-aligned partners to learn, innovate and collaboratively build a self-sustaining mass entrepreneurship ecosystem. This study and its contents too are a result of a strong collaborative effort and would not have been possible without the efforts of each and everyone involved.

We would like to thank GAME's founders Mr. Ravi Venkatesan, Mr. Madan Padaki and Mr. Mekin Maheshwari for their overall guidance and strategic direction on the work we have taken up on enabling entrepreneurship through social security. We are also grateful to Mr. M Srinivas Rao (Chief Executive Officer, GAME) for his absolute support during the course of this work.

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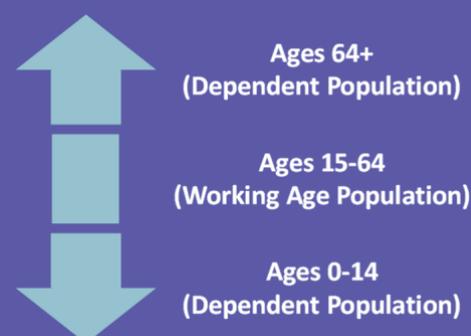
Finally, we would like to thank the entire team at GAME particularly Mr. Ashwin Chandrashekhar and Ms. Sandhya Thukaram for their support in getting the study ready and released.

Priyadeep Sinha  
Global Alliance for Mass Entrepreneurship

## Chapter 1: Introduction

India's population structure places it at a critical juncture with respect to its future growth prospects. As a developing nation with 66% (Census 2011) of its population within working age, it is presented with a unique economic opportunity. Between the 1960s and 1990s, faced with similar population structures, the East Asian Tigers - Hong Kong, Singapore, Taiwan and South Korea - and more recently China, demonstrated rapid industrialization and consistently posted growth rates of about 7%. A crucial factor for this astounding economic growth was the optimal policy response to maximize the efficiency of the available human capital and harnessing the power of the 'demographic dividend'.

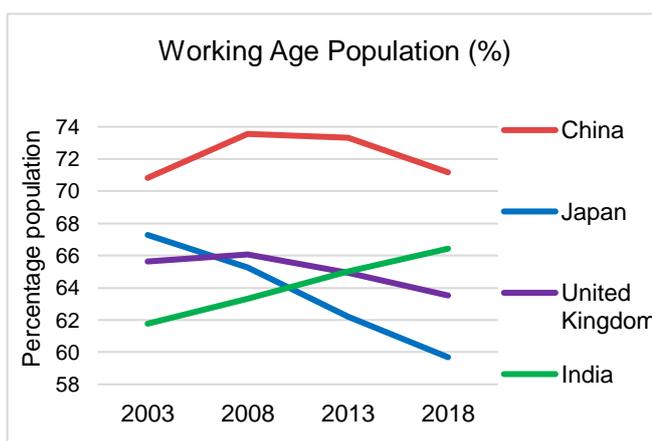
According to the United Nations Population Fund (UNFPA), "The **demographic dividend** is the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working-age population is larger than the non-working-age share of the population."



A higher proportion of working age population as compared to dependent population offers two important benefits to the economy – first, an increased human resource pool available for productive labour force participation and second, reduced expenditure on meeting requirements of the dependent population. At this stage, timely action and strategic investments in several areas such as education, skill development and job creation, can harness the true growth potential of this economic opportunity, by ensuring the right capacity and opportunity to add value to the labour force. However, an inability to prime the workforce or supply adequate employment opportunities can have several negative consequences in addition to the loss of the demographic dividend.

A report published by the World Bank in 2014 observed that Indonesia's inability to provide jobs to youth between the age group 15 and 24, created a challenge to its economic growth prospects (Packard & Nguyen, 2014).

Nearly a billion Indians are within working ages. As other countries, including China, exit their dividend periods (shown in alongside figure), studies suggest that India will remain in its dividend window for well until 2055. To harness its growth potential India must take steps to provide gainful employment, failing which, India's potential demographic dividend could well prove to be a demographic disaster.



## Employment and Entrepreneurship

Over the years, several governments have grappled with the task of reducing unemployment figures. Interventions such as ease of doing business, investment promotion and business expansion have aimed at increasing jobs available. Yet, data suggests that there is ground to cover - Unemployment is hovering around 7.5% (January 2020) and large scale manufacturing, an important job creating sector, only contributes about 16% to GDP (S. Krishna 2019). It is therefore prudent for the country to consider a distinct direction to tackle the issue - **Entrepreneurship**. Entrepreneurship has the potential to give a two-way fillip - enabling one entrepreneur reduces the need for one job and creates prospects for further job creation.

While the term ‘entrepreneur’ typically brings to mind outstanding examples such as Zuckerberg or the Bansals, these individuals occupy a minutia within the entrepreneurial space, where a great many more are involved.

Nearly 11% of Indians are involved in some form of early stage entrepreneurial activity (PIB, 2018).

### Mass Entrepreneurship



A unicorn valuation (\$1 Billion) is an aim for many entrepreneurs who set out to build their own venture. However, very few entrepreneurial ventures manage to reach this pedestal. The high growth tech startups that aim for and sometimes achieve these mammoth valuations form one end - the rosy end - of the spectrum for start-ups and entrepreneurs. At the other end of the spectrum are the self-employed entrepreneurs, who are generally driven by compulsive necessity. Plagued by several challenges, these entrepreneurs do not have the wherewithal to employ more individuals and therefore mostly end up being single person enterprises.

In between these two levels, lie a vast majority of entrepreneurs who form the bulk but capture the least of the public imagination - the “Missing Middle”. Most of these entrepreneurs focus on solving local needs and could even be in the form of small beauty salon or a family run dairy shop.

Globally, while Small and Medium Enterprises (SMEs) account for about 30-40% of employment, in India this number is only 11%, possibly pointing to a gap in a sector that could be a major source of employment generation. While several different policies are focussed on bridging this gap and enabling the

Mid-level entrepreneurs coincide with Micro, Small and Medium Enterprises (MSMEs), in that each one has the potential to generate for anywhere between 2 - 250 people.

Micro	2-10
Small	11-100
Medium	101-250

SMEs, an excellent example of SME promotion emerges from our neighbours, China. Over the last 40 years, China has promoted an environment of ‘mass entrepreneurship’ creating tonnes of new businesses leading to massive growth in GDP, improvements in human welfare and job creation (Ahlstrom and Ding 2014)

Benefits of Mass Entrepreneurship	Generating employment
	Boosting Economic Growth
	Creating healthy economic competition
	Promoting innovation

India too needs to create a flourishing environment for **“mass entrepreneurship”** to thrive, where the millions of ordinary local businesses that typically hire five or more people, use local inputs and serve local needs in every community are enabled to grow.

## Global Alliance for Mass Entrepreneurship

Global Alliance for Mass Entrepreneurship (GAME) aims to support the ‘missing middle’ or the mass-entrepreneurs **“who hire or improve the incomes of 5 plus people, use local inputs or solve local problems.”**



**Our Vision**

GAME aims to create a thriving environment for Mass Entrepreneurship (ME) in India, resulting in large-scale job creation. We have set an ambitious target to create youth-led mass entrepreneurship at the local level, helping create 10M entrepreneurs, 50% of women, who create 50M jobs by 2030.

In order to achieve its vision, GAME adopts an approach with five focus areas. These five areas form the basis of and rationale for its activities to promote mass entrepreneurship in the country and beyond.

- Making Entrepreneurship aspirational
- Nurturing entrepreneurial mindsets and skills early
- Converting job-seekers to entrepreneurs
- Helping single and micro-entrepreneurs grow
- Enabling women to start and succeed as MEs

## The Challenges of Entrepreneurship

**Only 7%** of early stage entrepreneurial ventures survive over 42 months to become established businesses.

**Only 8%** of early stage entrepreneurs felt they would grow to employ more than 6 people in the next 5 years.

Entrepreneurs are inhibited by several challenges. A few of these are illustrated alongside. Initiatives by the public and private sector, such as venture funding, reforms towards ease of doing business and others, address some of these challenges.

