

START UP POLICY

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Abstract

One of the reasons for under-development of India is technological backwardness. In order to encourage innovative ventures, the government of India had launched a comprehensive start-up policy in February, 2016. The success of start-ups will not only promote industrialization but will also generate a lot of employment in the country. The government has adopted a systematic approach to promote innovative ventures working towards commercialization of new products. Besides the central government, various state governments have also launched their own start-up policies to promote young entrepreneurs. Educational institutes, especially those imparting technical and professional education have also been involved by providing funds for creating incubation centers and research parks so as to encourage students develop an entrepreneurial acumen.

India is now the world's third largest technology startup hub. Around 1,000 new start-up companies were incorporated in 2017 alone.

The current paper aims at reviewing and evaluating the start-up policy of the government. The paper is divided into three parts. The first part describes the meaning and characteristics of start-ups. This relates to the technical definition of start-ups in India. The second section illustrates various measures taken by the government under the start-up policy to encourage the new innovative ventures. This basically includes various benefits and incentives given by the government to the start-ups. The final section evaluates the performance of start-up policy. This section examines how far the start-up policy has been effective and what have been its main short-comings.

Key Words: Start-ups, Start-up Policy, Incubation Centers, Innovations

1 Introduction:

India has declared numerous incentives to encourage start-ups. Leading amongst them are tax and fiscal benefits, reforms in the system of granting patents and copy-rights, creating networks of entrepreneurs and investors and formation of incubation centers and research institutions. Many measures to encourage investment in start-ups have been taken. The government has recently withdrawn angel tax and the RBI has simplified restrictions on venture capitalists from abroad who wish to invest in Indian start-ups. As a result of all these steps, many start-ups have come-up across the country especially in innovation-based sectors like IT, finance, health-care, bio-technology, agriculture and logistics. Around one thousand new start-up companies were set-up in 2017 with India being world's third largest technology-based start-up hub. The current paper attempts to highlight various government initiatives for encouraging start-ups in India and evaluate their effectiveness.

2 India's definition of a startup:

A start-up is a business which is functioning towards innovation, development and deployment of new techniques of production, and commercialization of new products, processes or services driven by technology or intellectual property. Those ventures are considered start-ups which meet above criteria and propose a business model with a significant potential to generate employment and create wealth. Further, the firm's turnover should not exceed US\$3.84 million (around Rs 25 crores) in any preceding financial year. Finally, its headquarter should be located in India.

For a venture to be considered as a startup, it must be established under any of the following legal frameworks:

- It must be registered under the Companies Act, 2013;
- It must be registered under Section 59 of the Partnership Act, 1932, as a partnership firm;
- Or it must be registered under the Limited Liability Partnership Act, 2002, as a limited liability partnership.

This legal definition means that sole proprietorship firms will not qualify under the Startup India scheme. As per norms, a business entity is recognized as a startup for up to seven years from its date of incorporation. This eligibility period is extended to ten years for the biotechnology industry.

3 Startup India Action Plan

Entrepreneurship, employment generation, skill-formation, attracting FDI and improving the ease of doing business have been some of the major objectives of the government in the recent times. As a part of achieving these goals, government launched a national policy framework for start-ups in early 2016.

i. Tax-Benefits:

The start-up policy provides for a tax-benefit to the new start-ups. The start-up will be exempted from certain taxes and duties. They will be exempted from capital gains tax. Exemption in income tax would be available for the first three years after registration under the scheme. However, these tax benefits can be claimed only after securing a certificate from the Inter-Ministerial Board which has been established specifically for this reason.

ii. Access to Government Funding:

If the start-ups fulfill certain conditions, they can avail government funding. Government will provide financial assistance to the start-ups. The goal is to prevent financial crunch from stopping an innovative venture to get established. Government is to provide guaranteed funds through National Credit Guarantee Trust Company or SIDBI for over 4 years.

iii. No Inspection of labor and environmental aspects:

It is a well-known fact that too many controls and regulations can discourage new ventures. Therefore, the start-ups will be exempted from routine inspections relating to labor and environmental laws. Only a self-certification compliance system was put in place wherein the new start-ups were just required to self-certify that they were abiding to various labor and environment-related regulations. Compliance rules for startups have been simplified and eased to enable them to focus on their core business.

