

Startup India: An Action Plan for Economic Growth

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Abstract – *Startup India is a flagship initiative of the Government of India, intended to build a strong ecosystem for nurturing innovation and Startups in the country. Under this initiative a Startup India Portal has been set up which shall serve as a platform for facilitation of Startup recognition, access to information related to incubators, mentors, Angel Funds, Venture Funds etc. Startup India campaign is based on an action plan aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage startups with jobs creation. The campaign was first announced by Prime Minister Narendra Modi in his 15 August 2015 address from the Red Fort. It is focused on to restrict role of States in policy domain and to get rid of "license raj" and hindrances like in land permissions, foreign investment proposal, environmental clearances. It was organized by Department of Industrial Policy and Promotion (DIPP). So the present study is conducted to provide overview of startup in India. It will give ideas to the society and the potential entrepreneurs about various schemes and assistance under the Startup India scheme. Further, it will provide a basis for future research in the concerned field.*

Keywords: *Startup India, DIPP, Entrepreneurship.*

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INTRODUCTION

It is matter of greater discussions hence startups are being talked by everyone since last few months. So many related events have been organized by Indian Government. Basically Start-ups are the new innovative forms of an entrepreneurship. Startups are like a young organization that has just started to materialize. On 15th August 2015, PM Narendra Modi announced this initiative at the Red Fort as Start-up India and on 16th January, 2016 and it was officially flagged by Finance minister Arun Jaitley. The main aim of the Government behind this campaign is to provide maximum help and support for the new emerging businesses and ideas. The support will be provided by the Government in the form of finance, technology, economic, social as well as environment. As it is a known fact that when a new enterprise is started by any new entrepreneur or when he tries to get into entrepreneurship, entrepreneur faces many problems like financing, land related problems, environmental causes, problems related with the foreign investment and other problems. So it is very important for Indian Government to take this type of initiative. The main focus of this initiative is to provide opportunities to the young entrepreneurs. It will definitely increase the confidence level of young entrepreneurs of India. According to honorable Prime Minister Mr. Narendra Modi, the startup campaign of Indian Government, with

the aid of its technology and innovation is exhilarating and efficient mechanism for the transformation of India.

REVIEW OF LITERATURE

Kumar (2015) compared the startup related economic environment of India with the startup related economic environment of USA, Israel, Singapore and New Zealand. Further, the startup initiatives taken by the governments were also compared. Online trend of online startups was analyzed in the study. It was found in the study that startups have come in Indian economy since the starting of internet technology. Lack of Government support, Market and blinded vision of the businesses were found as the main hurdles in the way of Startup India.

Audretch and Tamvada (2008) measured the effect of geographical area on the startups and found that clear difference between the size of new firm startups in north-south India and provided so many important insights in identifying those factors helpful in sizing the new startup in developing countries. The startups of developed regions were found to be more superior as compared to other startups.

Badra and Sharma (2016) evaluated the new opportunities available with the entrepreneurs related with startups in India. Respondents were found in favour of the funding by Government for the incubation centers. So many other proposals were found by the study like, innovation movement, research parks, industrial parks etc. credit guarantee was also found as an important opportunity for the entrepreneurs.

Sharifi and Hossein (2015) studied the main difficulties faced by the startups in India and discussed the financial resources of startups in India with the help of a literature based analysis. In results, funding was found as a main problem for the startups and small businesses. Credit facilities were found very tight for the new startups. Moreover, a growing trend was of tiny initial investments was found in new startups.

Dutta (2016) studied the startup India campaign and various initiatives taken by Indian Government and found 65% growth in the startups in the years 2015. Startups were found growing like a grapevine. Combined contribution had been found from the male and female members, even females were found coming with more innovative ideas. Further, startup India was found as an attempt to create startup environment with the important education, talent, innovation and incubator with correspondence to the funding agencies.

RESEARCH METHODOLOGY

The present study is descriptive in nature and purely based on the secondary sources i.e. research papers published in different reputed journals and articles in various newspapers.

OBJECTIVES OF THE STUDY

The main objectives of the study are as following:

1. To study the role of Government in the startup India campaign.
2. To study the various initiatives taken by Indian Government for the success of the Startup India campaign.
3. To examine the various challenges before the startup India campaign.
4. To create awareness of the 19 points Action Plan for startup India.

Nineteen points Action Plan for Startup India

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 self-certification is proposed. Regulatory formalities requiring compliance with various labour and environment laws are time

consuming and difficult in nature. Following laws will be applicable for the startups:-

Labour Laws:

- The Building and Other Constructions Workers' (Regulation of Employment & Conditions of Service) Act, 1996
- The Inter-State Migrant Workmen (Regulation of Employment & Conditions of Service) Act, 1979
- The Payment of Gratuity Act, 1972
- The Contract Labour (Regulation and Abolition) Act, 1970
- The Employees' Provident Funds and Miscellaneous Provisions Act, 1952
- The Employees' State Insurance Act, 1948

Environment Laws:

- The Water (Prevention & Control of Pollution) Act, 1974
- The Water (Prevention & Control of Pollution) Cess (Amendment) Act, 2003
- The Air (Prevention & Control of Pollution) Act, 1981

Startup India Hub

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. Various measures have been taken by Government of India to improve the ease of doing business and is also building an exciting and enabling environment for these Startups, The "Startup India Hub" will be a key stakeholder in this vibrant ecosystem and will work in a hub and spoke model and collaborate with Central & State governments, Indian and foreign VCs, angel networks, banks, incubators, legal partners, consultants, universities and R&D institutions.

