

Start-Up India: Government Initiative for Entrepreneurship Development

Mr. Rohtas

Research Scholar, Institute of Management Studies and Research
Maharshi Dayanand University, Rohtak
E-mail: rohtasnarwal1977@gmail.com

Abstract

India is a one of the most developing economy in the world. India is a county in South Asia. India is 2nd populated countries after China and its population more than 1.2 billion. Large population gives world to large marker for their product and services. But, India is facing the problem of large unemployed population. Government of India is serious to increase the level of employment in India through various initiatives; Startup India is one of those initiatives. Startup India is pet program of GoI to accelerate employment opportunities. Present study is focused on Startup India overview and action plan.

1. Introduction

“I see startups, technology and innovation as exciting and effective instruments for India’s transformation.”

-Narendra Modi

Startup India is a flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Startups to grow through innovation and design.

In India Entrepreneurship is less desirable career choice. Government policies and programs, education and training are regarded as main constraining factors for entrepreneurship. Recommendations were

directed towards liberalization of government policies, capacity building through training and education, restructuring through incentives and tax structure to promote entrepreneurship and increased investment in research and development through growth in innovation. To address these recommendations ‘Start up India Stand up India’ initiative is announced by government. It is an initiative by government ‘to build strong eco system for nurturing innovation and startups in the country that will derive sustainable economic growth and generate large scale employment opportunities (Madhura, 2016).

2. What is a startup?

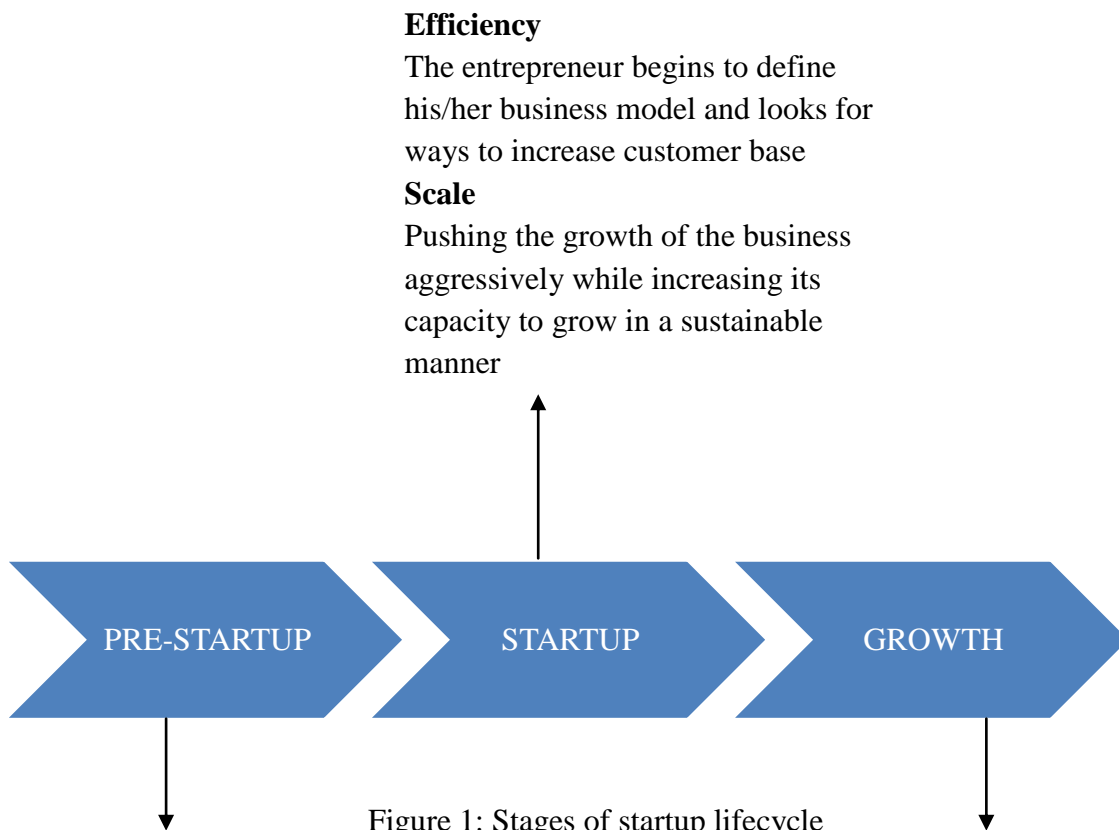
Currently a clear definition of a ‘Startup’ does not exist in the Indian context due to

