

A STUDY ON EFFECT OF GOVERNMENT POLICIES ON STARTUP

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Abstract

Government policies have a significant impact on the startup ecosystem in any country, and India is no exception. The Indian government has launched several policies and initiatives aimed at promoting entrepreneurship and innovation, including Startup India, the Fund of Funds for Startups, and the Atal Innovation Mission. These policies have made it easier for startups to do business in India, simplified regulatory processes, and provided tax incentives and access to funding for startups. However, there are still some challenges that hinder the growth of startups in India, including high levels of bureaucracy, a lack of access to capital, and limited infrastructure in some areas. Additionally, recent changes in e-commerce and data localization policies have caused some disruptions in the industry, affecting startups that rely on online marketplaces for their business. In this paper researcher focus on the government policies for startup and its effect on the performance of the startup.

Keywords: Startup, Government Policy, Atal Innovation Mission

1. INTRODUCTION

India has emerged as a leading hub for startups in recent years, with a thriving ecosystem of entrepreneurs, investors, and support organizations. The Indian government has taken several steps to support and encourage startup growth in the country, including the launch of initiatives like Startup India and the establishment of a dedicated fund for startups.

Here are some key factors that make India an attractive destination for startups:

- **Large and growing market:** India has a huge and growing consumer market, with a population of over 1.3 billion people. This provides a huge opportunity for startups to build scalable businesses that can serve a large customer base.
- **Cost-effective talent pool:** India has a large and diverse pool of talented professionals who are highly educated and cost-effective compared to their counterparts in other countries. This makes it easier for startups to build high-quality teams at a lower cost.
- **Government support:** The Indian government has launched several initiatives to support the growth of startups in the country, including tax incentives, easier access to funding, and simplified regulatory processes.
- **Vibrant startup ecosystem:** India has a thriving startup ecosystem, with a large number of incubators, accelerators, and mentorship programs that provide startups with the support they need to succeed.
- **Access to funding:** India has a growing number of venture capitalists, angel investors, and other funding sources that are actively investing in startups. This has made it easier for startups to raise the capital they need to grow and expand their businesses.

Despite these advantages, starting a successful startup in India can be challenging, and requires careful planning, a deep understanding of the local market, and a willingness to adapt to changing conditions. However, with the right strategy and support, India offers an attractive and exciting environment for startups to grow and thrive.

2. RESEARCH OBJECTIVES

1. To study the startup ecosystem in India
2. To analyse the effect of government policies on startup

3. LITERATURE REVIEW

There are few studies analysing investment dynamics and government initiatives pertaining to Indian startups. There have been a few attempts, and much of the literature is descriptive. These are descriptions of pertinent studies that describe investment trends in the Indian startup ecosystem.

The developments in investment in the Indian startup ecosystem between 2015–16 and 2018–19 are reported by Narayan et al. (2019). Their study is based on yearly funding reports that a site called Trak.in publishes. They discover no conclusive link between a startup's stage of development and its financial status.

From 2011 to 2015, angel investment trends are discussed by Rao and Kumar (2016). Their findings demonstrate that angel investment has significantly increased over time. They discovered that angel investors are crucial because, in contrast to venture capitalists, they fund early-stage firms and invest in a range of industries.

According to Shetty's (2017) analysis of venture capital funding in India, China, and the USA, while Indian venture capital performance is somewhat lower than that of the USA and China, the Indian consumer technology industry has received a lot of venture capital investments.

David et al. (2020) is the most thorough one describing investment trends in the Indian startup ecosystem (2020). The study examined trends in stage-, sector-, and geographic distribution of investment in the Indian startup ecosystem from 2015 to 2019. They described many programmes that entrepreneurs in India can take advantage of, and then constructed a regression model to understand what influences startup investment in India. They discovered that big cities are where startups tend to congregate, while smaller startups can be found outside of major cities.

Except for David et al. (2020), none of the articles previously mentioned addressed the concentration of investment, which is the main topic of this research. Instead, they explained investment trends in the Indian startup ecosystem.

There is a dearth of descriptive literature addressing government programmes and policies intended to support startups in India, and it does not critically evaluate the effectiveness of these programmes. These papers are discussed in the paragraphs that follow.

