STARTUP INDIA, STANDUP INDIA
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“Startup doesn't mean that a person is dealing with a billion dollar job employing 2000 people. If one can employ five people, he or she is contributing enough to the nation....Yes, there are millions of problems in India. But it also has a billion minds.”

Prime Minister, Narendra Modi

DEFINITION

a) A startup is a young company, usually small and financed and operated by a handful of founders or an individual. They offer a product or service currently not offered in the market, or being offered in an inferior manner. It helps in making life easier through innovative means.

b) A startup optimally be defined as a service or manufacturing firm that was started with limited resources at its disposal and is focused on achieving scale and socio-economic impact. In other words, a business is covered under the definition, if it aims to develop and commercialize.

- a new product or service or process; or
- a significantly improved existing product or service or process that will create or add value for customers of workflow.

In the Indian context, startup means 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.

Provided that such entity is not formed by splitting up, or reconstruction, of a business already in existence.

INDIA’S STARTUP POSITION IN THE GLOBAL CONTEXT

India ranks third globally with more than 4200 startups according to National Association of Software and Services Companies (NASSCOM) Startup Ecosystem Report

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1 Entering Startup: Plugging the Gaps, Organizer, 24 January 2016, p. 14
2 Reimagining Startups, Seminar, November 2015, p. 35
3 India, Ministry of Commerce, Department of Policy and Promotion, Startup India Action Plan, January 2016, p. 28
2015 and moved up by one position to become the third fastest growing base of startups worldwide with the number of startups crossing 4,200 by the end of 2015, registering a growth of 40% year-over-year. With 4200-4400 startups, India is marginally trailing behind UK that has over 4800-5000 technology driven startups. US, however, leads the pack with roughly 47,000 technology driven startups⁴.

Based on number of start-ups India is counted among the top 5 largest start-up communities in the world

Source: NASSCOM, Startup India-Indian Startup Eco System Report 2015

⁴ www.inc42.com
Important Facts about India’s Startups: Nasscom’s Report

- India is the youngest startup nation in the world, 72% of the founders are less than 35 years old.
- More than 50% of the 1200 startups focus on e-commerce, consumer services and aggregators.
- 9% female founders and co-founders in startup ecosystem.
- Number of accelerators grew by 40% from ~80 in 2014 to ~110 in 2015.
- Total Funding in 2015, growth of ~125% over 2014.
- 80,000 jobs created by startups.
- Number of active investors grown from 220 in 2014 to 490, recording a growth of roughly 123% from a year ago.
- More than 65% of the startups are located in National Capital Region, Mumbai and Bangalore.
- Around 3-4 Startups are born each day.

In the light of above facts, the Government is paying so much attention and giving the much deserved recognition to the startup sector.

STARTUP INDIA, STANDUP INDIA CAMPAIGN

In 2015, while addressing the nation on the 69th Independence Day, the Prime Minister, Shri Narendra Modi announced a new campaign "Startup India, Standup India" to promote bank financing for startups and offer incentives to boost entrepreneurship and job creation in the country. He also announced that this initiative will encourage entrepreneurship among the youth of India. Each of the 1.25 lakh Bank Branches should encourage at least one Dalit or Tribal entrepreneur and at least one women entrepreneur.

Investors pumped $9 billion into Bharteeya startups in 2015 and the momentum continues with over $38 million invested in the first 10 days of 2016.

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5 Ibid  
6 NDTV News, 16 August 2015  
7 Op.cit., Entering Startup
STARTUP INDIA FLAGSHIP INITIATIVE (Startup India Scheme - From Jobseekers to Job Creators)

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. On 16 January 2016, the Prime Minister unveiled 19-point action plan for start ups in the country. This Action Plan will address all aspects of the Startup ecosystem and the Government hopes to accelerate spreading of the Startup movement:

- From digital/ technology sector to a wide array of sectors including agriculture, manufacturing, social sector, healthcare, education, etc.; and
- From existing tier 1 cities to tier 2 and tier 3 cities including semi-urban and rural areas.

The vision of the Action Plan is centered on following three key areas:

1. Simplification and Handholding
2. Funding Support and Incentives
3. Industry-Academia Partnership and Incubation

1. Simplification and Handholding

(a) Compliance Regime based on Self-Certification: Startups would be allowed to self-certify compliance (through the Startup mobile app) with 9 labour and environment laws. In case of the labour laws, no inspection will be conducted for a period of 3 years.

(b) Startup India Hub: 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 the Central and the State Governments, Indian and foreign venture capitals (VCs), Angel networks, Banks, Incubators, Legal partners, Consultants, Universities and R&D institutions;
- Assist Startups through their lifecycle with specific focus on important aspects like obtaining financing, feasibility testing, business structuring advisory, enhancement of marketing skills, technology commercialization and management evaluation; and
- Organize mentorship programs in collaboration with Government Organizations, Incubation Centers, Educational Institutions and Private Organizations who aspire to foster innovation.

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8 www.indiatoday.in/education/study/start-up-india-stand-up-india
(c) Rolling-out of Mobile App and Portal: 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\(^\text{10}\).