the subjectivity and complexity involved. Considering various parameters pertaining to any business such as the stage of their lifecycle, the amount and level of funding achieved, the amount of revenue generated, the area of operations, etc, some conceptual definitions are available in the public domain. These have been sourced and enumerated below to provide an indicative understanding on the space to the reader. The Department of Industrial Policy and Promotion (DIPP) is also working around a clear definition for startups and is expected to make it public in due course.

A startup is a young company that is beginning to develop and grow, is in the first stages of operation, and is usually financed by an individual or small group of individuals. A startup is a young, dynamic company built on technology and innovation wherein the founders attempt to capitalize on developing a product or service for which they believe there is a demand¹.

¹ NASSCOM Startup India report 2015, Secondary sources, New articles

3. Stages of the startup lifecycle



Discovery: Identify a potential scalable product/service idea for a big enough target market

Validation: The service or product discovered hits the market, looking for the first clients ready to pay for it

Maintenance

Maximizing benefits and facing problems derived from the global dimension that the business has achieved

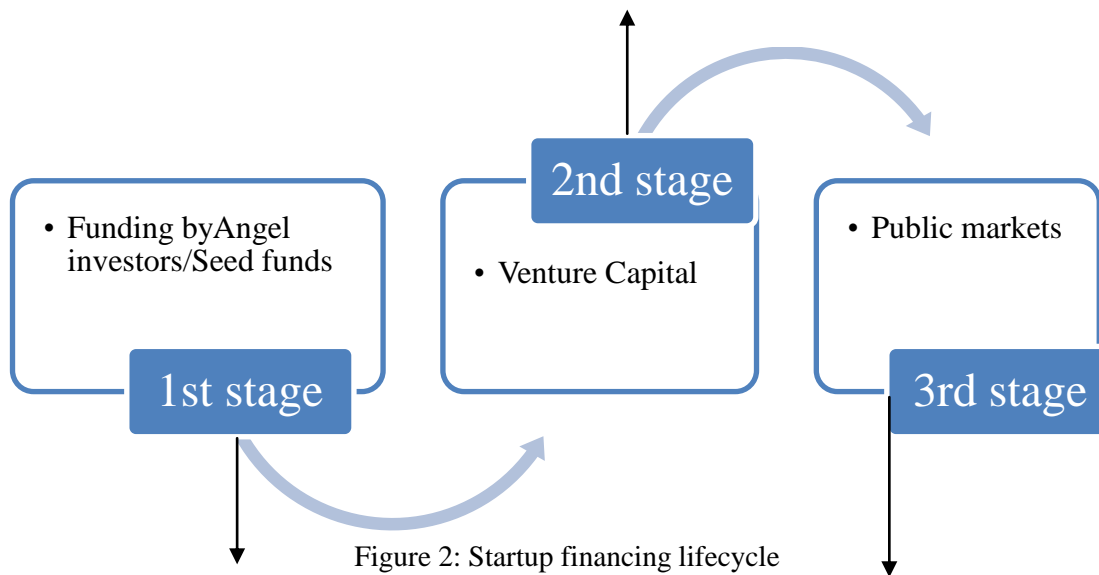
Sale or Renewal

The decision to sell the startup to a giant or acquire huge resources that the brand will need to continue growing

4. Startup financing lifecycle

- Used to scale the company's business model
- Comes from larger institutional funds