Challenges for Entrepreneurs	Lack of access to capital
	Barriers to market entry
	Lack of mentorship
	Complex regulatory environment

In addition to all these challenges though, there is another important inhibiting factor for entrepreneurs – the personal and financial risks that they face. Take the case of a female micro-entrepreneur who sets out to establish a home-based food business. Let us call her Priya. As Priya sets up her business, she needs to invest some capital to set up and start operations. She does this by availing credit facilities and begins running a modest business over some period of time. In a few months however, while she is repaying her loan and her business is not offering stable returns, Priya’s daughter takes ill and needs to be hospitalized. Priya suddenly realizes that her savings have dipped, and she does not have sufficient income to bear the costs of treatment. Somehow, she manages to find the required financial resources, but now during the time that her daughter is in the hospital, she is unable to work and her income, which had not yet stabilized, is halted for the period. Priya finds herself at a loss and resigns to her circumstances taking responsive actions to exigent requirements. In comparison, an employee could bank on a stable income, and may even be covered by Group Health Insurance programmes or the ESI at the very least. This is just one example of how personal & financial risk for an entrepreneur manifests itself.

Many entrepreneurs like Priya, are inhibited from entrepreneurship by the thought of these personal and financial risks. These come in addition to business risks and other challenges discussed previously. These risks manifest themselves in several ways and some examples are dwindling savings, unstable income, financial losses and inadequate resources in exigent circumstances. These risks can have chilling effects and place a dampener on entrepreneurial ambitions, as at a minimum they persist during the gestation period of the venture and could even persist for far longer. Entrepreneurs need to consider the absence of a safety net for their personal requirements, in case of troubles in their venture. Specialized social security programmes to assuage risks for entrepreneurs are almost non-existent, and this lack of a safety net hinders several entrepreneurs from taking the plunge to begin their ventures.

## Study Context & Structure

### Objective

In this report, GAME wishes to bring the discussion towards *developing a safety net for entrepreneurs and reduce the burden of risk through the provision of social security to entrepreneurs*, with the following benefits in mind:

- Enable more job-seekers to become job-creators by taking up entrepreneurship
- Help Micro-entrepreneurs to grow further
- Achieve compounded benefits of employment & innovation for economic growth

GAME undertook a detailed research utilizing a combination of primary and secondary research methods to carry out this objective. Secondary research included a review of:

- Research studies and literature on social security frameworks
- Social Security frameworks and systems in India
- Literature on linkages between Social Security and Entrepreneurship
- Cases of Social Security Frameworks for entrepreneurs globally

Based on this secondary research, a preliminary set of recommendations were identified and contextualized for the Indian case. These were then validated and refined through a series of detailed conversations and in-depth interviews with stakeholders, such as entrepreneurs, bureaucrats, industry experts and service providers. Finally, a crystallized set of recommendations encompassing both private and public action for creating social security safety nets for entrepreneurs were developed, gauged and are presented in this report.

The first chapter provides an introduction to GAME and the context of the study. The second chapter takes a dive into social security and the public sector initiatives in India to provide social security. The third chapter looks at why entrepreneurs need a safety net and the kind of benefits that can accrue to entrepreneurship from social security. It also undertakes a review of literature and social security frameworks for entrepreneurs from across the globe. The fourth chapter explores a new definition for social security and non-state action that can develop safety nets for entrepreneurs. The final chapter then contextualizes the research for India and provides recommendations to develop social security mechanisms for entrepreneurs.

## Chapter 2: Traditional Social Security in India

Social Security refers to a measure established by the State to maintain or provide income to an individual or group. These benefits may be provided in cash or kind, with **an intent to protect beneficiaries when all other forms of income have been disrupted** or when heavy expenditure is to be incurred. Various ILO and United Nations (UN) conventions and instruments have defined Social Security as a basic human right.

**The International Labour Organization (ILO) defines social security as,** “The protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a bread-winner.” (ILO 2019)

The term is interpreted and applied differently in various jurisdictions. For example, in USA, Social Security primarily includes benefits provided by the state to Old Age, Survivors and Disability Insurance Programme run through the Social Security Administration, while other measures are part of general ‘social welfare’ efforts. Alternatively, the European Union uses the term ‘social protection’, which includes even voluntary schemes not set up by legislation (Smith n.d.).

### Social Security in India

Social security, seen as a mechanism for poverty alleviation, forms an integral part of the governance agenda in India. The furtherance of social security of its citizens has been a priority of the Central and State Governments since independence. Entry 23 in the Concurrent list of the Seventh Schedule to the Indian Constitution deals with “**Social security and social insurance; employment and unemployment.**”

The Directive Principles of State Policy, enshrined in Part IV of the Constitution of India, also specifically make reference to social security, social protection and social welfare. Though not justiciable, the Directive Principles are intended to be a set of guiding ideals to be applied in governance and law-making of the country. These are reproduced below:

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**Article 38 (1)** The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life.

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**Article 39 (a)** (The State shall, in particular, direct its policy towards securing) that the citizens, men and women equally, have the right to an adequate means of livelihood.

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**Article 41** The State shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in case of unemployment, old age, sickness and disablement and in all other cases of undeserved want.

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## Public Social Security Schemes

In line with these principles, the Central Government enacted two landmark social security schemes within six years of gaining independence - The Employees State Insurance Act of 1948 and The Employees Provident Fund Act of 1952. Since then several social security schemes have been operationalized, of which some major ones are:

### Employees' Provident Fund Scheme

- A contributory savings scheme where both employers and employees pay an equal contribution to a fund, which becomes accessible to the employee upon retirement or certain other criteria or to survivors on death of employee.

### Employees' State Insurance Scheme

- An insurance scheme financed by contributions from employees and employers, which provides medical treatment to employees and their dependents, disability benefits and unemployment benefits in certain specified cases.

### Employees' Compensation Scheme

- Provides financial security to employees by compelling employers to pay compensation for accidents arising out of employment leading to death or disability to an employee.

### Pradhan Mantri Jeevan Jyoti Bima Yojana

- Provides coverage in the event of death of a subscriber upon payment of an annual premium. It is only applicable for individuals between the ages of 18-50 with a bank account.

### Pradhan Mantri Suraksha Bima Yojana

- Provides risk coverage for accidental death or partial disablement of the subscriber. Similar to the previous scheme, it is only applicable to persons between the ages of 18-70 with a bank account.

### Atal Pension Yojana

- Provides subscribers beyond the age of 60 or survivors with a determined pension amount. This is available for all persons between the ages of 18-40 with a bank account.

### Maternity Benefit

- The Maternity Benefit (Amendment) Act, provides women in the organized sector with paid maternity leave of 26 weeks for the first two children. For the third child, the maternity leave entitled will be 12 weeks.

### Gratuity

- The Payment of Gratuity Act, directs establishments with ten or more employees to provide the payment of 15 days of additional wages for each year of service to employees who have worked at a company for five years or more.

Since the subject of social security falls under the Concurrent List of the Constitution, state governments may also implement such schemes. Several states do have social security mechanisms which are complementary to the schemes of the Central Government. The following table provides some examples of such schemes in states where GAME is currently focusing its activities. This list is indicative, and not exhaustive.

State	Scheme Name	Eligibility	Benefits
Andhra Pradesh	YSR Pension Kanuka (Formerly known as NTR Bharosa)	<ul style="list-style-type: none"> <li>- Available to certain groups as explained in benefits column</li> </ul>	<ul style="list-style-type: none"> <li>- Provision of Rs.2250 per month to Old Age Persons, widows, toddy tappers, weavers, single women, fishermen, ART (PLHIV) persons, traditional cobblers</li> <li>- Provision of up to ₹3000 per month to disabled person, transgender persons and Dappu artists</li> <li>- Provision of up to ₹10,000 per month to persons affected by Chronic Kidney Disease who are undergoing Dialysis in Government and network hospitals</li> </ul>
Andhra Pradesh	Mukyamantri Yuvanestham (Introduced in 2018, discontinued by present government)	<ul style="list-style-type: none"> <li>- Between 22 – 35 years</li> <li>- Holding Graduate degree or diploma of at least 2 years</li> <li>- Should belong to BPL Family</li> <li>- Should not be employed or a student</li> </ul>	<ul style="list-style-type: none"> <li>- Provision of ₹1000 to beneficiaries to pursue skill development courses.</li> </ul>
Maharashtra	Shravanbal Seva Rajya Nivrutivetan Yojana	<ul style="list-style-type: none"> <li>- Destitute Person above the age of 65</li> </ul>	<ul style="list-style-type: none"> <li>- Provision of ₹600 per month to eligible beneficiaries whose annual family income is below ₹ 21000 and not belonging to BPL Family</li> <li>- Provision of ₹400 per month to eligible beneficiaries belonging to BPL family.</li> </ul>

