

# Government to introduce — startup blueprint this month

Policy will attempt to address two key concerns about the startup ecosystem

VIKAS DHOOT

**T**he government, in two weeks, will unveil a blueprint for startups to ease the process of setting up new ventures.

Prime Minister Narendra Modi will release the blueprint of 'Start Up India' programme which may include a Startups and Entrepreneurship Law to make it easier for setting up new ventures and closing unviable ones, besides clearing regulatory issues that hamper access to finance.

The government is also seeking to define a new category of business — 'Innovative Start-ups' — to distinguish them from micro, small,

medium and large enterprises that are built on conventional business models. There would be a special support structure for such innovative start-ups, including funding from the government.

"In such start-ups, the government,

through the domestic venture capital funds, could take a 25 per cent stake. We will leave the due diligence, mentoring and refining of business ideas to the professional venture capital (VC) and private equity (PE) funds," a senior government official familiar with the policy formulation told *The Hindu*.

"As these start-ups gain in scale after two or three years, other investors, including PE and VC funds could buy back the government venture fund's stake. This would help create a revolving fund to finance such ventures with transformative potential, as the government can deploy the proceeds from exiting these start-ups to fund other ideas," the official said.

The Start Up India policy would attempt to address two key concerns the government wants to fix in India's start-up ecosystem. Over

65 per cent of successful start-ups re-locate out of India owing to the difficulty of doing business, usually to Singapore. Secondly, 90 per cent of start-up funding presently comes from foreign VC and PE funds.

"There tends to be a bias among foreign funds for backing business models that have worked in the developed world or those that can be tried in India and replicated there. We feel that if Indian start-ups focus on the country's unique problems, the models they build can be exported to the world," the official said. The focus of the Start Up and Entrepreneurship Bill, that the government could announce on January 16, would be on making it easier to start, operate and close a business. The attempt would be to allow an unsuccessful venture to shut shop in a few days without risk to an entrepreneur's personal property.

While these measures would facilitate general support for young entrepreneurs, there will be special incentives for the category of innovative start-ups that the government feels need additional support as the risks may be higher than a conventional business. At the same time, the returns from such ventures would be higher if the idea in

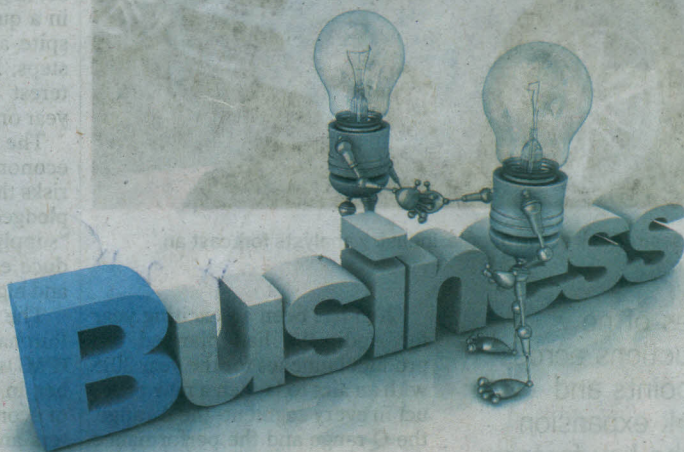
question achieves its transformative potential.

Currently, the government-backed India Aspiration Fund, announced in the Union Budget with a first tranche of Rs.2,000 crore, acts as a fund that allocates money to different domestic venture funds which provides seed funds to innovators and entrepreneurs.

Nearly 90 per cent of the first tranche of funds have been allocated already, said another senior official, adding that another tranche would be considered once this is exhausted.

The government is trying to broad-base the methodology for identifying an 'innovative startup.' Officials are working out the modalities for this in the run-up to the policy and one of the options under consideration is to allow the heads of a government-backed incubator or technology development bodies in different sectors to certify or vet which start-ups are innovative.

The Prime Minister had announced the 'Start Up India, Stand Up India' initiative in his Independence Day address last year and is expected to announce the specifics of an action plan to back start-ups on January 16.



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