Promoting Entrepreneurship, Employment & Skilling- Leveraging the Demographic Dividend

Concept Note on Sub Theme: Creating Enabling Ecosystem for services- Focus on Tier 2, Tier 3 cities

Fourth National Conference of Chief Secretaries

Fourth National Conference of Chief Secretaries

Theme: Promoting Entrepreneurship, Employment & Skilling- Leveraging the Demographic Dividend

A Concept Note on Sub Theme: Creating Enabling Ecosystem for Services- Focus on Tier 2, Tier 3 cities

Sub-theme Nodal Central Ministry: Ministry of Electronics and Information Technology

---

I. INTRODUCTION

National Conference of Chief Secretaries is held annually. Deliberations in the Conference take place in the true spirit of cooperative federalism with all state governments on identified priority issues. The Conference serves as a preparatory meeting for the Governing Council meeting of NITI Aayog. The 4th National Chief Secretaries' Conference is scheduled to be held in November 2024 with the theme 'Promoting Entrepreneurship, Employment & Skilling - Leveraging the Demographic Dividend'. Ministry of Electronics & IT is the nodal Ministry for one of the pillars under the theme- namely 'Creating Enabling Ecosystem for Services- Focus on Tier 2, Tier 3 cities'. This Concept Note is prepared as a guiding note to seek the views of the State Governments, Union Territories, and other Stakeholders on the challenges, potential solutions, and best practices in this regard.

II. CONTEXT APPRECIATION

India is poised to become USD 5 trillion economy by 2025. To achieve this, India needs to reap the demographic dividend and explore the full potential in tier-2/3 cities. India, one of the youngest nations, has over 62% of its population in the working age group (15-59 years). During the next 20 years, the labour force in the industrialized world is expected to decline by 4%, while in India, it will increase by 32%. India adds 1.2 crore people to its workforce every year. Given that the services sector currently employs nearly 30% of the workforce and contributes 55% to the GDP, this sector should be adding a minimum of 40 lakh new jobs every year. Thus, the need for the creation of jobs and entrepreneurship opportunities in the services sector is very important. In the fiscal year 2024, the services sector contributed almost 44% to the country's total exports. The majority of this contribution came from exports of computer services and business services, accounting for approximately 73%. According to the WTO Statistical Review, India is ranked fifth in services exports, following the European Union (excluding intra-EU trade), the United States, the United Kingdom, and China. The importance of digitally delivered services has significantly increased worldwide and within India, especially after the pandemic. Currently, India accounts for 6% of global exports of digitally driven services.

At present, services sector growth and employment created in the sector is concentrated in tier-1 cities with just 4 cities (Bengaluru, Mumbai/Pune, Delhi NCR and Hyderabad) housing 75% of 4.5 million IT employees. The potential of tier-2/3 cities is largely untapped. With smaller populations and developing infrastructure, they offer unique opportunities for economic growth. Fostering entrepreneurship, creating jobs, and enhancing skills—particularly in the service sectors like travel, tourism, hospitality, restaurants, logistics, transport, trade, real estate, communications and finance— which contribute the most to share in gross output - are crucial for balanced regional development.

To order to create the enabling ecosystem for services, it is important that the central government, state governments, industry, startups, and academia work together to redesign

pragmatic and forward-looking policy measures in tier2/3 cities. This collective effort should focus on equipping the future workforce, investing in strategic initiatives, and revamping existing programs to enhance ease of living, ease of doing business, and ease of governance, ultimately positioning India to gain a competitive edge globally. As a result of these initiatives which unlock the demographic dividend in tier2/3 cities, services sector could act as a growth driver creating employment and entrepreneurship.

III.   OBJECTIVES

This concept note serves as a starting point for the State Governments and other stakeholders to develop the state-specific notes on the sub-theme. Some of the broad objectives are as follows:

- To deliberate on the creation of an enabling ecosystem for services;

- To discuss challenges and strategies to promote entrepreneurship, employment, and skilling in Tier 2 and Tier 3 cities;

- To facilitate knowledge sharing and best practices among states and stakeholders; and

- To prepare a blueprint for action to create an enabling ecosystem for services, in consultation with sector experts, industry bodies, and government departments

IV.   CURRENT INITIATIVES

Several initiatives have been implemented to promote entrepreneurship, employment, and skilling across the country. Some of the key initiatives include:

1. **Start-up India:** This initiative aims to build a strong ecosystem conducive to the growth of start-up businesses. It provides tax benefits, funding support, and easier compliance norms to encourage innovation and entrepreneurship. More than 1,40,000 Start-ups have been registered so far.