Rolling-out of Mobile App and Portal

For interacting with Government and Regulatory Institutions for all business needs and information exchange among various stakeholders a mobile app and portal has been installed by Indian Government. 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.

Legal Support and Fast-tracking Patent Examination at Lower Costs

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 legal support and fast tracking patent examination at lower costs. 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. Various measures being taken in this regard include:

- *Fast-tracking of Startup patent applications:* The valuation of any innovation goes up immensely, once it gets the protective cover of a patent. To this end, the patent application of Startups shall be fast-tracked for examination and disposal, so that they can realize the value of their IPRs at the earliest possible.
- *Panel of facilitators to assist in filing of IP applications:* For effective implementation of the scheme, a panel of "facilitators" shall be empanelled by the Controller General of Patents, Designs and Trademarks (CGPDTM), who shall also regulate their conduct and functions. Facilitators will be responsible for providing general advisory on different IPRs as also information on protecting and promoting IPRs in other countries. They shall also provide assistance in filing and disposal of the IP applications related to patents, trademarks and designs under relevant Acts, including appearing on behalf of Startups at hearings and contesting opposition, if any, by other parties, till final disposal of the IPR application.
- *Government to bear facilitation cost:* Under this scheme, the Central Government shall bear the entire fees of the facilitators for any number of patents, trademarks or designs that a Startup may file, and the Startups shall bear the cost of only the statutory fees payable.
- *Rebate on filing of application:* Startups shall be provided an 80% rebate in filing of patents vis-à-vis other companies. This will help them pare costs in the crucial formative years. The scheme is being launched initially on a pilot

basis for 1 year; based on the experience gained, further steps shall be taken.

Relaxed Norms of Public Procurement for Startups

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.

Faster Exit for Startups

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. In terms of the IBB, Startups with simple debt structures or those meeting such criteria as may be specified may be wound up within a period of 90 days from making of an application for winding up on a fast track basis. In such instances, an insolvency professional shall be appointed for the Startup, who shall be in charge of the company (the promoters and management shall no longer run the company) for liquidating its assets and paying its creditors within six months of such appointment. On appointment of the insolvency professional, the liquidator shall be responsible for the swift closure of the business, sale of assets and repayment of creditors in accordance with the distribution waterfall set out in the IBB. This process will respect the concept of limited liability.

Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore

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 fails 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. Key features of the Fund of Funds are highlighted below:

- The Fund of Funds shall be managed by a Board with private professionals drawn from industry bodies, academia, and successful Startups
- Life Insurance Corporation (LIC) shall be a co-investor in the Fund of Funds
- The Fund of Funds shall contribute to a maximum of 50% of the stated daughter fund size. In order to be able to receive the contribution, the daughter fund should have already raised the balance 50% or more of the stated fund size as the case maybe. The Fund of Funds shall have representation on the governance structure/ board of the venture fund based on the contribution made.
- The Fund shall ensure support to a broad mix of sectors such as manufacturing, agriculture, health, education, etc.

Credit Guarantee Fund for Startups

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.

Tax Exemption on Capital Gains

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.

Tax Holydays to Startups for 3 years

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.

Tax Exemption on Investments above Fair Market Value

Under The Income Tax Act, 1961, where a Startup (company) receives any consideration for issue of shares which exceeds the Fair Market Value (FMV) of such shares, such excess consideration is taxable in the hands of recipient as Income from Other Sources. In the context of Startups, where the idea is at a conceptualization or development stage, it is often difficult to determine the FMV of such shares. In majority of the cases, FMV is also significantly lower than the value at which the capital investment is made. This results into the tax being levied under section 56(2) (viib). 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.

Organizing Startup Fests for Showcasing Innovation and Providing a Collaboration Platform

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. As part of “Make in India” initiative, Government proposes to:

- Hold one fest at the national level annually to enable all the stakeholders of Startup ecosystem to come together on one platform.
- Hold one fest at the international level annually in an international city known for its Startup ecosystem.
- The fests shall have activities such as sessions to connect with investors, mentors, incubators and Startups, showcasing innovations, exhibitions and product launches, pitches by Startups, mentoring sessions, curated Startup walks, talks by disruptive innovators, competitions such as Hackathon, Makerspace, etc., announcements of rewards and recognitions, panels and conferences with industry leaders, etc.

