



Shadow Entrepreneurs

Why in News

There has been a **global rise of shadow entrepreneurship**, in various sectors such as **education** (certificates), **finance** (for easy loans), **the betting economy** (online games) and **healthcare** (e-pharmacies).

Key Points

▪ About:

- **Shadow entrepreneurs** are individuals **who manage a business that sells legitimate goods and services** but they **do not register their businesses**.
- This means that they **do not pay tax**, operating in a shadow economy where **business activities are performed outside the reach of government authorities**.
- Types of businesses include **unlicensed taxicab services, roadside food stalls and small landscaping operations**.
- In a study of 68 countries, the **Imperial College Business School** found that after Indonesia, India has the **second highest rate of shadow entrepreneurs**.

▪ Causes for Rise in Shadow entrepreneurs:

- **Taxation & Enforcement: High tax rates** accompanied by **loose enforcement** induces **tax avoidance, discourage investment in formal businesses**, and drive entrepreneurial activity toward the informal sector.
- **Impact of Covid-19:** Shadow entrepreneurs, offering **technology-mediated services**, bring complementary services that traditional service providers may be constrained to offer or consumers **might not be able to access** due to lockdown constraints.
- **Technological Advancements:** Shadow entrepreneurship is also promoted through technology-enabled new markets and also entry of new and tech savvy consumers.

▪ Benefits:

- Increase in employment: Most of Informal sector jobs come under shadow entrepreneurship.
- Driver of economic development
- Reduction in Poverty
- Removes pressure on agriculture by providing non agricultural jobs.
- Diversified options for consumers

▪ Challenges of Shadow Entrepreneurs:

- **Decrease Competitiveness:**
 - Small firms will get acquired by large firms. First movers in the space with deep pockets could generate irrationally high valuations.
- **Dubious & illegal:**
 - Recent events related to app-based loan providers who charge very high interest rates and dubious methods for recovery.

- **Economic Loss:**
 - Loss of revenue as these businesses are not registered with the government.
- **Corruption:**
 - They are beyond the reach of law making them vulnerable to corrupt officials.
- **Asset Size:**
 - Informal entrepreneurs tend to invest in their businesses much less intensively than the formal ones, which implies that formality is positively correlated with asset size.
- **Suggestions:**
 - **Formalisation of Economy:** Where proper economic and political frameworks are in place, individuals are more likely to become 'formal' entrepreneurs and register their business, because doing so enables them to take advantage of laws and regulations that protect their company.
 - **Monitoring:** Strong monitoring of quality would be essential. This needs to be complemented with **non-compliance being punishable with a jail term**, clamping down on services and related strict consequences.
 - **Reward Compliance:** Those shadow firms that comply should be welcome to join the dominant mode of service delivery with non-shadow firms.
 - **Coordination among Agencies:** There also needs to be better coordination of **activities between authorities of governments** (for example the Ministry of Corporate Affairs in regulating shadow entrepreneurship and government departments in healthcare, education or finance).

[Source: TH](#)

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