State	Scheme Name	Eligibility	Benefits
Kerala	Aswasakiranam Scheme	- Caregivers to physically and mentally disabled bed ridden patients	- Provision on monthly assistance of ₹600/- to those care givers who are unable to take up employment for self-sustenance.
Telangana	Rythu Bandhu Scheme (Agriculture Investment Support Scheme)	- Every landowning farmer	- Provision of ₹4000 per acre per farmer each season for purchase of inputs like Seeds, Fertilizers, Pesticides, Labour and other investments in the field operations of Farmer's choice for the crop season
Telangana	Rythu Bima (Farmers Group Life Insurance Scheme)	- Farmers in the age group of 18 to 59 years are eligible for enroll under the scheme	- The entire premium is paid by the government to the Life Insurance Corporation of India. - In the event of the death of the enrolled farmer due to any cause including natural death, the insured amount of ₹5.00 Lakhs is deposited into the designated nominee account within (10) days.
Meghalaya	Chief Minister's Disability Pension Scheme, 2012	- Disabled persons aged 18-59	- Provision of ₹500/- per month

## Social Security Coverage in India

The general trend in India has been to gradually increase social protection coverage to various segments of the population, rather than universalizing social protection. This may have been necessitated by financial constraints and governance limits of a very diverse developing country. For instance, the initial years saw social security schemes largely focussed on formal employees. In recent years, there has been a trend of extension of social security benefits to unorganized workers, and also other vulnerable social groups like the elderly, poor, minority groups as well as certain special occupation groups.

An important element to keep in mind is that most social protection plans had focussed on addressing capability deprivation, such as lack of employment, inadequate nutrition, etc. rather than on providing safety nets in case of contingency shocks such as sudden illness, death, etc. (Agewell Foundation 2019). Until the coming of the new Bima Yojanas in the last few years, the only other large programme providing safety nets against contingency was the ESI scheme.

As pointed out, over the years, the social security framework has been expanding to increase coverage and provide comprehensive safety nets. However, the World Social Protection Report 2017-19, found that even in 2017, India only spent 1.3% of its GDP on social protection related expenditure, far lower than the Asian average of 7.4%. It also found that only 19% of the population was covered by at least one social protection benefit, once again well below the Asian average of nearly 39% (ILO 2017). This data shows that while large leaps have been taken over recent years through the introduction of several programmes to increase the coverage of the social security and protection net, there is still a way to go in ensuring a large enough safety net for the population.

It is pertinent to point out here that while most of these schemes are aimed at the general populace and certain vulnerable groups, none are focussed on entrepreneurs in particular. While some entrepreneurs may be a beneficiary of the schemes highlighted above, not all entrepreneurs may be eligible, and these schemes do not specifically provide solutions to many of the unique risks faced by entrepreneurs. The Indian ecosystem therefore does not offer a suitable safety net, strong enough to support entrepreneurs in case of exigent circumstances.

Raghuram Rajan (former RBI governor) also identified this lacuna, while giving a speech on promoting entrepreneurship, stating that,



*“Entrepreneurs need to take risks... We need to create a safety net, not one which we can't afford, but a minimum safety net that allows people to go out and take risks. And workers have the willingness to join small enterprises where there is a high risk of failure but knowing that if it fails, they have something to fall back on.” (Karnik, 2016)*

The following chapter details the nature of support provided to entrepreneurs and the benefits that social security can have on entrepreneurship, with a study of some of the initiatives in this regard, undertaken by other countries.

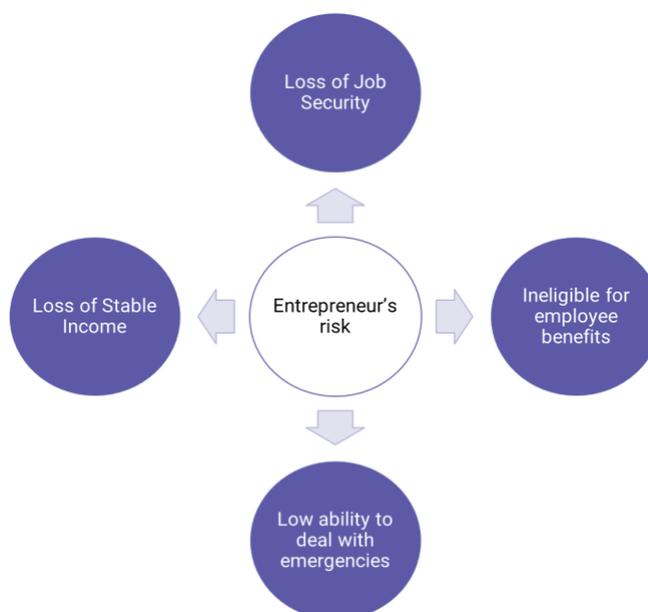
## Chapter 3: A Safety Net for Entrepreneurs

The introductory chapter highlighted some of the problems faced by entrepreneurs, of which financial and personal risk is one. This risk and costs may manifest themselves in several different ways. The financial costs

Financial Costs of Entrepreneurship	Foregoing stable job income
	Foregoing associated benefits
	Capital costs for setup of business
	Recurring operational expenditure
	Additional debt financing

highlighted in the figure alongside are only the beginning and an entrepreneur usually must bear these costs, without surety of when, and indeed whether this business would flourish for income to start flowing again. This gestation period could range from a few months to a few years, or in the worst case, the business may collapse before taking off.

The second form of risk is that of personal financial risks to the entrepreneurs. During the time that their entrepreneurial venture is taking off, without any income and sometimes without savings, the entrepreneur is at the mercy of situations with no aid. In case of emergencies, such as health, disablement or other such situations, entrepreneurs often find themselves without adequate financial resources to receive the necessary aid required to tide through such a situation.



### Support to Entrepreneurship in India

There is no doubt that entrepreneurship and new businesses have been a focus area for the government recently. This is evident in the 23-rank improvement that the country has seen in the Ease of Doing Business rankings in the year 2019. In addition to easing the business process, the government has also been taking several other steps to promote entrepreneurship in the country. The figure below details some of the important initiatives undertaken by the Union Government to promote entrepreneurship:

#### ASPIRE

- A scheme to set up a network of technology centres and to set up incubation centres to accelerate entrepreneurship and also to promote startups for innovation in agro industry

#### Self Certification

- The process of conducting inspections has been made simpler. Startups are allowed to self-certify (through the Startup mobile app) in the case of labour and environment laws. In addition to this, in the case of the labour laws, no inspections will be conducted for a period of 3 years initially.

#### Income Tax Exemptions

- Exemptions are provided upto a period of 3 years on capital gains as well as investment above fair market value for select recognised startups in order to provide financial security

#### Easy winding up

- Under the new Insolvency and Bankruptcy Code a company can be wound up within a period of 90 days. This has been done with the idea that both entry as well as exit should be easy while setting up business

#### Patent applications

- With an intent to promote innovation, upto 80% rebate is provided for filing patents alongside speeding up the entire process of application and approval

#### The Venture Capital Assistance Scheme

- Venture Capital Assistance is financial support in the form of an interest free loan provided to qualifying projects in order to meet the shortfall in capital requirements.

#### Stand Up India Scheme

- It facilitates bank loans between ₹10,00,000 and ₹1,00,00,000 to at least one Scheduled Caste or Scheduled Tribe borrower and at least one women per bank branch for setting up a greenfield enterprise in manufacturing, services or trading sector.

#### Pradhan Mantri Kaushal Vikas Yojana

- A flagship scheme of the Ministry of Skill Development & Entrepreneurship, to enable a large number of Indian youth to take up industry-relevant skill training that will help them in securing a better livelihood. Under this Scheme, Training and Assessment fees are completely paid by the Government.

#### Pradhan Mantri MUDRA Yojana

- Under the MUDRA (Micro Units Development & Refinance Agency Ltd.) scheme, non-farming and non-corporate micro and small enterprises can avail loans up to ₹10,00,000.

The schemes listed highlight that the primary focus of the government has been on providing credit access and skill development, in addition to undertaking governance reforms to ease regulations for doing business. However, there has been limited focus on mitigating the financial and personal risks of an entrepreneur. The risks that play on the mind of an entrepreneur before setting up of an enterprise continue to remain despite the support provided through the various schemes.