- Focus is on building the sales force and establishing a global presence



- Early stage startups rely on angel investors and seed funding
- Invest solely into the entrepreneur with an idea
- Does not encumber the entrepreneur with any corporate governance formalities

- Late stage startups can feel the need to expand more aggressively or actively innovate the product
- Private equity funds together with public markets provide large amounts of liquidity to late stage startups

5. India comparison

Table 1: India comparison with rest of world economies

	India	China	Israel	Singapore	Japan	US
Total no. of startups (~)	10,000	10,000	4,750	N.A.	N.A.	83,000
Tech-based startups	4,300	3,400	4,000	N.A.	N.A.	48,500
Non-tech based startups	5,700	6,600	750	N.A.	N.A.	34,500
Set up a new business (Days)	30 – 60	30	13	2	10	4
Corporate tax	34%	25%	26%	17% (100% tax)	34%	39%

rate				exemption for startups)		
No. of Tax payments by businesses (p.a.)	33	9	TBD	TBD	TBD	11
Bank lending rate	10.3%	5.6%	3.9%	5.4%	1.2%	3.3%
R&D spending % of GDP (Est. 2014)	0.85%	1.90%	4.20%	N.A.	3.40%	2.80%

Source: World Bank, News articles, Gov. Sites.

6. Startup India Action Plan

The Action Plan is based on the following three pillars:

Table 2: India's startup action plan

Pillars	Title of Pillars	Action Plan
1st	Simplification and Handholding	<ol style="list-style-type: none"> 1. Compliance Regime based on Self-certification 2. Startup India Hub 3. Rolling out of Mobile App and Portal 4. Legal Support and Fast-tracking Patent Examination at Lower Cost 5. Relaxed Norms of Public Procurement for Startups 6. Faster Exit for Startups
2nd	Funding Support and Incentives	<ol style="list-style-type: none"> 7. Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore 8. Credit Guarantee Fund for Startups 9. Tax Exemption on Capital Gains 10. Tax Exemption to Startups for 3 years 11. Tax Exemption on Investments above Fair Market Value

3 rd	Industry-Academia Partnership and Incubation	<p>12. Organizing Startup Fests for Showcasing Innovation and Providing a Collaboration Platform</p> <p>13. Launch of Atal Innovation Mission (AIM) with Self-Employment and Talent Utilization (SETU) Program</p> <p>14. Harnessing Private Sector Expertise for Incubator Setup</p> <p>15. Building Innovation Centres at National Institutes</p> <p>16. Setting up of 7 New Research Parks Modeled on the Research Park Setup at IIT Madras</p> <p>17. Promoting Startups in the Biotechnology Sector</p> <p>18. Launching of Innovation Focused Programs for Students</p> <p>19. Annual Incubator Grand Challenge</p>
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Action Plan 1: Simplification and Handholding

- 1. Compliance Regime based on Self-certification:** To reduce the regulatory burden on Startups thereby allowing them to focus on their core business and keep compliance cost low. Regulatory formalities requiring compliance with various labour and environment laws are time consuming and difficult in nature. Often, new and small firms are unaware of nuances of the issues and can be subjected to intrusive action by regulatory agencies. In order to make compliance for Startups friendly and flexible, simplifications are required in the regulatory regime.
- 2. Startup India Hub:** To create a single point of contact for the entire Startup ecosystem and enable knowledge exchange and access to funding. Young Indians today have the conviction to venture out on their own and a conducive ecosystem lets them watch their ideas come to life. In today's

environment we have more Startups and entrepreneurs than ever before and the movement is at the cusp of a revolution. However, many Startups do not reach their full potential due to limited guidance and access. The Government of India has taken various measures to improve the ease of doing business and is also building an exciting and enabling environment for these Startups, with the launch of the "Startup India" movement. To all young Indians who have the courage to enter an environment of risk, the Startup India Hub will be their friend, mentor and guide to hold their hand and walk with them through this journey.