Towards these efforts, the Government will introduce a Mobile App to provide on-the-go accessibility for:

- Registering Startups with relevant agencies of the Government. A simple form shall be made available for the same. The Mobile App shall have backend integration with the Ministry of Corporate Affairs and Registrar of Firms for seamless information exchange and processing of the registration application
- Tracking the status of the registration application and anytime downloading of the registration certificate. A digital version of the final registration certificate shall be made available for downloading through the Mobile App
- Filing for compliances and obtaining information on various clearances/approvals/registrations required
- Collaborating with various Startup ecosystem partners. The App shall provide a collaborative platform with a national network of stakeholders (including venture funds, incubators, academia, mentors etc.) of the Startup ecosystem to have discussions towards enhancing and bolstering the ecosystem
- Applying for various schemes being undertaken under the Startup India Action Plan

The App will be made available from 1 April 2016 on all leading mobile/smart devices' platforms.

(d) Legal Support and Fast-tracking Patent Examination at Lower Costs: The Scheme for Startup Intellectual Property Protection (SIPP) shall facilitate filing of Patents, Trademarks and Designs by innovative Startups. Under this Scheme, the Central Government will bear the entire fees of the facilitators for any number of patents, trademarks or designs that a Startup may file, and the Startu-ps shall bear the cost of only the statutory fees payable.

Startu-ps shall be provided 80% rebate in filing of patents vis-a-vis other companies. This will help them pare costs in the crucial formative years.

\(^{10}\) Ibid, pp. 6-8
The scheme is being launched initially on a pilot basis for 1 year; based on the experience gained, further steps shall be taken.

(e) Relaxed Norms of Public Procurement for Startups: Typically, whenever a tender is floated by a Government entity or by a Public Sector Unit (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 from 1 April, 2015 the Central Government, the State Governments and the PSUs have to mandatorily procure at least 20% from the Micro Small and Medium Enterprise (MSME). 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.

(f) Faster Exit for Startups: 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. This process will respect the concept of limited liability\(^\text{11}\).

2. Funding Support and Incentives

(a) 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. In order to provide funding support to Startups, the 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 Securities and Exchange Board of India (SEBI) registered Venture Funds.

(b) Credit Guarantee Fund for Startups: In order 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

\(^{11}\) Ibid, pp. 9-11
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.

**(c) Tax Exemption on Capital Gains:** 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.

In addition, existing capital gain tax exemption for investment in newly formed manufacturing MSMEs by individuals shall be extended to all Startups. 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.

**(d) Tax Exemption to Startups for 3 years:** 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.

**(e) 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.

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.

3. **Industry-Academia Partnership and Incubation**

**(a) Organizing Startup Fests for Showcasing Innovation and Providing a Collaboration Platform:** 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

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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, the 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.

(b) 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 through Self-Employment and Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs

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

The main components proposed to be undertaken as part of the mission include

Entrepreneurship promotion like:

• Establishment of sector specific Incubators including in PPP mode.

• 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 States/UTs) 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

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13 Ibid, pp. 19-20
(c) 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. 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 the 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 will be provided by the NITI Aayog as part of Atal Innovation Mission (refer #13 of this Action Plan). Participating departments and agencies for setting up of new incubators would be the Department of Science and Technology, the Department of Biotechnology, the Department of Electronics and Information Technology, the Ministry of Micro, Small and Medium Enterprises, the Department of Higher Education, the Department of Industrial Policy and Promotion and the NITI Aayog.

(d) 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 the Department of Science and Technology (DST) and the Ministry of Human Resources Development (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 the MHRD providing smooth approvals for TBI to have separate society and built up space.
• **Setting up of 7 New Research Parks Modeled** on the Research Park Setup at IIT Madras\(^{14}\).

(e) **Promoting Startups in the Biotechnology Sector:** The Department of Biotechnology will 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** – Bio Technology Industry Research Assistance Council (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 and encouraging and leveraging global partnerships\(^{15}\).

To sum up the, the Government policies aimed towards improving the overall startup ecosystem as depicted in following chart:

**Source:** NSSSCOM, Startup India-Indian Startup Eco System Report 2015

\(^{14}\) *Ibid*, pp. 21-23

\(^{15}\) *Ibid*, pp. 24-25
Government policies and initiatives are aimed towards improving the overall start-up ecosystem

1. **Start-up India**
   - Prime minister announced integrated platform to promote and boost entrepreneurship in the country.

2. **Atal Innovation Mission**
   - Established a platform to promote culture of innovation and R&D and earmarked INR 150 Cr in 2015 Union Budget.

3. **SETU** Program
   - Established techno-financial/ incubation program to support startups and set aside INR 1,000 Cr in 2015 Union Budget.

4. **Improving Ease of Starting a Business**
   - To create Ebiz portal for reducing approvals required to start a business.
   - To complete tax registration in 2 days.

5. **Dedicated Startup Exchange**
   - SEBI has plans to setup an alternative trading platform for internet start-ups with relaxed listing requirements.

6. **Plans Incentives to IoT Startups**
   - Easy import facilities & duty benefits.
   - Minimize excise & central sales tax.
   - Subsidised rates on purchasing land.