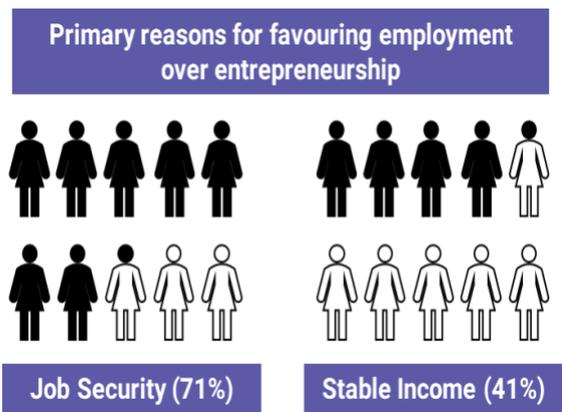
Primary focus has been on **easing the set up and operation of an enterprise.**

Focus has been limited on **easing the life of an entrepreneur.**

## Entrepreneurship and Social Security

While policy emphasis on social security is evident from the literature available, most of the research in India has focussed on understanding the impact of social protection policies and the need for policies to cover groups such as farmers and unorganised labour. For example, while initiatives like setting up of the National Commission for Enterprises in the Unorganised Sector (NCEUS) in 2004 to look into livelihood conditions and social security for unorganised workers have been taken, there is an absence of literature on social security frameworks for entrepreneurs in India. Therefore, where required, this report draws from the international experiences in social security and entrepreneurship.

What draws people away from entrepreneurship and towards employment? A European Union (EU) report on Entrepreneurship in the EU and abroad, found that, of respondents who favoured employment over entrepreneurship, 71% cited job security and 41% cited stable income as one of the reasons for their preferences (European Commission 2012). Similarly, it has been argued that, the existence of an iron rice bowl scheme which guaranteed jobs in the public sector in China was a cause for the lack of entrepreneurial activity (Yueh 2008).



Sweden has institutionalized a system to overcome the concern surrounding job security through the Right to Leave to Conduct a Business Operation Act of 1998. According to this Act, employees in Sweden are allowed to take unpaid leave of absence from their employment, for up to six months to pursue an entrepreneurial venture.

The presence of social security benefits in employment entails another opportunity cost for entrepreneurship (Hessels, et al. 2007). A study conducted in the USA in 2011 found that single women who had no health coverage were 10% less likely to be self-employed (Lurie and Heim 2010). Health coverage is only one form of social insurance and similar effects were found even with provision of different forms of social security benefits, in other studies as well.

The report of the EU cited above also found that nearly 10% of respondents claimed that they preferred employment due to the provision of insurance or social welfare benefits that came along with it. Earlier empirical studies in Europe too have indicated that lack of social security and income security have acted as a consideration for entrepreneurs before the decision to begin their venture.

Due to a phenomenon called “**job-lock**”, employees are unable to or reluctant to leave employment due to the fear of loss of employee benefits (insurance cover, pension, etc.) (Madrian 1993).

Recognizing this phenomenon, the Library of the European Parliament, in 2013, issued a legislative brief recommending that policy makers from the European member states may consider the provision of social security benefits such as insurance against health and disability, to promote and strengthen entrepreneurship. The brief also noted however, that such benefits may result in higher tax impact on the self-employed which may affect the profit and motivations for entrepreneurship, therefore they must give favourable fiscal treatment to the self-employed (Davies 2013).

Interestingly, a survey found that business ownership, for households which were newly eligible for food stamps under the Supplemental Nutrition Assistance Programme (SNAP) in the USA, went up by 16% indicating a rise in risk taking ability once social security is provided in some form (Nobel 2014).

**The development of a safety net which provides social security for entrepreneurs to face the uncertainty of entrepreneurship could allow more individuals to exit this job-lock and take a leap of faith.** This will go a long way in spurring an environment of mass entrepreneurship in the country, with the consequent advantages of job creation, innovation, competition and economic growth.

Mrs. Anjuly Duggal, IAS (former secretary, Department of Financial Services, Ministry of Finance) also identified this during our conversation with her, stating that,



*Smaller entrepreneurs need insurance products that are affordable, accessible and appropriate for them. They also need social security to provide a safety net for themselves and their families.*

*It is seen that a number of profitable companies have adopted habitations under their CSR programmes. It would be useful to commit CSR funds to education regarding, and assistance for, attaining social security in these areas. In many cases, the larger companies' ancillaries are entrepreneur-driven, and there is a direct link between the health of an ancillary and the supply chain of the company concerned. There are obvious synergies here that companies can nourish.*

## Examples of Social Security Frameworks for Entrepreneurs

Several countries, primarily European, have implemented social security mechanisms in a bid to promote entrepreneurship. These programmes can be broadly grouped into two types:

Social Assistance	Social Assurance
<ul style="list-style-type: none"> <li>• Non-contributory method</li> <li>• State provisions funds to provide benefits for citizens from its own budget allocations</li> <li>• Conditions are set for transfer of the funds to the beneficiaries</li> <li>• For E.g. Unemployment Allowance</li> </ul>	<ul style="list-style-type: none"> <li>• Contributory Method</li> <li>• Beneficiaries contribute to a fund</li> <li>• Benefits provided from fund upon fulfilment of certain criteria or occurrences</li> <li>• May be with or without subsidies from State</li> <li>• For E.g. Employee State Insurance</li> </ul>

### Social Assistance

One of the most common and simple methods that is observed, is the extension of unemployment benefits to entrepreneurs. This is a system where the state provides monetary relief to employable persons who are currently unemployed or in the process of looking for a job.



**Israel**

The State offers an unemployment benefit for those registered with the employment service and unable to find a job. This benefit can also be claimed if the unemployed person decides to start a business without utilizing the entire benefit period, and the business subsequently fails within 24 months (National Insurance Institute of Israel n.d.).

This provides some fallback for entrepreneurs in case of business failure, and is a notch above the system in several other nations where an individual loses access to unemployment benefits if they start a business during the benefit period (Kauffman Foundation 2016).



**France**

France introduced PARE in 2002, to boost the creation of new businesses, which allowed individuals to retain access to their unemployment benefits for up to three years after starting a business venture. In recent years, another scheme called ARCE, allows job-seekers who are eligible for unemployment benefits to withdraw up to 45% of their remaining benefit amounts to fund or take over a business (OECD & European Union 2018).

PARE took the extension of unemployment benefits a step further, by allowing entrepreneurs some income during the subsistence and growth phase of their business venture. This programme was a success in that monthly business creation rates went up by 25%. Moreover, researchers found that these firms were productive, more likely to hire and paid higher wages, leading them to surmise that the loosening of benefits allowed more individuals to view entrepreneurship as a viable career path (OECD & European Union 2018). Some more notable examples of countries and their social assistance programmes to support entrepreneurs are:

<b>Portugal</b>	<p>The State offers a programme similar to France called ACPE (Welfare Bridge) Programme. Under this programme entrepreneurs can access unemployment benefits through the subsistence of early business activity or convert unused unemployment benefits into a lump sum grant to fund a business.</p> <p>In addition, Portugal also offers entrepreneurs some social protection benefits in certain cases such as parenthood, occupational accident or sickness (OECD &amp; European Union 2018).</p>
<b>Sweden</b>	<p>The unemployment office of Sweden provides unemployment benefits for up to six months to entrepreneurs who can demonstrate a quality business idea and plans (OECD &amp; European Union 2018).</p>

### Social Assurance

The examples above have focussed on providing social security through the social assistance method. Social Security in Austria and Finland on the other hand is provided through the statutory insurance system.

<b>Austria</b>	 <p>Funded by beneficiary contributions and partly through government allocations, the Social Security Institution for Trade &amp; Industry (SVA) looks after health, pension and accident insurance for entrepreneurs and self-employed. Contributing entrepreneurs get access to benefits in case of unemployment or events such as illness, natural disasters, etc. and support from SVA case managers in case of events that threaten their business (OECD &amp; European Commission 2018). A fixed cap is applicable to contributions made by start-up entrepreneurs, for a certain period.</p>
<b>Finland</b>	 <p>Finland also follows the social insurance method of providing social security, through a mandatory insurance scheme for business owners and entrepreneurs called the YEL. The YEL covers pension at retirement or to survivors, as well as benefits for sickness, disability or unemployment. Similar to the Austrian system, entrepreneurs who are starting their first business venture, get a discount of 22% (2019) on the contribution (premium) rate for the first 48 months of their operations.</p>

Both in Austria as well as Finland, contributions are calculated as a percentage of total reported income, and the contribution decides the extent of benefits receivable. In addition, Finland recently modified its regulations to allow entrepreneurs to access their unemployment benefits accrued to them through the insurance programmes, for a period of up to four months after they have initiated business activities.