The advantages that startups can take use of under the government's "Startup India" flagship initiative are described by Mittal and Garg (2018) and Dutta (2016). Tax breaks on profits and long-term capital gains, self-certification, legal assistance with patent applications, and incubator facilities rank among the most significant of them. In order to promote entrepreneurship in India, the Indian government has implemented a number of different programmes, as described in Jayanthi (2019). They include initiatives by groups like NITI Aayog (Atal Innovation Mission) and the Biotechnology Industry Research Assistance Council, as well as programmes like Startup India, Make in India, Stand up India, and Make in India (BIRAC). According to a paper by Venkatanarayana (2016), the success of Startup India depends on overcoming obstacles like the strict licencing requirements, the lack of bank support, and the lack of tax breaks for these businesses. The paper describes various government initiatives under which startups can benefit. Kshetri (2016) examines the factors that influence entrepreneurship in SMEs and startups in the context of India and discovers that regulatory barriers in India, such as strict rules and regulations, upcoming bankruptcy legislation, and onerous labour restrictions, hinder business growth. Entrepreneurs are not warmly welcomed by Hindu values and traditions. Also, the lack of market and financial accessibility as well as inadequate R&D are to blame for the underdevelopment of innovative entrepreneurship in the nation.

Singh's paper is one of the most thorough accounts of the government's efforts to support entrepreneurs in India (2020). The author provides an overview of the complimentary programmes through which entrepreneurs can receive government incentives as well as the regulatory environment that governs startups in India. Made in India, Digital India, Skill India, MUDRA3, and other national programmes were among the programmes that were described. The report primarily describes how the schemes performed while also looking at the key issues and potential solutions that emerged from the experience of Indian startups.

This quick survey of the literature reveals that, with one notable exception, there are very few studies that critically evaluate government initiatives or look at the concentration of funding among entrepreneurs in India (David et al, 2020). Hence, using information from the Startup India website and responses obtained through the Right to Information Act, we attempt to evaluate the effectiveness of government programmes. We also look at investment concentration using secondary information on the investments made in 928 sponsored firms.

4. GOVERNMENT POLICIES FOR STARTUP

The Government of India's flagship programme, Startup India, aims to actively encourage startups and business owners. The program's main goal is to build a robust environment in India that supports and fosters innovation and entrepreneurs, ultimately creating a huge number of job opportunities and fostering the nation's sustainable economic growth. The Aatmanirbhar Bharat mission and the "Made in India" programme were

subsequently introduced by the Indian government with the goal of establishing India as a hub for international manufacturing and design exports.

Nowadays, India takes pride in having the third-largest startup environment worldwide. There are more than 60,000 companies working in the nation, and there are over 100 unicorns. This achievement can be partially due to the active support given by the Indian government through its numerous programmes and plans to startups and entrepreneurs. All of the aforementioned initiatives were supported by a number of government initiatives and resources aimed at giving businesses financial support and working capital. For instance, the Startup India Action Plan entitles entrepreneurs to a number of perks, such as tax incentives and exemptions, loans with lower interest rates, skill development programmes, priority in public procurement, etc. A handful of the many programmes that the Indian government has created are covered in this page.

1. ASPIRE – A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship

With the aim of promoting innovation for unmet societal needs in the agro-business sector and accelerating entrepreneurship, this initiative was developed to establish a network of technology centres and incubation centres across India. By way of a one-time grant of 100% (hundred percent) of the cost of plant & machinery (aside from land and infrastructure), it offers financial assistance for the establishment of livelihood business incubators and/or technology business incubators, whichever is less.

Many people in India still rely on agriculture as a source of income, and a sizeable section of the population lives in rural areas. As a result, this programme was started with the intention of creating jobs and building businesses in the agriculture sector. It equips business owners with the information they need to launch their own enterprises, become employers, and guarantee their sustainability. This programme aims to promote economic development at the district level from the ground up.

2. Pradhan Mantri Mudra Yojana

Micro Units Development and Refinancing Agency Ltd. ("MUDRA") is a non-banking financial institution that supports the growth of the micro enterprise sector in India under this programme. MUDRA provides banks and/or microfinance institutions with refinancing help in order to lend to micro units with loan requirements up to INR 10 (Indian rupee ten) lakhs. Depending on the stage of development, the need for finance, the age of the firm, and the amount of loan that may be obtained by these businesses, the loans have been categorised into the categories of Tarun, Kishore, and Shishu. No collateral security is required for these assets, and small firms that are neither corporations or farms are eligible to receive loans up to INR 10 lakhs. This loan is provided for a number of activities that generate income and create jobs. It is mostly made available to service providers, shop owners, and street sellers. Loans for working capital, travel-related vehicles, and working capital are also available. As a result, it is a special programme designed to support Indian business owners.