2. **Skill India Mission:** This mission is an initiative aimed at equipping India's workforce with relevant skills and training to meet the demands of the employment market. Accordingly, the mission focuses on creating a skilled workforce in various sectors, including services such as tourism, logistics, transport, and financial services. By combining technical and soft skills development, the Mission provides a well-rounded and employable workforce. Skill India Digital (SID) is a digital platform that hosts digital job exchanges, provide Digital Skill Card for individuals among others.

3. **Digital India Programme:** It provides digital infrastructure, on-demand services and digital empowerment of citizens. Digital infrastructure has enabled the creation of digital identities, improved access to finance, access to markets and reduced transaction costs, resulting in boom in start-ups in smaller cities. Focus upon digital literacy and training programmes contributes to digital empowerment and creation of knowledge society.

4. **Pradhan Mantri Kaushal Vikas Yojana (PMKVY):** PMKVY is a skill development initiative for recognition and standardization of skills in India. Since 2015, close to 1.40 crore candidates have been trained/oriented under PMKVY till 13 December 2023. Under Short-term Training, 42% of the candidates were placed in various sectors across the country.

5. **Development of physical infrastructure:** With the government's initiative of Bharatmala Pariyojana, there is significant expansion in national highways network. Railways network has also improved significantly over the last few years owing to various initiatives like, Amrit Bharat Station Scheme, Dedicated Freight Corridors, introduction of modern

passenger services like Vande Bharat, Amrit Bharat Express, etc. This, alongwith Ude Desh ka Aam Nagrik (UDAN) Regional Connectivity Scheme (RCS) has improved the physical connectivity of Tier 2/3 cities.

6. **Development of Digital Infrastructure:** Under BharatNet Project, over 6,83,175 kilometers of Optical Fiber Cable (OFC) has been laid, connecting 2,06,709 Gram Panchayats (GPs). State Data Centre has been established in almost 30 States and UTs. National Knowledge Network has provided high-speed connectivity to 700 districts HQ and all academic and research institutions.

7. **Development of Financial Infrastructure:** The government has advanced financial infrastructure through digital payment systems like UPI, financial inclusion initiatives such as Pradhan Mantri Jan Dhan Yojana (PMJDY), PM SVANidhi Stand-up India, fintech innovation, and promotion of financial literacy. Pradhan Mantri Mudra Yojana (PMMY) is an important scheme that provides micro-financing to small and medium enterprises (SMEs). A total of 47.7 crore loans have been sanctioned under the scheme as on 29 March 2024.

8. **Initiatives in Emerging Service Sectors:** Various initiatives have been taken in several emerging services sectors such as 'Pilgrimage Rejuvenation and Spiritual Augmentation Drive' (PRASHAD) scheme, Swadesh Darshan 2.0 to promote the tourism potential of India.

9. **Ease of Doing Business (EoDB):** Various steps have been taken by the government to create a conducive environment for businesses to operate. India's rank on EoDB Index improved from 172nd in 2014 to 63rd in 2019 as per World Bank's Doing Business Report (DBR), 2020. Business Reform Action Plan (BRAP) has been launched to assess the reforms undertaken by the State Governments and the UTs covering areas such as Information Wizard, Online Building Permission System, Inspection Reforms, Labour Reforms, etc. Some states have excelled in these reforms, enhancing their business environments significantly. Judicial and dispute resolution reforms such as the establishment of commercial courts to expedite the resolution of commercial disputes (Commercial Courts Act) and setting up of a specialized tribunal for resolving corporate disputes and insolvency cases efficiently (National Company Law Tribunal) have improved the ease of doing business in the country.

V. ISSUES TO BE RESOLVED

Despite these initiatives, several challenges persist in promoting entrepreneurship, employment, and skilling, particularly in the services sector. Many Tier 2 and Tier 3 cities do not have adequate infrastructure such as reliable power supply, efficient transportation, and internet connectivity. The skill set available in such cities do not match to the industry requirements due to scarcity in quality training centres, outdated curriculum and standardisation in the services. Access to funding at low cost and the limited market access is another problem faced by the entrepreneurs. Navigating the regulatory environment can be challenging for small businesses. Entrepreneurs are often unaware of the various government schemes and benefits available to them due to inadequate dissemination of information. These factors hamper business operations and discourage potential entrepreneurs in these cities.

VI. RELEVANT THEMES FOR DISCUSSIONS

1. **Improving Infrastructure for promoting Services:** Building an ecosystem for growth in services and entrepreneurship requires investments in physical, digital, financial and regulatory infrastructure – provision of roads, airports, connectivity, BharatNet, digital payment ecosystem etc.

2. **Promoting Technology Start-ups:** The technology start-up ecosystem in India is dynamic, expanding quickly, and varied. Currently, it is largely concentrated in a few Tier 1 cities. However, with increasing internet penetration and a growing talent pool in Tier 2 and Tier 3 cities, there is now potential for growth in these emerging hubs. To harness the youth and gender dividends, state governments should focus on promoting specific sectors and provide support in terms of financing, incubation, and guidance to early-stage start-ups.