Moreover, Finland also has a start-up grant programme, under which the country's TE offices can provide certain entrepreneurs with a secure and regular income for the time estimated to set up and get a business running, with a maximum duration of 12 months. The unemployment benefits accrued through social insurance may also be used to fund the Start Up Grant. Recipients of this grant, particularly women entrepreneurs or those with little prior entrepreneurship experience, reported that this grant positively impacted and accelerated the setup of their ventures while showing government encouragement (YEL n.d.).

## Chapter 4: Redefining Social Security

The traditional definition of social security, as was laid out in the second chapter of this report, views it as a product of state action. However, such a definition misses out on several other non-state initiatives, such as private sector products and community support, which generate their own manner of a safety net for citizens, and in this case, entrepreneurs. Interestingly, some of the first social protection initiatives can be traced back to programmes implemented by employers for their workers in 19<sup>th</sup> century France. These initiatives provided several social protection benefits such as subsidized medical care, allowances due to work-related injuries, old age benefits, family benefits, etc. with some employers even offering food allowances, interest free credit and savings initiatives. These were largely provided through facilities belonging to and operated by employers, as well as financed through employer and employee contribution to assistance funds (ILO 2018). While these initiatives continued in many forms, eventually some of these practices were nationally codified and national social protection schemes were put in place. Similar codified benefits for employee protection are present in India as well, as was laid out in previous sections.

In a developing nation such as India, there is limited fiscal space and priorities for national development are diverse. In ideating social security mechanisms for entrepreneurs, it therefore becomes increasingly important to look at private sector mechanisms and community action, to promote social security, as areas for collaboration or partnerships between the public and private sectors for greater reach and impact.

For the purposes of this report, the definition of social security has been widened beyond the traditional understanding of social security as state initiated social assistance or social assurance programmes, and instead as *any mechanisms arising from state or non-state actors, creating a viable, comprehensive and robust safety net for entrepreneurs against personal and financial risks.*

Given this widened outlook, this chapter looks at some non-state initiatives that create safety nets as well. For ease of understanding, these have been divided and discussed in two large categories – private sector products and community action.

### Private Sector Products

A wide variety of products are offered by the private sector which create safety nets for individuals, of which some of the most common products are:

- Insurance and Micro-Insurance Products
- Pension Products

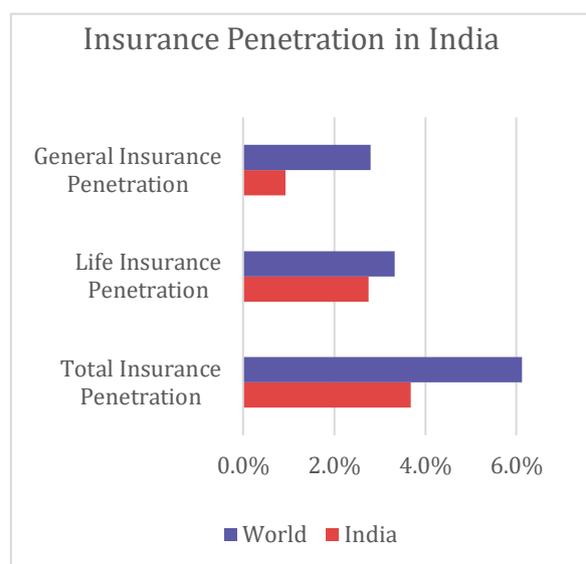
This section deals primarily with insurance products as they have the potential to be an important element of social safety nets for entrepreneurs. While pensions and retirement funds

form an important part of social security as well, these are focussed more on the long term, and do not deal with protecting against the risk of immediate personal and financial shocks, and hence, these are not discussed in detail.

India has a thriving private sector insurance industry. This industry is comprised of both private sector as well as public sector service providers. Both social insurance and private insurance are an important social safety net tool, as they serve to protect the insured by providing vital financial aid against unforeseen exigencies. Social Insurance in India has largely focussed on life and health insurance, but the private sector insurance market can be broken into two broad categories:

- Life Insurance
- General Insurance

Life Insurance products cover premature death of the policy-holder, while general insurance has several other products covering health, home, motor vehicles, travel, business etc. It is however pertinent to note that despite the criticality of insurance products, insurance penetration in India is quiet low, as illustrated in the figure alongside. There are various factors for this low penetration, such as the lack of awareness, ineffective pricing, inefficient distribution networks and a general perception that insurance is not a fundamental need (Dun & Bradstreet 2018).



While entrepreneurs can benefit from life insurance products, general insurance products take particular importance for them, as they can provide protection both against risks to themselves and their families against exigencies such as health emergencies, but also for their business. There are several general insurance products that can benefit entrepreneurs from a business perspective, such as i) shop insurance products which could insure against damage to goods, stock in trade, infrastructure within the commercial establishment or ii) trade credit insurance products where the sellers of products or services are insured against receivable payments from a buyer. These are only a few examples and a number of other insurance products can be beneficial to entrepreneurs based on their sector, scale and nature of operations.

### Micro-Insurance

Another trend in the insurance industry that has been gaining momentum, both in India as well as globally, is Micro-Insurance. These products, which aim to provide affordable protection against certain ills, are tailor made for risks faced by low-income communities. Micro-

Insurance is not simply a standard insurance policy with a lower cover and lower premium, but actually considers several other factors of the target group, such as familiarity or comfort with insurance products, remote location and specific risks.

In India, the IRDAI in the Micro-insurance regulations of 2005, defined micro-insurance policies as general or life insurance policies with a sum assured of Rs. 50,000 or less. Primarily aimed at the economically vulnerable, the regulations allow for coverage for specific categories (health, life, livestock, etc.) or composite covers which are combinations of various kinds of insurance products. This segment has seen growth over the last decade with several large insurance providers offering policies in this segment, but the entry of new-age 'insurtech' enabled service providers has given viability and scalability to these products with low premia and low coverage, aided by an increase in smartphone and data usage (D'souza 2018). Many of these insurtech and fintech platforms are also offering micro-savings solutions, which are traditionally offered by Micro Finance Institutions. While not generally a form of insurance or social protection, micro-savings also hold the potential to act as a quasi-insurance by offering some financial security in times of duress and shocks (Hulme, Moore and Barrientos 2009).

Although the sum insured may be small, micro-insurance can overcome some of the challenges of traditional insurance products and may be of particular interest in the context of micro-entrepreneurship as it could provide customized cover against risks faced specifically by entrepreneurs and at an affordable price point. The box below describes an approach attempted by ADIE, a French Micro-Finance Institution (MFI), to strengthen entrepreneurs and small businesses by providing specifically designed micro-insurance policies.

ADIE noticed that costs, eligibility and a lack of awareness were some of the reasons that their clients were unable to acquire a suitable insurance product for their professional activities. To bridge this gap, ADIE developed four products specifically to address risks faced by small entrepreneurs, such as third party conflicts, damages on goods and rented premises, professional use of vehicle, and temporary cessation of activities due to sickness or injury. Only establishments with less than five employees and a turnover limit prescribed by law are eligible. The policies are designed such that the guarantee for damages on professional goods are lower, since entrepreneurs usually launch business with limited funds, while guarantee for other liabilities are higher as risks faced by entrepreneurs in that regard are the same.

After a four-year pilot project, the product offerings were extended to customers nationwide.

In a survey of various clients of ADIE conducted in 2014, about 97% of respondents found the micro-insurance programme relevant. 91% of respondents responded positively about the programme, while even among respondents who had at least one claim settled, over 80% of respondents gave a positive response. (Gautier 2015)

While the French example highlights the relevance of such products for entrepreneurs, the global trend has been that micro-insurance products have focussed more on life and accident risks, when compared to the needs of the entrepreneurs and MSMEs. As highlighted earlier, MSMEs are susceptible to risks of their owners and family members, as well as risks to the enterprise, which often makes their own needs quite different from those of larger enterprises.