3. Support for International Patent Protection in Electronics and Information Technology

The Department of Electronics and Information Technology ("DeiTY") introduced the SIP-EIT scheme with the intention of offering government assistance to technology startups and Micro Small and Medium Businesses ("MSME") in India for submitting foreign patent applications. As a result, innovation is promoted, brand recognition increases, and the value and potential of having international intellectual property protection are acknowledged. The technology, communication, and electronics industries are given the financial support. At any point during the procedure for submitting an international patent, the qualified entities may submit an application. The reimbursement cap is set at INR 15 (Indian rupee fifteen) lakh for each innovation, or 50% (fifty percent) of the total expenses incurred when filing and processing of the application, whichever is lower.

4. Multiplier Grants Scheme (MGS)

DeiTY once again introduced this programme with the intention of encouraging businesses to work with top government and university R&D organisations to develop goods and packages. This would improve the relationship between businesses and academic institutions, hasten the creation of homegrown goods, and close the proof-of-concept to globalisation gap. According to this plan, if an industry funds the R&D of products that can be sold, the government will match that funding up to a maximum of twice as much. The maximum grant amount for one industry is 2 (two) crores per project, with a preferred project term of under 2 (two) years. The amount that can be provided to a group of industries is 4 (four) crores for a period of 3 (three) years.

5. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

The Ministry of MSME, the Government of India, and the Small Industries Development Bank of India ("SIDBI") formed the Credit Guarantee Fund Trust for Micro and Small Businesses to carry out the Credit Guarantee Fund Scheme for Micro and Small Enterprises ("MSE") (CGTMSE). The MSE sector's credit flow is facilitated by this scheme, which also strengthens the credit delivery system. It offers start-ups, small businesses, and micro-level enterprises loans at significantly reduced rates and with no required collateral. The SIDBI distributes the funds under the scheme, which provides fund- and non-fund-based loan facilities up to Rs. 200 lakhs for each qualified borrower. The programme is largely for manufacturing or service-based firms, and working capital or a term loan can be used to get the credit.

6. Single Point Registration Scheme (SPRS)

The National Small Industries Corporation (NSIC) oversees SPRS, a development programme that supports MSE. Without a doubt, the Indian government is the biggest single buyer of a wide range of commodities. This plan was designed to boost the amount of purchases made from the small-scale sector. By choosing this programme, NSIC registers qualified MSEs for involvement in government acquisitions without the need for an Earnest Money Deposit (EMD), which is money collected from bidders prior to the submission of a bid as a security deposit to ensure the seriousness of the bidder in the project. MSEs with an NSIC registration will therefore not be required to pay the EMD under SPRS. Advantages in participating in tenders, free tenders, and purchasing from MSEs are further perks. In addition, the government has set a minimum threshold of 25% of the total annual purchases made by central ministries, departments, and public sector undertakings from MSEs solely as well as allocated 358 (three hundred fifty-eight) categories of commodities for being purchased only from the MSEs.

7. Extra Mural Research or Core Research Grant (CRG)

Formerly known as the Extramural Research financing system, CRG. Although though it was started more than 40 years ago, following the creation of the Science and Engineering Research Board ("SERB"), it is still one of the most important and practical programmes. The goal of CRG is to assist academic institutions, research labs, and other R&D organisations in conducting research in all cutting-edge areas of science and engineering. As a result, it motivates both established and up-and-coming researchers to use a competitive individual-centric funding model.

8. High Risk and High Reward Research

This programme seeks to encourage and support innovative concepts and ideas that could have a significant influence on various areas of science and technology. It places a focus on novel and daring concepts that, if successful, might be very lucrative for the scientific community. Such ideas can involve theoretical and experimental developments, tests of established hypotheses, scientific discoveries, a novel approach to a significant issue, or the formulation of a new hypothesis that results in the development of novel technologies. There is no set spending cap for these projects, and aside from the overhead funding, the research grant must cover consumables, unforeseen expenses, equipment, and travel expenses. The money is offered for 3 (three) years, but in extraordinary circumstances, it may be extended to 5 (five) years.