3. **Leveraging Growth in IT-ITeS, SaaS and GCC:** With the improved digital connectivity and talent pool, IT and ITeS sector and SaaS (Software as a Service) sector has been growing over the last few years and has further scope for growth. Further, Global Capability Centres (GCCs) are becoming a key growth driver primarily due to (a) motivated and skilled workforce, (b) cost-effectiveness owing to low real-estate prices and infrastructure cost and (c) Government support and incentives. The number of GCCs is 2740 as of today, however, only 215 units are located in tier2/3 cities. Of these, most are in Ahmedabad (17%), Vadodara (12%) and Coimbatore (12%). Creating enabling ecosystem for setting up of GCCs in other cities can be very impactful.

4. **India as Global Service Provider:** India has the potential to become a global service hub. Services exports from Tier2/3 cities can contribute to a large proportion of India's services exports. India's services exports are currently growing at a CAGR of 11%, nearly twice the growth rate of goods exports, which has increased India's share in global services exports from less than 2% in 2005 to 4.6% in recent years. Significant potential exists to diversify and expand into various high-end services, such as outsourced engineering design, R&D, medical tourism, legal services, financial services, and creative industries such as media and entertainment. This will require coordinated branding and standardization efforts by both state and central governments.

5. **Promoting e-Commerce**: Tier2/3 cities present a huge opportunity for growth of e-commerce owing to largely unorganized retail sector, large market base, and limited penetration of big players. Onboarding on Open Network for Digital Commerce (ONDC), safety net for gig workers, enabling services in local languages, and building hyperlocal delivery and warehousing systems can be big enablers.

6. **Addressing the Impact of AI on Services:** As per the IMF report on AI and its impact on employment and economic growth, 40 percent of global employment is exposed to AI, with the benefits of complementarity operating beside the risk of displacement. AI is both a threat and an opportunity for creating jobs in the services sector. India needs to invest in infrastructure and a digitally skilled labour force to fully harness AI's potential.

7. **Exploring new and emerging service sectors:** Critical sectors such as transport and logistics, tourism & hospitality, financial services, healthcare services, media & entertainment, and professional services can be augmented through interventions in capacity building, tech adoption & innovation and other sector specific reforms. The green economy is also creating new jobs in the services sector by driving demand for services such as renewable energy, environmental consulting, sustainable building practices, waste management, education and training, R&D, eco-tourism, and green finance, etc.

8. **Promoting Skill Development:** Platforms such as Skill India Digital, for upskilling, reskilling, and lifelong learning, upgradation of training facilities for quality training in emerging sectors, and alignment of training programmes with the industry requirements needs to be strengthened. The school curriculum could be interwoven with AI Skilling, vocational training, financial, and life skills to increase the employability of the nation's

youth in line with the New Education Policy. A culture of innovation through competitions, awards, hackathons, and recognition, which can motivate entrepreneurs to develop unique solutions needs to be enlarged in scope to foster greater inclusivity in the innovation ecosystem. Platforms similar to the NammaYatri app, which connects gig workers with markets, could be developed and strengthened to facilitate the engagement between gig workers and potential clients. Recognition of Prior Learning (RPL) may be leveraged to bring large number of service in the informal sector such as beauty services, retailers and small businesses to the formal sector. Harmonization of professional services, such as Architecture, Nursing etc. with global standards through National level Exit exam to standardize quality should be prioritized. Similarly, Mutual Recognition Agreements to facilitate global recognition of Indian professionals and international skill centers focused on skilling as per global requirements can be considered.

9. **Ease of Doing Business (EoDB):** Standardizing labour laws for knowledge workers across states could address compliance challenges faced by global companies operating in multiple regions, encouraging them to expand beyond a few locations and fostering a more uniform and supportive environment for business operations. Robust International Labour Market Information System may be developed to leverage India's potential in services. Further other reforms such as single window clearance, e-governance, simplified taxation, business registration and licensing will facilitate a business friendly environment.

VII. SUGGESTIONS FOR THE WAY FORWARD

The concept paper lays down the framework for discussion among stakeholders and through active collaboration aims at following steps as ways ahead to create an enabling ecosystem for promoting entrepreneurship, employment, and skilling in tier2/3 cities.

1. Actionable plans with KPIs for improvement of physical, digital and financial infrastructure in Tier 2 and tier 3 cities

2. Strategy to promote skilling in service sectors through convergence of schemes and initiatives of centre and state, and active participation of the industry.

3. Actionable plans with KPIs to deepen EoDB further to create a conducive environment for start-ups and small businesses.

4. Robust monitoring and evaluation of actionable plans formed.

5. Identification of service-oriented successful initiatives/ best practices in the States and the replication of the same across the country.

*****