Startups coming under the list of 36 'white' category industries will be exempted from environment clearance under three environment laws:

- The Water (Prevention and Control of Pollution) Act, 1974;



- The Water (Prevention and Control of Pollution) Cess (Amendment) Act, 2003; and,
- The Air (Prevention and Control of Pollution) Act, 1981.

The Ministry of Skill Development and Entrepreneurship (MSDE), in this direction, has issued an advisory to various states to permit startups to self-certify compliance for one year period. Similarly, the advisory issued by the federal labor ministry on December 1, 2016, allowed startups to self-certify compliance under six labor laws. The duration of compliance of self-certification has since been increased from three to five years.

iv. Reduction in fees for patent and copyrights registration:

Other benefits for start-ups include reduction in fees of patent-registration by 80 percent and trademarks filing fees by 50 percent. Whenever a start-up venture applies for patents, it would avail 80% rebate in the fees. Similarly, the fees for acquiring trademarks will cost 50% lesser. The process of patent registration and protection of Intellectual Property Rights (IPRs) will be not only speedy but easier too for the start-ups.

v. Easier Registration:

A mobile app was launched by government on 1st April 2016 along with a portal to permit companies to register within a day. A single point of contact was set up for all registration-based inquiries at the Start-up India hub. In addition, there would be a single window clearance for all clearances, approvals and registrations, which would make the process simpler for all. Startups in the manufacturing sector were exempted from abiding to the criteria of 'prior experience' or 'turnover'.

4 Evaluation of India's Start-up Policy:

The conditions for qualifying as a start-up were so stringent that very few ventures qualified as start-ups. The government received about 1,368 applications; of these, only 502 were recognized as start-ups by the department of industrial policy and promotion. And an even smaller subset—just the 111 firms incorporated after April 1, 2016 - were considered for tax benefits. Finally, the benefits were granted to only eight start-ups. Following are some of the problems associated with start-up India Scheme.

1. Difficult conditions for Qualification:

The wide list of criteria has been a major obstacle for startups to register with the program. Besides this, the bureaucratic hassles associated with the initiative made the task even more difficult. As a result, numerous deserving, worthy and high-potential tech-driven ventures have failed to receive the recognition which they deserved.

2. Problems with Funds:

The government had declared the creation of a mega corpus of Rs. 10,000 crores, aptly called the Fund of Funds, to be arranged through 2025 as a part of the Startup India initiative.

Managed by the Small Industries Development Bank of India (SIDBI), the fund was to invest in venture capital (VC) firms registered under SEBI. These VC firms in turn would invest in start-ups.

However, an extremely insignificant amount has been disbursed. This is because the bank only invests 15% of the total corpus, while the VC has to arrange the remaining 85% to the table and VCs have failed to raise that money. The second issue was that the government had initially declared that VCs could use the money to fund only early-stage start-ups. This severely reduced the investment options for VCs, who then simply ignored the government's offer. So much so that, mid-year, the rule had to be changed to dilute the restrictions. Under the new rule, VCs would be required to invest only half the corpus in start-ups while



the remaining half can be invested in mature firms. Yet another cause for the limited response from VCs was the requirement that participating investors had to be registered with the Securities and Exchange Board of India. However, some of the biggest VCs weren't.

3. *Administrative Hurdles:*

Along with a constrained funding environment, the effectiveness of Startup India program is also being reduced by several administrative issues. In spite of the promise and commitment for digitization and simplification of processes, the problems of redtapism and bureaucracy still continue. Dealing with various government agencies are still very frustrating and time consuming. The processes for income tax exemption, self-certification, registration of innovation, start-ups are all long and tedious.

5. Conclusion:

Despite these initial troubles and limitations, it would be too early to declare the start-up scheme as a failure as such schemes generally take time to show results. However, it is important to ensure these limitations are systematically recognized and removed. It is not just about the government's functioning. Even new private entrepreneurs have failed to bring in genuine innovative and commercially viable ideas.

Following Steps can be undertaken to make the initiative more effective.

- There is a need to create a strong start-up support infrastructure to help with critical business requirements like securing finance, preparing feasibility study report, helping them with business structuring, assisting in marketing, supporting commercialization of technology and aiding in developing business models
- Bureaucratic hurdles should be identified and removed
- Deployment of funds also needs to be streamlined and optimized
- Private players must attempt to improve country's innovation quotient through their own initiatives
- The Startup India mission can still be accomplished; what it requires is all stakeholders to be more determined towards its realization.

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