Within this category too, the micro-enterprises' needs are slightly different from those of the SMEs, where the former's needs may centre more on personal risk, while the latter may need more diverse risk coverage and group health coverage for employees. There is no doubt, however, that insurance can increase the resilience of enterprises and protect entrepreneurs from several risks (GiZ 2019). Significant room exists for better targeting of insurance products specifically catering to the unique needs and risks faced by the entrepreneur, and in offering such products, these factors must be taken into consideration.

Globally, several notable examples of service providers offering bundled insurance products for MSMEs are present, such as Pioneer in Philippines that offers coverage for personal accident, fire assistance on physical structure and damage from typhoon or floods for stores. Pioneer also utilizes effective partnerships for distribution to increase penetration. Similarly, CIC in Kenya offers a product which provides benefits of comprehensive life cover and cover for stocks and business tools in case of certain exigencies (GiZ 2019). In the Indian scenario, there is a need for similar contextualized and easy to understand products catering to the specific needs of entrepreneurs and their enterprises, as well as increased awareness generation for uptake of these products.

## Community Action

Social protection can also arise from acts of the community. This form of social protection, also referred to as informal social protection, is defined by the UNDP (2016) as, "informal grouping of activities that protect community members from risk through locally arranged social protection measures that are predicated on people's cultural beliefs, norms and values." These forms of social protection are usually self-funded by the community but may be supported by the state or donors (Flora, Ndabaga and Oduor 2015), and are usually highly effective at the local level, creating an important safety net with limited reach (Twiggy 2015).

These mechanisms are common across the globe and are particularly important in the Indian context. One of the major avenues for such community based social protection is through Self-Help Groups (SHGs). SHGs have become important institutions, particularly for women in rural areas, that provide collectivized benefits to its members, such as greater bargaining power, pooled microfinance and micro-savings as well as several social security benefits. Among the largest and most prominent examples is that of the Self-Employed Women's Association (SEWA) which started in 1972 in Gujarat, which began operating an integrated social security scheme with coverage for life, asset loss, widowhood, personal accident, sickness and maternity benefits, and added on medical coverage for husbands and children in 2002 and 2003. In fact, its efforts have now led to the formation of a cooperative society called vimoSEWA in 2009, which has had a membership of nearly 215,000 people in its insurance programme at its peak (vimoSEWA n.d.). Aside from prominent examples such as SEWA and Kudumbashree, there are also several smaller local level SHGs and similar groups which offer such social safety net to their members.

Another model where the community creates a safety net can be seen in the operation of professional associations. One such example is the Bar Council of India which has provided a stipend of Rs. 5000 per month to new litigants for a period of 5 years, from its funds (Shrivastava 2014). Similarly, the National Association for the Self-Employed in the USA also offers various general insurance benefits for its members (NASE n.d.).

Given that such communities cater to various needs and are not just limited to financial support, they also hold significant promise in terms of promoting social security safety nets for entrepreneurs.

## Chapter 5: Casting the Safety Net

The assessment of social security frameworks in India, as well as across the world, has revealed different mechanisms for provision of benefits. It is important to ensure that recommendations based on these various frameworks are contextualized for the Indian ecosystem. In ideating the recommendations, several factors have been considered for contextualization:

<p><b>Indian Economy</b></p>		<ul style="list-style-type: none"> <li>With a per capita income of Rs.10,534, and as a developing economy, India's priorities on expenditure, particularly with respect to social security varies from the countries that currently provided social security for entrepreneurs. For instance, India spends 1.3% of GDP on social protection programs, 14% less than the global average (Satpathy, 2018).</li> </ul>
<p><b>Socio – economic context</b></p>		<ul style="list-style-type: none"> <li>Every country has its own unique socio economic context. While earlier India had a system of joint families and risk would get divided among different members, things seem to be changing. Niti Ayog's findings based on a survey revealed that 70 percent of the respondents who were interested in entrepreneurship preferred employment due to family pressure. The same report also referred to the findings of World Economic Forum survey of entrepreneurial ecosystems, which read that only 17 percent of Indian respondents stated that "cultural support pillar" was available in the country (NITI Aayog, 2015)</li> </ul>
<p><b>Profile of entrepreneur</b></p>		<ul style="list-style-type: none"> <li>As per a study conducted by Xeler8, over 80% of entrepreneurs in India either hold a graduate or a post graduate degree. Contrary to popular belief, a very small percentage of these come from the premier institutes(16%) such as IITs and IIMs. To add to this, similar to silicon valley, the entrepreneurial landscape is almost completely male dominated.</li> </ul>
<p><b>Risk appetite</b></p>		<ul style="list-style-type: none"> <li>The prevailing culture in the country tends to stigmatize failure. It is reported by NITI Aayog that, a survey conducted by them found that 60% of entrepreneurs that have failed with their first venture return to large companies instead of trying out new ideas or improving the original. The Global Entrepreneurship Monitor also noted that the business discontinuation rate in India is among the highest at 26.4 per cent (PTI, 2018). This indicates that risk appetite is not very high among Indian entrepreneurs</li> </ul>
<p><b>Government support</b></p>		<ul style="list-style-type: none"> <li>Start up policies of various state governments and central government have an impact on entrepreneurship along with other regulatory policy framework. As pointed out earlier, several steps have been taken to ease the ecosystem for doing business in the country with varying degrees of outcome.</li> </ul>

### Stakeholders in the Indian Entrepreneurship Eco-system

Ensuring the operationalization and success of a programme to promote social security for entrepreneurs, requires the involvement of several stakeholders. The following list highlights the involvement of the major stakeholders, apart from potential entrepreneurs, identified in the Indian Entrepreneurship Eco-system:

<b>Entrepreneurs</b>	As the end-beneficiary, the entrepreneur is a key stakeholder, whose needs and perspectives form the basis of any interventions.
<b>Union Government</b>	The Union Government is already taking several policy measures to promote entrepreneurship. The recommendations are devised to augment these existing measures.
<b>State Governments</b>	As discussed in earlier chapters, the state governments are also implementing several programmes to promote entrepreneurship and social security.
<b>Industry</b>	Several corporates are promoting entrepreneurial eco-systems and innovations through their social responsibility practices. Given India's developing status, the private sector can play a key role in complementing public initiatives to promote social security for entrepreneurs.
<b>Entrepreneurial Support Systems</b>	This sector, comprising of venture capitalists, investors and incubators, currently plays a key role in determining success of entrepreneurial ventures by directing funding and guiding entrepreneurs.
<b>Banking &amp; Insurance channels</b>	This industry plays a key role alongside the government in promoting financial and social security, and thus will play a critical role in determining the success of initiatives to provide social security to entrepreneurs.

## Recommendations

As the report does not view social security purely from the lens of state initiated social assurance and social assistance programmes, it also includes within its ambit any form of non-state action that could create a safety net for entrepreneurs against their personal and financial risks. In addition to state-initiated programmes, the recommendations also look at initiatives from the private sector, community led interventions and partnerships for greater impact. It is hoped that these recommendations, if implemented, can create a comprehensive safety net for entrepreneurs, mitigate their burden of risk, and thereby enable more individuals to take the plunge into entrepreneurship. The following sub-sections lists out and gauge these potential recommendations to cast a social security safety net for entrepreneurs.

### Public Social Insurance for Entrepreneurs

<b>What?</b>	- <b>Provision of obligatory public social insurance for Entrepreneurs</b>
<b>How?</b>	- Extension of ESI or Development of a new social insurance scheme catering to receive contributions and provide coverage to entrepreneurs - Subsidies and partial financing from government may be explored for early stage entrepreneurs.

<b>Benefits &amp; Reach</b>	<ul style="list-style-type: none"> <li>- Provides coverage for entrepreneurs in times of necessity</li> <li>- Public social insurance may be more economical than private products given the possibility of universalisation</li> <li>- Govt. mandated scheme can achieve higher reach</li> </ul>
<b>Challenges</b>	<ul style="list-style-type: none"> <li>- The entrepreneur's ability to pay premium must be taken into account</li> <li>- Identification and targeting of beneficiaries may be a hurdle</li> <li>- Requires modification of existing scheme or development of new one which may involve a lengthy legislative process.</li> </ul>

In a country where insurance penetration is under 4% of the population (R. Krishna 2019), a government mandated social insurance programme may be able to garner wider coverage to provide entrepreneurs with benefits similar to employees. This may also have an additional benefit of overcoming the 'job-lock' phenomenon. Such a scheme could be financed by contributions from entrepreneurs, and partial financing or subsidies could be explored for early-stage entrepreneurs in their first entrepreneurial venture.

