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START-UP INDIA

Run Up to Get Started Up

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On January 16, the prime minister is set to announce India's new national startup policy under the 'Start Up India' programme. This initiative aims to tap into India's much celebrated entrepreneurial spirit.

Currently, India churns out 1,500 tech and several hundred non-tech startups each year, a number that has tripled since 2005. Tapping into this entrepreneurial gold mine gives form to innovation and can boost India's stalled economic prospects by creating wealth and jobs.

The last decade has seen a boost in entrepreneurial activity because of significant ease in accessing capital and lowering of barriers to entry and risk. But obstacles remain. The World Bank's 2004 'Ease of Doing Business' report stated that the time taken to start up a business in India took about four months — 127 days on an average.

Fast forward to 2016, and the same report shows the reduced figure of 29 days on an average to start a business. But a month in itself is a long time in this ever-changing arena of competing innovation. Contrast the time it takes in India with the 5.6 days that it takes on an average in the US to set up shop. We still have a long way to go.

An entrepreneur trying to set up a business faces three obstacles: costs, procedural complexities and delays. These three obstacles must be addressed and eliminated to increase private investment into startups.

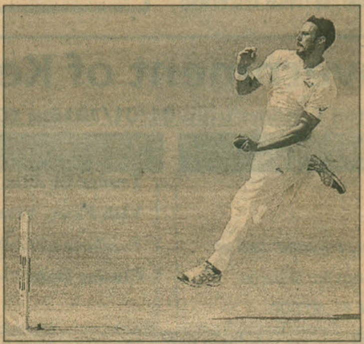
First, the Start Up India Action Plan must aim at reducing costs. It can do this by defining a startup, easing regulations and the procedures around the company registration process, and possibly exempting startups from direct and indirect taxes, at least in their initial years, to reduce cash outflows.

By reducing the overall cost, a significant barrier to entry is removed, allowing the entrepreneur to focus more on capital to run the business. The recent government proposal to waive tax imposed by the Finance Act, 2013, on seed funding for startups by domestic angel investors is a right move.

Second, procedural and compliance complexity must be tackled by simplifying the process of obtaining the necessary approvals and ensuring transparency throughout the process. A survey undertaken by LocalCircles, a social media network, showed that 60% of the participants felt that the biggest challenge to the growth of entrepreneurship was due to corruption and inefficient processes, while only 14% felt that funding was an issue.

Compliance costs and complexity often deter startups. Reduction in the number of approvals needed, creating a nodal authority for such approvals — rather than seeking approvals from several distributed agencies — and ensuring transparency through the process should be at the very centre of the 'Start Up India' plan.

Third, the plan must address delays caused by these approval procedures. Improvement in the form of an expedited process in a transparent manner goes a long way in encouraging the young entrepreneur.



...and delivery will follow

While the increase of FDI across various sectors has been a welcome development, the recent Mid-Year Economic Analysis confirms that private corporate investment has stalled over the last year. Corporate India is caught in a complex confusion of overexpansion, debt default and risk-aversion.

However, the country's economy cannot be held hostage to these few corporate entities. Startups and entrepreneurship can create alternate private investment models.

About 90% of Indian startups receive funding through foreign funds, eclipsing domestic public and private funding. The government's ₹2,000-crore India Aspiration Fund is aimed at allocating funds for domestic ventures providing public support. But this should not be the only source of capital for startups. Domestic private investment must increase as well.

Passing of essential legislation like the goods and services tax (GST) and the bankruptcy code is required. GST, in particular, is critical to ensuring that startups can access a large open Indian market without the complex interstate trade complexity that is too expensive for startups to handle.

The bankruptcy code will make business exits easier as well as provide the key stimulus to stalled public banks and make it easier also for banks to look at startups for lending.

Startups by rural entrepreneurs across the agriculture, handicrafts and manufacturing sectors also need focus. A great proportion of startups fail. But the few that succeed can lead to employment prospects for thousands, increased value addition to the economy, and serve as an example for a new generation of entrepreneurs.

For too long, a few intellectuals have held the country's discourse on technology, economy and growth hostage to their limited ideas and vision. Bringing in thousands of entrepreneurs into this discourse is what is needed. 'Start Up India' will do that.

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