- 3. Rolling out of Mobile App and Portal:** To serve as the single platform for Startups for interacting with Government and Regulatory Institutions for all business needs and information exchange among various stakeholders. In order to commence operations, Startups require registration with relevant regulatory authorities. Delays or lack of clarity in registration process may lead to delays in establishment and

operations of Startups, thereby reducing the ability of the business to get bank loans, employ workers and generate incomes. Enabling registration process in an easy and timely manner can reduce this burden significantly.

Besides, Startups often suffer from the uncertainty regarding the exact regulatory requirements to set up its operations. In order to ensure that such information is readily available, it is intended that a checklist of required licenses covering labour licensing, environmental clearances etc. be made available. Currently, the Startup ecosystem in India also lacks formal platform(s) for Startups to connect and collaborate with other ecosystem partners.

4. **Legal Support and Fast-tracking**

Patent Examination at Lower Cost: To promote awareness and adoption of IPRs by Startups and facilitate them in protecting and commercializing the IPRs by providing access to high quality Intellectual Property services and resources, including fast-track examination of patent applications and rebate in fees. Intellectual Property Rights (IPR) are emerging as a strategic business tool for any business organization to enhance industrial competitiveness. Startups with limited resources and manpower, can sustain in this highly competitive world only through continuous growth and development oriented innovations; for this, it is equally crucial that they protect their IPRs. The scheme for Startup Intellectual Property Protection (SIPP) shall facilitate filing of Patents, Trademarks and Designs by innovative Startups.

5. **Relaxed Norms of Public**

Procurement for Startups: To provide an equal platform to Startups (in the manufacturing sector) vis-à-vis the experienced entrepreneurs/ companies in public procurement. Typically, whenever a tender is floated by a Government entity or

by a PSU, very often the eligibility condition specifies either “prior experience” or “prior turnover”. Such a stipulation prohibits/ impedes Startups from participating in such tenders. At present, effective April 1, 2015 Central Government, State Government and PSUs have to mandatorily procure at least 20% from the Micro Small and Medium Enterprise (MSME). In order to promote Startups, Government shall exempt Startups (in the manufacturing sector) from the criteria of “prior experience/ turnover” without any relaxation in quality standards or technical parameters. The Startups will also have to demonstrate requisite capability to execute the project as per the requirements and should have their own manufacturing facility in India.

6. **Faster Exit for Startups:** To make it easier for Startups to wind up operations. Given the innovative nature of Startups, a significant percentage fail to succeed. In the event of a business failure, it is critical to reallocate capital and resources to more productive avenues and accordingly a swift and simple process has been proposed for Startups to wind-up operations. This will promote entrepreneurs to experiment with new and innovative ideas, without having the fear of facing a complex and long-drawn exit process where their capital remain interminably stuck. The Insolvency and Bankruptcy Bill 2015 (“IBB”), tabled in the Lok Sabha in December 2015 has provisions for the fast track and / or voluntary closure of businesses.

Action Plan 2: Funding Support and Incentives

7. **Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore:** To provide funding support for development and growth of innovation driven enterprises. One of key

challenges faced by Startups in India has been access to finance. Often Startups, due to lack of collaterals or existing cash flows, fail to justify the loans. Besides, the high risk nature of Startups wherein a significant percentage fail to take-off, hampers their investment attractiveness. In order to provide funding support to Startups, Government will set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years (i.e. INR 2,500 crore per year) . The Fund will be in the nature of Fund of Funds, which means that it will not invest directly into Startups, but shall participate in the capital of SEBI registered Venture Funds.

8. **Credit Guarantee Fund for Startups:**

To catalyze entrepreneurship by providing credit to innovators across all sections of society. In order to overcome traditional Indian stigma associated with failure of Startup enterprises in general and to encourage experimentation among Startup entrepreneurs through disruptive business models, credit guarantee comfort would help flow of Venture Debt from the formal Banking System. Debt funding to Startups is also perceived as high risk area and to encourage Banks and other Lenders to provide Venture Debts to Startups, Credit guarantee mechanism through National Credit Guarantee Trust Company (NCGTC)/ SIDBI is being envisaged with a budgetary Corpus of INR 500 crore per year for the next four years.