9. Design Clinic Scheme

The Indian government declared that every MSME and startup should develop a design-centric approach for igniting their startup after realising the significance of innovation and design in the growth of any brand. The Ministry of MSME launched the Design Clinic scheme to create a sustainable design eco system through continual training and skill development in order to encourage small firms to experiment with new and inventive designs for their products. For attending design seminars under this programme, the government will pay up to INR 60,000 (Indian rupee sixty thousand) and up to INR 3.75 lakhs, or 75% (seventy-five percent), of the seminar's cost if it is hosted by a startup or MSME. It is anticipated that through this programme, entrepreneurs and leaders will have the chance to learn about the most recent design best practises and trends, network with other innovators and designers, gain knowledge of design theories, and boost the local competitiveness of their products' use of designs.

10. Zero Defect Zero Effect (ZED) scheme

As the name implies, this purpose aims to inspire manufacturers to produce better goods that are high-quality, defect-free, and reliable. It is a handholding programme that offers MSMEs the chance to adopt cutting-edge production techniques, utilise cutting-edge technology, and continually enhance their goods. To ensure that their products have no faults, the programme offers startups and MSMEs tools, technology, as well as financial aid. Also, ZED provides a comprehensive certification, evaluates businesses for ZED, and aids companies in moving along the maturity evaluation model of the programme.

The Indian government's policies and initiatives have had a significant impact on the startup ecosystem in the country, both positive and negative. Here are a few examples:

1. Positive impact: The government's policies and initiatives have made it easier for startups to do business in India. For example, the Startup India initiative has simplified regulatory processes and provided tax incentives for startups. The Fund of Funds for Startups has also helped to improve access to funding for startups. These policies have made it easier for startups to start and grow their businesses, and have contributed to the growth of the startup ecosystem in India.

2. Negative impact: Despite the government's efforts to support startups, there are still some policy challenges that hinder the growth of startups in India. For example, high levels of bureaucracy can make it difficult for startups to navigate regulatory processes, and there is still a lack of access to capital in some areas.

Additionally, the recent changes in the government's e-commerce policies have caused some disruptions in the industry, affecting startups that rely on online marketplaces for their business.

3. Mixed impact: Some government policies have had both positive and negative effects on startups. For example, the Digital India initiative has improved access to digital infrastructure and technology, making it easier for startups to develop and deploy innovative digital solutions. However, the recent data localization policies have increased compliance costs for startups that handle sensitive data.

Overall, the Indian government's policies have played a significant role in shaping the startup ecosystem in the country. While some policies have had a positive impact, there is still a need for more work to be done to address the challenges that startups face in India, including access to capital, regulatory compliance, and infrastructure development.

5. CONCLUSION

Government policies can have a significant impact on startups, as they can either help or hinder their growth and success. Here are a few examples:

1. Tax policies: The tax policies set by the government can have a significant impact on startups. Lowering the tax burden on small businesses can encourage entrepreneurship and stimulate growth.

2. Regulations: Regulations can either be helpful or harmful to startups. Overly restrictive regulations can stifle innovation and make it difficult for startups to succeed, while regulations that promote competition and protect intellectual property can help startups grow.

3. Funding and grants: Governments can provide funding and grants to startups, which can help them get off the ground and grow faster. This can be particularly important for early-stage startups that have limited access to funding.

4. Immigration policies: Many startups rely on talented individuals from around the world to help build their teams. Government policies that make it easier for these individuals to obtain visas and work permits can be extremely beneficial for startups.

5. Infrastructure: The quality of infrastructure, including transportation, energy, and communications, can have a significant impact on the success of a startup. Governments that invest in modernizing infrastructure can help startups thrive.

Overall, government policies have positive and negative effects on startups. Policies that create a supportive environment for startups can help drive innovation and economic growth, while policies that create barriers to entry can stifle innovation and limit the potential for success.

In addition to inspiring and encouraging aspiring entrepreneurs, students, and leaders from all walks of life to start their own firms and take another step towards creating Aatmanirbhar Bharat, the government policies stated above assist and benefit the current startups and businesses. The goal is to give India's creative minds the freedom to conceive up innovative ideas, put them into action, and ultimately turn those ideas into thriving businesses. Given that India has the third-highest number of startups in the world, these measures appear to have achieved their intended goals.

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