The most prominent example of an obligatory social insurance scheme in India is the ESI, which is available only to employees. While the various other government backed insurance schemes provide coverage, they are not obligatory and do not focus specifically on entrepreneurs. In contrast, Austria and Finland's social insurance model covers employees as well as business owners.

**It is therefore suggested that an obligatory public social insurance scheme covering various financial and business-oriented risks faced by entrepreneur be operationalized either through extension of the ESI programme or development of a new scheme.**

### Insurance Products designed for Entrepreneurs

<b>What?</b>	- <b>Development of Insurance Products designed for Entrepreneurs</b>
<b>How?</b>	<ul style="list-style-type: none"> <li>- Public &amp; Private sector insurance providers can develop insurance/ micro-insurance products for entrepreneurs specifically keeping in mind the requirements of MSMEs and entrepreneurs</li> <li>- Innovative distribution methods can be leveraged, such as through their existing networks, Banking Correspondents (BCs), Common Service Centres (CSCs) and online platforms.</li> </ul>
<b>Benefits &amp; Reach</b>	<ul style="list-style-type: none"> <li>- Can be specifically bundled to mitigate risks faced by entrepreneurs</li> <li>- May be more economical than traditional insurance products</li> <li>- Innovative distribution partnerships and technology can offer higher reach and penetration.</li> </ul>

### Challenges

- The entrepreneur's ability to pay premium must be taken into account.
- Awareness generation activities on the importance of such products, particularly in rural areas will require specific focus.

Requirements of micro-entrepreneurs and MSMEs from insurance products are different from traditional enterprise requirements. As in the case of the French ADIE's micro-insurance bundling for entrepreneurs, **it is suggested that service providers develop insurance products based on specific entrepreneurial needs and risks, contextualized for scale, sector and nature of operations.** These products can range from low premium, low coverage microinsurance products or traditional insurance products, and could be offered by public and private sector channels. In order to bridge the penetration gap, partnerships may be leveraged between service provider's own distribution networks as well as Banking Correspondents, Common Service Centres and technology service.

Mr. Ramesh Dharmaji, Fmr. CGM, SIDBI, brought up a crucial lacuna in this system, and identified one mechanism to promote action in this direction:



*"Micro insurance products mostly cater to life and property; there are no suitable insurance products for covering business loss. Maybe insurance companies are not equipped to access risks associated with business. However, a suitable product is desirable and could be explored by insurance companies with some support from the system in the form of partial risk cover, such as an FLG."*

### First Loss Guarantee for Insurance

Given that risk levels are high in case of entrepreneurs and that in many cases, insurance service providers may not be fully equipped to assess risks associated with various business models, there may be reluctance to develop insurance products for entrepreneurs. In order to overcome this, a First Loss Guarantee (FLG) mechanism may be explored, through which the government may bear a percentage of the loss in cases where the financial burden on the service provider goes beyond a certain estimated amount. The budget for the Financial Year 2019-20, in fact proposed a similar FLG mechanism for the credit sector driven by NBFCs. In this case, Development Finance Institutions such as Small Industries Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD) may be best suited to collaborate to set up an FLG Fund to bear a certain percentage of loss. This FLG mechanism may incentivize insurance service providers and provide the initial impetus required for development and testing of products catering specifically to the needs of entrepreneurs and MSMEs.

## Extension of Unemployment Benefits

<b>What?</b>	- <b>Extending existing unemployment benefits to entrepreneurs</b>
<b>How?</b>	<ul style="list-style-type: none"> <li>- In states currently offering unemployment allowance, entrepreneurs can access benefits for a fixed period after starting their business.</li> <li>- Financed by government and delivered through Direct Benefit Transfer.</li> </ul>
<b>Benefits &amp; Reach</b>	<ul style="list-style-type: none"> <li>- Provides entrepreneurs income to meet living expenses.</li> <li>- May also meet the capital and operational expenditure of business.</li> <li>- As a government programme, reach can be maximized.</li> </ul>
<b>Challenges</b>	<ul style="list-style-type: none"> <li>- Identification and targeting of beneficiaries may be a hurdle.</li> <li>- Requires modification of existing schemes.</li> <li>- Financial and budgetary constraints could be a hurdle.</li> </ul>

The extension of unemployment benefits, as in several other countries, can boost income security for potential entrepreneurs to start their own ventures and provide some subsistence income during the gestation period of their own ventures.

**It is suggested that in states with an existent unemployment allowance system, such benefits should be made accessible to first time entrepreneurs, so that they can continue to access these benefits for a certain fixed period after starting their own businesses.** States such as Kerala, Punjab and Tamil Nadu which currently have unemployment benefits can take the initiative with this system. Mechanisms being used in France's PARE programme and Israel can be used as reference for the same.

Additionally, innovative policy approaches may be taken to provide these benefits. For instance, Andhra Pradesh provided ₹1000 to unemployed youth to pursue skill development. Such a scheme could be extended to provide such benefits on a monthly basis for a limited period, provided that beneficiaries use the skills to initiate their own entrepreneurial venture.

## Provision of Entrepreneurship Allowance

<b>What?</b>	- <b>Development of national framework to provide entrepreneurship allowance</b>
<b>How?</b>	<ul style="list-style-type: none"> <li>- Provision of a monthly allowance to eligible entrepreneurs.</li> <li>- Eligibility criteria may be set with regard to nature of business, performance of business and annual family income.</li> <li>- Made available only to first time entrepreneurs for fixed period.</li> <li>- Financed by government and delivered through Direct Benefit Transfer.</li> </ul>

<b>Benefits &amp; Reach</b>	<ul style="list-style-type: none"> <li>- Provides entrepreneurs income to meet living or operational expenses.</li> <li>- As a Central Government programme, reach can be maximized.</li> <li>- Targets entrepreneurs specifically, as opposed to unemployment allowance.</li> </ul>
<b>Challenges</b>	<ul style="list-style-type: none"> <li>- Identification and targeting of beneficiaries may be a hurdle.</li> <li>- Requires development of a new national framework.</li> <li>- Financial and budgetary constraints could be a hurdle.</li> </ul>

Only some states offer unemployment benefits and developing a national level programme for unemployment benefits would require a dedicated policy framework, significant financial resources as well as institutional restructuring. In light of these constraints, an alternative mechanism may be considered. **It is suggested that a framework be created to provide first time entrepreneurs meeting certain criteria with an entrepreneurship allowance or a basic sum of money as income support for a fixed period.** Programmes such as Portugal’s ACPE and the one being implemented in Sweden can be taken as the basis for the development of such a framework.

As compared to unemployment allowance, which would be accessible by a large population, an entrepreneurship allowance would be targeted specifically to entrepreneurs. Innovative approaches can be explored to implement this mechanism in a swift manner. For instance, a low hanging fruit to operationalize this may be to allow for withdrawal of a large portion of the Provident Fund of the individual upon establishment of an entrepreneurial venture.

### Establishment of Entrepreneurship Associations

<b>What?</b>	<ul style="list-style-type: none"> <li>- <b>Establishment of collectives in the form of Entrepreneurship Associations</b></li> </ul>
<b>How?</b>	<ul style="list-style-type: none"> <li>- Set up of not-for-profit associations of entrepreneurs at various levels.</li> <li>- May be led by Public or Private Sector</li> <li>- Association may attract funding and generate revenue through its activities.</li> <li>- Programmes may be contributory and subsidized for early stage entrepreneurs.</li> </ul>
<b>Benefits &amp; Reach</b>	<ul style="list-style-type: none"> <li>- Promotes collectivization of entrepreneurs</li> <li>- Can remain financially independent</li> <li>- Community driven approach</li> <li>- Can provide networking and mentoring support to entrepreneurs</li> </ul>
<b>Challenges</b>	<ul style="list-style-type: none"> <li>- Reach and scale is dependent on activities of the association</li> <li>- Identifying appropriate agencies can be a hurdle</li> <li>- Financial viability must be examined.</li> </ul>

Modelled after the community led social protection initiatives and the activities of professional associations, **it is suggested that entrepreneurship associations be set up at various levels.** These may be set up based on geographic or sectoral parameters. These associations may attract funding and generate their own revenue through activities such as training programmes and events. Entrepreneurs may become members of these associations upon payment of a fee, which may be subsidized or waived off for early stage entrepreneurs. These associations may administer social security programmes for their members, and will also have additional benefits of promoting collectivization, providing mentorship, networking and market access opportunities for entrepreneurs in the process.