7. **State Government Start-up Policies**
   - State Governments are coming up with start-up friendly policies and partnership with NASSCOM for start-up warehouse setup in their respective locations.

8. **Technology Business Incubator (TBI)**
   - Scheme by Department of Science and Technology to facilitate creation of technology led and knowledge driven enterprises.

Source: NSSSCOM, Startup India-Indian Startup Eco System Report 2015

**STATES RESPONSE TO JOIN STARTUPS PROMOTION**

Various State Governments' initiatives are further supporting this progressive face of startups in the country.

**BOOSTING ENTREPRENEURSHIP**

- **Karnataka, Andhra Pradesh, Rajasthan and Maharashtra** have formulated policies for new-age businesses.
- **In Rajasthan**, a few new ventures are being incubated in a ‘Start-up Oasis’ in Jaipur.
- **A new wave**: In Uttar Pradesh, the IT department has recently invited inputs from industry bodies for formulating its own start-up policy.
- **Beyond I-I**: Karnataka is mulling a separate start-up policy to facilitate new ventures in sectors beyond information technology.
- **West Bengal** recently announced a Rs 150 crore fund to support start-ups.

Source: The Hindu, New Delhi, dated 18 January 2016
STANDUP INDIA

The Union Government has approved a groundbreaking scheme called ‘Standup India’ dedicated to women and the members of scheduled castes (SC) and scheduled tribes (ST). The Stand Up India scheme will promote entrepreneurship among female aspirants and the people from SC and ST communities.

The Scheme is a part of ‘Start up India Standup India’ initiative announced by the Prime Minister, Shri Narendra Modi on 15 August 201516.

Loans under the Scheme would be given for greenfield projects in the non-farm sector. The Scheme will be a refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of Rs 10,000 crore. It is expected to benefit at least 250,000 borrowers.”. Loans under the Stand Up India scheme will range between Rs 1 lakh and Rs 1 crore.

“The Standup India campaign is different from the Start Up India campaign…Start Up India is for new entrepreneurs but Stand Up India is a proposal restricted only to Scheduled Caste, Scheduled Tribe and Women Entrepreneurs,”. The Cabinet has also given its nod for the conversion of the Mudra Ltd (Micro Units Development and Refinance Agency), an NBFC, into Mudra Bank. The Mudra SIDBI Bank will be a wholly owned subsidiary of SIDBI. A separate Credit Guarantee Fund corpus of Rs. 3,000 crore, to support loans disbursed under the Mudra Yojana will also be set up17.

Special features of Stand Up Scheme:

- The Scheme is a part of Startup India, Stand up India slogan, spread by the Department of Financial Services (DFS) to encourage entrepreneurial projects

- The Standup India Scheme will facilitate two entrepreneurial projects on an average of one for each category (Women and SC/ST) of entrepreneurs per bank branch. It is expected to benefit at least 2,50,000 borrowers.

- The Scheme will provide financial aid through the Small Industries Development Bank of India (SIDBI) with an initial amount of Rs 10,000 crore

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16 India Today dated 7 January 2016
17 The Hindustan Times, New Delhi dated 7 January 2016
A credit guarantee system would also be implemented under the scheme through the National Credit Guarantee Trustee Company (NCGTC), which will act as the operating agency for financial aids. Loan amounts from Rs 10 lakh to Rs 1 crore will be given to female and SC/ST entrepreneurs that will be repayable up to seven years.

The system will personally guide each entrepreneur through the pre-loan and operational phases.

The margin money for the composite loan will be up to 25 percent to help the credit system reach out to the entrepreneurs.

The Scheme will also familiarize the entrepreneurs with factoring services, e-market places and registration with online platforms and other aspects of web entrepreneurship.

**CONCLUSION**

No economy like ours can grow without domestic private investment. Recovery is possible in 2016, if stalled private corporate investment can be restarted, to add to growth created by growth in public investment and private consumption. Startup India will fill this vacuum as Startups and entrepreneurs are a way to create alternate private investment models. Startup India can potentially be the catalyst to restart private investment flows into the economy.

But there is a lot which needs to be done to improve the investment environment for startu-ps in India. The World Bank ‘Ease of Doing Business’ report, for instance, shows little change in the ‘number of procedures’ required to start a business in India. Removing unnecessary approvals simplifies the process of registering a Startup and investing in them.

Although India’s overall ranking has jumped up 16 spots from last year to the 55th position, in terms of tax rates India is still ranked at the 123rd spot. While the issue of multiple indirect taxes is likely to be resolved by the imminent Goods and Services Tax, additional direct taxes such as corporate tax and income tax still present inordinately high tax burdens on Startups. Without reform of its tax structure, Indian Startups in the informal sector will hesitate from becoming formal. Passing of Goods and Service Tax (GST) Bill in coming

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18 Op.cit., India Today
19 The Indian Express, New Delhi dated 15 January 2016
Session will be a milestone for making India a barrier free well connected national market for seamless movement of goods and services across the States.

The PM's call to 'Startup India' must act as a catalyst for addressing the challenges faced by small businesses, particularly those operating within the informal economy\(^\text{21}\).

\(^{21}\) *Op.cit.*, Reimagining Startups, p. 35