9. **Tax Exemption on Capital**

Gains: To promote investments into Startups by mobilizing the capital gains arising from sale of capital assets. Due to their high risk nature, Startups are not able to attract investment in their initial stage. It is therefore important that suitable incentives are provided to investors for investing in the Startup ecosystem. With this objective, exemption shall be given to persons who

have capital gains during the year, if they have invested such capital gains in the Fund of Funds recognized by the Government. This will augment the funds available to various VCs/AIFs for investment in Startups. In addition, existing capital gain tax exemption for investment in newly formed manufacturing MSMEs by individuals shall be extended to all Startups. Currently, such an entity needs to purchase “new assets” with the capital gain received to avail such an exemption. Investment in ‘computer or computer software’ (as used in core business activity) shall also be considered as purchase of ‘new assets’ in order to promote technology driven Startups.

10. **Tax Exemption to Startups for 3**

years: To promote the growth of Startups and address working capital requirements. Innovation is the essence of every Startup. Young minds kindle new ideas every day to think beyond conventional strategies of the existing corporate world. During the initial years, budding entrepreneurs struggle to evaluate the feasibility of their business idea. Significant capital investment is made in embracing ever-changing technology, fighting rising competition and navigating through the unique challenges arising from their venture. Also, there are limited alternative sources of finance available to the small and growing entrepreneurs, leading to constrained cash funds. With a view to stimulate the development of Startups in India and provide them a competitive platform, it is imperative that the profits of Startup initiatives are exempted from income-tax for a period of 3 years. This fiscal exemption shall facilitate growth of business and meet the working capital requirements during the initial years of operations. The exemption shall be available subject to non-distribution of dividend by the Startup.

11. **Tax Exemption on Investments above Fair Market Value:** To encourage seed-capital investment in Startups. Currently, investment by venture capital funds in Startups is exempted from operations of this provision. The same shall be extended to investment made by incubators in the Startups.

Action Plan 3: Industry-Academia Partnership and Incubation

12. **Organizing Startup Fests for Showcasing Innovation and Providing a Collaboration Platform:** To galvanize the Startup ecosystem and to provide national and international visibility to the Startup ecosystem in India. A pivotal component for growth of Startups is regular communication and collaboration within the Startup community, both national as well international. An effective Startup ecosystem can't be created by the Startups alone. It is dependent on active participation of academia, investors, industry and other stakeholders. To bolster the Startup ecosystem in India, the Government is proposing to introduce Startup fests at national and international stages. These fests would provide a platform to Startups in India to showcase their ideas and work with a larger audience comprising of potential investors, mentors and fellow Startups.

13. **Launch of Atal Innovation Mission (AIM) with Self-Employment and Talent Utilization (SETU) Program:** To serve as a platform for promotion of world-class Innovation Hubs, Grand Challenges, Startup businesses and other self-employment activities, particularly in technology driven areas. The Atal Innovation Mission (AIM) shall have two core functions:

I. Entrepreneurship promotion through Self-Employment and

Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs.

II. Innovation promotion: to provide a platform where innovative ideas are generated.

14. **Harnessing Private Sector Expertise for Incubator Setup:**

To ensure professional management of Government sponsored / funded incubators, Government will create a policy and framework for setting-up of incubators across the country in public private partnership.

15. **Building Innovation Centres at National Institutes:**

To propel successful innovation through augmentation of incubation and R&D efforts. In order to augment the incubation and R&D efforts in the country, the Government will set up/ scale up 31 centres (to provide facilities for over 1,200 new Startups) of innovation and entrepreneurship at national institutes, including:

I. Setting-up 13 Startup centres: Annual funding support of INR 50 lakhs (shared 50:50 by DST and MHRD) shall be provided for three years for encouraging student driven Startups from the host institute.

