Start-up India

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Recently government launched ‘Start-up India’ initiative to help start-ups and catalyse entrepreneurship.

1. Why Start-up India?

- India ranks third among global start-up ecosystems with more than 4,200 new-age companies, behind only the US and the UK. India is also the youngest start-up nation with 72% of the founders being less than 35 years of age.
- Opening a business in India is much harder than any other of the counterpart BRIC countries. Basic issues like getting credit, electricity, paying taxes and resolving insolvency continue to be sluggish and difficult in India.
- According to the World Bank’s Doing Business Report 2016, India moved up nine spots in the starting a business category to 155 but slipped six spots in terms of ease of accessing credit to 42. This implied that it has become more difficult to get loans in India, especially for start-ups and the medium and small scale enterprises.
- Start-ups and entrepreneurship are also critical to India’s efforts to restart private investment into the economy, in the face of risk aversion, stalled or slow investments from corporate India.
- Start-ups hold the potential of creating more jobs at a time when the manufacturing sector is facing a slump that may last longer given global economic prospects and the slowdown in China, which has been one of the engines of global growth. And with growing automation, the manufacturing sector may no longer be in a position to create jobs.

2. Key features of Start-up India action plan

1. <u>Defining Start-up</u>: The action plan defines Startup as an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding INR 25 crore in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.
2. <u>Compliance regime based on self-certification</u>: The objective of compliance regime based on self-certification is to reduce the regulatory burden on start-ups. This self-certification will apply to laws like payment of gratuity, contract labour, employees provident fund, water and air pollution acts.
3. <u>Start-up India hub</u>: A start-up India hub will be created as a single point of contact for the entire start-up ecosystem to enable knowledge exchange and access to funding.
4. <u>Simplifying the start-up process</u>: A start-up will be able to set up by just filling up a short form through a mobile app and online portal. A mobile app will be launched on April 1 through which start-ups can be registered in a day. There will also be a portal for clearances, approvals and registrations
5. <u>Patent protection</u>: The government is also working on a legal support for fast-tracking patent examination at lower costs. It will promote awareness and adoption of Intellectual Property Rights (IPRs) by start-ups and help them protect and commercialise IPRs.
6. <u>Funds of funds with a corpus of Rs 10,000 crore</u>: In order to provide funding support to start-ups, the government will set up a fund with an initial corpus of Rs 2,500 crore and a total corpus of Rs 10,000 crore over four years. The fund would be managed by private professionals drawn from the industry while LIC will be a co-investor in the fund. The credit guarantee fund for start-ups would help flow of venture debt from the banking system to start-ups by standing guarantee against risks.

7. Credit Guarantee Fund: A National Credit Guarantee Trust Company is being envisaged with a budgetary allocation of Rs 500 crore per year for the next four years.
8. Exemption from Capital Gains Tax: Currently, investments by venture capital funds in start-ups are exempt from this law. Now, the same is being extended to investments made by incubators in start-ups.
9. Tax exemption for start-ups: Income tax exemption to start-ups announced for three years
10. Tax exemption on investments above Fair Market Value.
11. Start-up fests: Innovation core programs for students in 5 lakh schools. There will also be an annual incubator grand challenge to create world class incubators.
12. Launch of Atal Innovation Mission: Atal Innovation Mission started to give an impetus to innovation and encourage the talent among the people
13. Setting up of 35 new incubators in institutions: PPP model being considered for 35 new incubators, 31 innovation centres at national institutes
14. Setting up of 7 new research parks: Government shall set up seven new research parks - six in IITs, one in IISc with an initial investment of Rs 100 crore each.
15. Promote entrepreneurship in biotechnology: Five new bio clusters, 50 new bio incubators, 150 technology transfer offices and 20 bio connect offices will be established.
16. Innovation focused programmes for students: There will be innovation core programs for students in 5 lakh schools.
17. Panel of facilitators to provide legal support and assist in filing of patent application
18. 80 per cent rebate on filing patent applications by start-ups
19. Relaxed norms of public procurement for start-ups
20. Faster exits for start-ups

3. Concerns with Start-up India

- Role of Government as investor: Start-up India initiative proposes a fund of funds' of Rs. 10,000 crores (about $1.5 billion) corpus deployed in tranches of Rs. 2,500 crores over a period of four years. The government's ambitions of turning limited partner to venture capital funds has drawn sharp criticism from several quarters. The primary gripe is whether it is prudent on the part of the government to invest taxpayers' money in venture capital funds, which will in turn invest in enterprises that carry a high risk of failure. However, it is important to encourage the growth of a domestic venture capital industry that is not overwhelmingly dependent on foreign capital. There are two key reasons. One, firms backed by foreign capital tend to gravitate towards start-ups that replicate business models that have been successful in the US, or in other developing markets. The fund of funds aims to fix that imbalance by specifically investing in funds that will, in turn, invest in sectors such as health, education, manufacturing and agriculture. Two, the dependence on foreign capital makes firms here vulnerable to the ups and downs of those markets.
- Start-ups have been exempt from paying taxes for the first three years. But considering most start-ups don't make money so early, such an exemption would have little impact.
- Defining innovation: The Action Plan requires an enterprise or partnership to be innovative by developing and commercialising a new product or service — a step to promote truly innovative ideas. But it institutes an inter-ministerial body led by DIPP to examine whether an enterprise is 'innovative'. It also requires a 'recommendation' from an incubator setup by the government or be supported by an incubator in a post-graduate institution recognised by the government — this need for validation and recommendation goes against the very steps the Action Plan takes to reduce government involvement. This additional layer of bureaucracy could slow down the starting up process and needs to go. Also, the government's definition of a start-up has been questioned. It seems to include only those aspirants who can make clever use of technology. If somebody wants

to develop a new app-based business, that could qualify as a start-up. But if a young person in some remote corner of the country wants to start a new business, which is traditional in nature, it may not necessarily qualify as a start-up.

4. Conclusion

The government's new initiative for start-ups promises swift approvals for starting enterprises, easier exits, tax and fiscal incentives, faster registration of patents and protection of intellectual property rights. It signals a possible end to the inspector raj that has sapped the energy and spirit of many young entrepreneurs in the country. Unlike India's large business groups, small entrepreneurs find it difficult to navigate the complex bureaucratic and regulatory maze. From that perspective, these supply-side reforms are welcome. But the easing of rules and creation of a conducive policy environment should not be restricted just to start-ups. It should be extended to all businesses. That will be the real test, along with getting more Indian firms domiciled overseas because of rules here to move back. Otherwise, the losers will be the government and local investors.