Launch of Atal Innovation Mission (AIM) with Self-Employment and Talent Utilization (SETU) Program

The Atal Innovation Mission (AIM) shall have two core functions::

Entrepreneurship promotion:

- Establishment of sector specific Incubators including in PPP mode (refer #14 of this Action Plan)
- Establishment of 500 Tinkering Labs
- Pre-incubation training to potential entrepreneurs in various technology areas in collaboration with various academic institutions having expertise in the field
- Strengthening of incubation facilities in existing incubators and mentoring of Startups
- Seed funding to potentially successful and high growth Startups

Innovation promotion:

- Institution of Innovation Awards (3 per state/UT) and 3 National level awards
- Providing support to State Innovation Councils for awareness creation and organizing state level workshops/conferences
- Launch of Grand Innovation Challenge Awards for finding ultra-low cost solutions to India's pressing and intractable problems

Harnessing Private Sector Expertise for Incubator Setup

India currently lacks availability of incubation facilities across various parts of the country. Incubation facilities typically include physical infrastructure, provision of mentorship support, access to networks, access to market, etc. Of all these features, physical infrastructure entails large capital investments which can generally be facilitated by the Government. However, requisite skills for operating an incubator are pivotal as well, for which expertise of the private sector needs to be leveraged. Considering this, Government shall encourage setting up of;

- 35 new incubators in existing institutions. Funding support of 40% (subject to a maximum of INR 10 crore) shall be provided by Central Government for establishment of new incubators for which 40% funding by the respective State Government and 20% funding by the private sector has been committed. The incubator shall be managed and operated by the private sector.
- 35 new private sector incubators. A grant of 50% (subject to a maximum of INR 10 crore) shall be provided by Central Government for incubators established by private sector in existing institutions. The incubator shall be managed and operated by the private sector.

The funding for setting up of the incubators shall be provided by NITI Aayog as part of Atal Innovation Mission. Participating departments and agencies for setting up of new incubators shall be Department of Science and Technology, Department of Biotechnology, Department of Electronics and Information Technology, Ministry of Micro, Small and Medium Enterprises, Department of Higher Education, Department of Industrial Policy and Promotion and NITI Aayog. Each of the above mentioned departments/agencies would enter into a standard MoU with identified private sector players for creation of academia-industry tie-ups for nurturing innovations in academic institutions.

Building Innovation Centres at National Institutes

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:

- 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.

- 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.

Modeled on the Research Park Setup at IIT Madras

- 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.

The guiding principles behind the park include:

- Creating a collaborative environment between industry and academia through joint research projects and consulting assignments.
- Creating a self-sustaining and technologically fertile environment.
- Encouraging and enabling R&D activities and Startups that are aligned to potential needs of the industry.
- Providing world class infrastructure for R&D activities and incubation.
- Enabling development of high quality personnel and motivating professional growth for researchers in companies through part time Masters and PhD Programs.

Promoting Startups in the Biotechnology Sector

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):

Bio-incubators, Seed Fund and Equity Funding:

- 5 new Bio-clusters, 50 new Bio-Incubators, 150 technology transfer offices and 20 Bio-Connect offices will be set up in research institutes and universities across India.
- Biotech Equity Fund – BIRAC AcE Fund in partnership with National and Global Equity Funds (Bharat Fund, India Aspiration Fund amongst others) will provide financial assistance to young Biotech Startups.

Encouraging and leveraging global partnerships:

- Bengaluru-Boston Biotech Gateway to India has been formed. Letter of Intent has been signed between DBT, GoI and Department of IT, Government of Karnataka for the same. Through this initiative, a range of institutes in Boston (Harvard/ MIT) and Bengaluru will be able to connect to share ideas and mentor the entrepreneurs especially in the areas of Genomics, Computational Biology, Drug Discovery and new vaccines.
- Amplification of Bio-entrepreneurship through BIRAC Regional Entrepreneurship Centres (BREC). The BREC aims to impart bio-entrepreneurs with the necessary knowledge and skills required for converting innovative ideas into successful ventures. Department of Biotechnology shall set up 5 Regional centres or Mini-BIRACs in the next 5 years.

Launching of Innovation Focused Programs for Students

In order to promote research and innovation among young students, the Government shall implement the following measures:

- **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.
- **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.

- **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.

Annual Incubator Grand Challenge

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, Govt 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. An “Incubator Grand Challenge” exercise shall be carried out for identification of these incubators. The exercise shall entail:

- Open invitation of applications from incubators
- Screening and evaluation based on pre-defined Key Performance Indicators (KPIs)

The Incubator Grand Challenge shall be an annual exercise.

CONCLUSION

In conclusion it can be said that now a days the startups are growing like a grapevine in India. Common contribution of male and female has been seen in this new juncture of Government campaign. Even females are coming with more innovative ideas and they are taking the risk to sustain their credibility. This new initiative of start-ups pledge rapid approvals for starting the business, easier exits, tax rebates and faster registration for the patents. This initiative holds the potential of creating the jobs when the manufacturing sector is having a downfall. For any new idea to become successful venture, it requires appropriate support and mentoring. Government of

India has already taken so many steps in this newly established area.

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