II. Setting-up/ Scaling-up 18 Technology Business Incubators (TBIs) at NITs/IITs/IIMs etc. as per funding model of DST with MHRD providing smooth approvals for TBI to have separate society and built up space.

16. **Setting up of 7 New Research Parks Modeled on the Research Park Setup at IIT Madras:**

To propel successful innovation through incubation and joint R&D efforts between academia and industry.

The Government shall set up 7 new Research Parks in institutes indicated below with an initial investment of INR 100 crore each. The Research Parks shall be modeled based on the Research Park setup at IIT Madras. The IIT Madras Research Park endeavors to enable companies with a research focus to set up a base in the Park and leverage the expertise of IIT Madras. The Research Park breaks down the traditional, artificial barriers of innovation through its connectivity and collaborative interaction. This helps industry to create, integrate and apply advancements in knowledge. It leverages best practices from successful Research Parks such as those at Stanford, MIT and Cambridge.

17. **Promoting Startups in the Biotechnology Sector:**

To foster and facilitate bio entrepreneurship. The Biotechnology sector in India is on a strong, growth trajectory. Department of Biotechnology endeavors to scale up the number of Startups in the sector by nurturing approximately 300-500 new Startups each year to have around 2,000 Startups by 2020. In order to promote Startups in the sector, The Department of Biotechnology shall be implementing the following measures along with its Public Sector Undertaking Biotechnology Research Assistance Council (BIRAC).

18. **Launching of Innovation Focused Programs for Students:**

To foster a culture of innovation in the field of Science and Technology amongst students. In order to promote research and innovation among young students, the Government shall implement the following measures:

- i. **Innovation Core.** Innovation Core program shall be initiated to target school kids with an outreach to 10 lakh innovations from 5 lakh schools. One lakh innovations would be targeted and the top 10,000 innovations would be provided prototyping support. Of these 10,000 innovations, the best 100 would be shortlisted and showcased at the Annual Festival of Innovations in the Rashtrapati Bhavan.
- ii. **NIDHI:** A Grand Challenge program (“National Initiative for Developing and Harnessing Innovations”) shall be instituted through Innovation and Entrepreneurship Development Centres (IEDCs) to support and award INR 10 lakhs to 20 student innovations from IEDCs.
- iii. **Uchhattar Avishkar Yojana:** A joint MHRD-DST scheme which has earmarked INR 250 crore per annum towards fostering “very high quality” research amongst IIT students. The funding towards this research will be 50% contribution from MHRD, 25% from DST and 25% from industry. This format has been devised to ensure that the research and funding gets

utilized bearing in mind its relevance to the industry. Each project may amount to INR 5 crore only. This scheme will initially apply to IITs only.

19. Annual Incubator Grand

Challenge: To support creation of successful world class incubators in India. For a new idea to become a successful commercial venture, adequate support and mentoring at various stages of the business lifecycle is required. Incubators play an important role in identifying early stage Startups and supporting them across various phases of their lifecycle. In order to build an effective Startup ecosystem, it is imperative that world class incubators, adopting leading industry practices, are setup in the country. The Government is proposing to make forward looking investments towards building world class incubators. In its first phase, the aim is to establish 10 such incubators. To enable this, GoI shall identify and select 10 incubators who have the potential to become world class. These incubators would be given INR 10 crore each as financial assistance which may be used for ramping up the quality of service offerings. The incubators shall also become reference models for other incubators aspiring to

offer best-in-class services. Video interviews of these incubators would be showcased on the Startup India portal.

7. Conclusion

Through detail review of Startup India action plan and other government initiative, it concluded that Startup India action plan is wide and constructed to increase startup and employability in India. It is also concluded that it give very favorable environment to entrepreneurs and business initiators. Government is need to check the implementation of action plan from time to time.

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