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Start-up questions

Intent of Start-up India praiseworthy, but challenges remain

On Saturday, Prime Minister Narendra Modi presented the outline of the government's "Start-up India" plan to an enthusiastic audience. The intention of the plan is to be applauded, and there is much in it that is praiseworthy. Self-certification of compliance with labour laws, for example, is a focus of Start-up India, which is welcome. There would be no labour law inspections for three years, and some start-ups would be able to self-certify their compliance with environmental regulations, too. Support for legal issues and filing for patents was also promised, and norms for public procurement are to be relaxed to allow start-ups to compete with established firms. More incubators for new enterprises and 500 laboratories with 3-D printers are to be established. The thinking behind this push is eminently admirable — especially inasmuch as it hopefully reflects a vision of state action that relies on removing regulatory obstacles, reducing its own role and on providing instead an enabling environment.

However, euphoria over it needs to be tempered with a realistic assessment. This is because, as Nikesh Arora of SoftBank warned at the event, there are signs of a bubble in start-ups, and so the government's promised easier exit policy is essential. It is also because there are loopholes in the scheme and other areas in it which depend crucially on the mechanism put into place for implementation. And more generally, it is far from clear why only companies which satisfy the government's restrictive definition of a start-up – "driven by technology or intellectual property" – should have access to an enabling environment. In addition, to be eligible for schemes, start-ups will have to show that their innovation has "significantly improved" existing processes. Oddly, there is no self-certification as to whether the "improvement" is "significant" — allowing the bureaucrat to once again insert himself into the process. It is thus possible that discretion – anathema to a start-up ecosystem – may have been built into the scheme from the outset. It is inexplicable why benefits from any such scheme should not be extended to all start-ups depending on criteria that are transparently laid down and objective. The government cannot target or identify innovation; only the market can. The government should focus on creating conditions for innovation.

Some probing questions should also be asked about the use of tax incentives for start-ups. Exemption from income tax, of course, will only be available to those vetted by an inter-ministerial panel. This runs counter to the government's stated intention to remove exemptions in corporation tax and to close various loopholes in the system. Exemptions inevitably distort commercial activity — the history of Indian information technology provides ample evidence of this fact. Instead, simplicity of compliance with tax requirements should have been the focus. The real test for Start-up India will be if the de-domiciling of Indian start-ups – Flipkart, for example, is registered in Singapore – stops being a phenomenon. Partly to improve the ease of investing in start-ups, such investments have been exempted from long-term capital gains — which will have to be watched carefully for signs that it is being taken advantage of by, for example, real estate manipulators. Overall, while the intent is praiseworthy and there are many laudable ideas in the policy, much in the fine print needs attention if its goal is to be realised. Hopefully, the government will be nimble in making any needed changes and in overseeing Start-up India's implementation.