Existing industry bodies working at the state level, such as Karnataka Small Scale Industries Association (KASSIA) Limited which already engage with multiple stakeholders and are working with the aim of promoting businesses and industry, may act as the anchoring bodies for such associations, with support from State level Departments or the Ministry of Skill Development and Entrepreneurship.

Mr. Gopal Krishna Shukla, an entrepreneur running a Pizzeria in Varanasi, believed these associations can have manifold benefits for entrepreneurs, stating:



*“In addition to monetary support, these collective knowledge sharing platforms can be very beneficial, and provide support to entrepreneurs in areas such as business planning, which act as their own form of social security, given that success of an entrepreneur is highly unpredictable. As an experienced entrepreneur, I would be happy to devote my time and energy to such an association and support budding entrepreneurs.*”

### Promotion of ‘Jobbaticals’

<b>What?</b>	- <b>Breaks from Employment to pursue Entrepreneurship</b>
<b>How?</b>	<ul style="list-style-type: none"> <li>- Initially organized on a voluntary basis and then institutionalized based on experience.</li> <li>- Private sector organizations can voluntarily develop policies to allow employees to take unpaid breaks for 6-12 month periods to pursue entrepreneurship.</li> <li>- If the venture fails during this period, the employee may return to the organization else they may continue to pursue their path of entrepreneurship</li> </ul>

<b>Benefits &amp; Reach</b>	<ul style="list-style-type: none"> <li>- As a voluntary initiative, reach may be limited.</li> <li>- As a purely private sector initiative, no regulatory hurdles to be faced.</li> <li>- Can promote innovation among employees and private sector.</li> <li>- May provide entrepreneurs support of their employer organization in their entrepreneurial venture.</li> </ul>
<b>Challenges</b>	<ul style="list-style-type: none"> <li>- Reach is limited.</li> <li>- Dependent on voluntary initiative of private sector.</li> </ul>

Social Security need not be in the form of purely financial benefits. Many individuals for instance, may not step into entrepreneurial venture for fear of what they could do should their venture fail. As pointed out earlier, job security is an important factor that can have an effect on the individual's decision. Having security in the form of an alternative can allow more individuals to experiment and establish their own ventures, as they will have a fall-back, which provides a non-monetary social safety net. This is similar to what Sweden has implemented, in the form of the Right to Leave to Conduct a Business Operation Act of 1998 as highlighted earlier.

It is suggested that private sector organizations explore **the idea of promoting jobbaticals – unpaid leave or breaks from employment to pursue entrepreneurship**. This can first be piloted as a voluntary initiative within the private sector, and then can be institutionalized after refinement and operationalization based on the experience. Regulatory mechanisms on the lines of Sweden can be explored based on the outcome from the pilot initiatives.

## Financial Sustainability

Each of the above recommendations can have varying degrees of impact, yet one major challenge across solutions is financial viability and fiscal space. In order to overcome this challenge, it is proposed that an **Entrepreneurship Corpus** be established, from which funding may be sourced to either completely finance or provide support to the programmes recommended above. In addition to direct budgeting, some of the following options may be considered to develop the corpus:

### Rationalization of Existing Programmes

- Several schemes and programmes currently operate at the national and state level for entrepreneurs and MSMEs, some even with overlapping benefits or objectives. Based on a study of the efficacy and outcomes of these schemes, they may be realigned or optimized in a manner that funds from ineffective programmes or schemes with similar design may be redirected to an entrepreneurship corpus for provision of social security for entrepreneurs.

### Diversion of Funds from Existing Social Protection Schemes

- Some portion of existing large welfare programmes may also be diverted towards the entrepreneurship corpus through linkage of their benefits to conditions promoting entrepreneurship. As an example, a portion of the allowance under PM Kaushal Vikas Yojana may be conditional subject to the set up of an entrepreneurial venture.

### Liberalization of CSR Regulation

- Schedule VII (under Section 135 of the Companies Act 2013) lists out activities which may be included by corporates under their Corporate Social Responsibility policies. Entry ix of the Schedule reads as follows, “(Activities relating to- ) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women.” Liberalizing the CSR regulations above, by allowing contributions to the established entrepreneurship corpus will also allow for a source of revenue to provide social security to entrepreneurs.

### Individual and Institutional Donations

- Donations from individuals or institutions or impact investors may also be incentivized by providing taxation and other benefits on contributions to the entrepreneurship corpus.

Pointing out that CSR may be an effective avenue to explore, Mrs. Anjuly Duggal, IAS (former secretary, Department of Financial Services, Ministry of Finance) stated that,



*“Enabling CSR into travelling into some of these aspects (social security for entrepreneurs) can be a good idea. A lot of companies have ancillaries, and these are frequently entrepreneur driven. So, there's a direct link between health of an ancillary and supply chain of company concerned. There are obvious synergies which companies can nourish.”*

## Summary of Recommendations and Solution Analysis

The table below summarizes the recommendations made in the previous sub-section and categorizes them based on whether they are primarily based on their feasibility across different aspects and the primary actor for the implementation of the solution.

In the table,

**Political Feasibility:** Indicates the availability of a policy window from a political point of view i.e., whether such an initiative has sufficient backing from the political classes.

**Legal Feasibility:** This indicates whether the current legal framework allows for the implementation of the given solution or not

**Reach:** This points to the geographic reach and how widespread a particular solution can reach.

**Effectiveness:** This indicates the effectiveness of the solution in ensuring that the intended goal of enabling entrepreneurs through social security is achieved.

Note: Financial feasibility has not been taken into consideration in the analysis as the establishment of the Entrepreneurship Corpus would standardize the same across solutions.

Solutions	How	Political Feasibility	Legal Feasibility	Reach	Effective-ness	Primary Actor
<b>Public Social Insurance for Entrepreneurs</b>	Extension of the ESI scheme or development of a similar social insurance scheme to receive contributions from and provide coverage to entrepreneurs.	Low	Medium	High	High	Government
<b>Insurance Products designed for Entrepreneurs</b>	Traditional & Micro-Insurance Products specifically designed to cater to unique risks and needs of MSMEs and Micro-entrepreneurs.	High	High	Low	Medium	Public or Private Sector
<b>Extension of Unemployment Benefits</b>	In states with existing systems for unemployment benefits, allow first time entrepreneurs to access unemployment benefits for fixed period.	Medium	Medium	High	Medium	Government
<b>Provision of Entrepreneurship Allowance</b>	Development of national framework to provide entrepreneurship allowance, as a monthly allowance to eligible first-time early stage entrepreneurs.	Low	Medium	High	High	Government
<b>Establishment of Entrepreneurship Associations</b>	Set up of associations of entrepreneurs at various levels to provide different kinds of support systems for entrepreneurs.	Medium	High	Medium	Medium	Private Sector with Government support
<b>Promotion of 'Jobbaticals'</b>	Unpaid leaves or breaks from employment to pursue entrepreneurship, which may initially be organized on a voluntary basis and later institutionalized	High	High	Low	Medium	Private Sector

## Way Forward

We believe that the idea of promoting social security for entrepreneurs is one whose time has come and taking this towards implementation can yield significant results in terms of enabling the demographic dividend of India. It is imperative that various stakeholder groups, in their own capacities begin to consider this challenge, and address it through effective interventions.

In addition, to ensure effectiveness, reach and sustainability of such initiatives, targeted multi-stakeholder alliances and partnerships will be required. It is therefore suggested that an action-oriented taskforce be constituted to take further action into this. The taskforce should ideally consist of members from the different stakeholder groups - government, industry players, academia and entrepreneurs. The broad range of activities of the taskforce can include reviewing the recommendations, preparing detailed implementation frameworks and liaising with necessary authorities/stakeholders to ensure that an appropriate, comprehensive framework to provide social security mechanisms to entrepreneurs is operationalized.

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