

An Overview of the Issues and Challenges in India's Startup Ecosystem

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Abstract

Government of India has rightly recognized the potential of startups and it is aiming a large number of Indians to be self-employed and becoming masters of their own fates. Government of India is working towards the right direction to create an enabling ecosystem for startups. Despite getting unprecedented success in startups in India, success rate is still very low and only a few entrepreneurs are able to chart a success figure fighting all the odds. Lack of skilled manpower, poor infrastructure, near absence of eco system in the region and lack of supportive government policies proved to be road blocks in the growth of startups. There is still a lot to be done in future for the success of startups. There are a number of issues and challenges for startups in India.

Rationale of startupindia campaign:

Startup India campaign is based on an action plan aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage start ups with jobs creation. The campaign was first announced by Prime Minister NarendraModi in his 15 August, 2015 address from the Red fort. It is focused on to restrict role of States in policy domain and to get rid of hindrances like in land permissions, foreign investment proposal, environmental clearances. It was organized by Department of Industrial Policy and Promotion (DIPP) A startup is an entity that is headquartered in India which was opened less than five years ago and has an annual turnover less than ₹25 crore

Eligibility Criteria for Startups

It must be an entity registered/incorporated as a:

- a. Private Limited Company under the Companies Act, 2013; or
- b. Registered Partnership firm under the Indian Partnership Act, 1932; or
- c. Limited Liability Partnership under the Limited Liability Partnership Act, 2008.

1. Five years must not have elapsed from the date of incorporation/registration.
2. Annual turnover (as defined in the Companies Act, 2013) in any preceding financial year must not exceed Rs. 25 crore.
3. Startup must be working towards innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property.
4. The Startup must aim to develop and commercialise:
 - a) a new product or service or process; or
 - b) a significantly improved existing product or service or process that will create or add value for customers or workflow.
5. The Startup must not merely be engaged in:
 - developing products or services or processes which do not have potential for commercialisation; or
 - b. undifferentiated products or services or processes; or
 - c. products or services or processes with no or limited incremental value for customers or workflow
6. The Startup must not be formed by splitting up, or reconstruction, of a business already in existence.
7. The Startup has obtained certification from the Inter-Ministerial Board, setup by DIPP to validate the innovative nature of the business.

Challenges and issues for startups

- The absence of specific start-up laws and lack of exit options. Tough compliance laws that were framed keeping in mind traditional businesses have to be done away with in the case of start-ups and new laws have to be framed keeping in mind new-age businesses and its rapidly evolving technology.
- Start-up funding is based on risk taking and ability to understand the application and commercial potential of the proposed business. Lack of dedicated start-up capital funding without guarantors or collateral is a major hurdle today. Furthermore, the lack of risk taking ability by public sector banks is mainly on account of restrictions based on current laws. These need to be changed and banks given the freedom to fund a proposal once it has been approved by an expert panel, either within the bank or by a competent and approved outside agency.
- Most start-ups fail either due to lack of market acceptance, market entry timing, lack of suitable mentoring, or simply lack of adequate funding. Whatever the case, the ratio of failures compared to success is skewed. Almost all successful entrepreneurs have tasted several failures before hitting a jackpot. Therefore, the government must factor in failure and ensure that an entrepreneur is not penalized for failing, but is encouraged to try again.
- Once a proposal is vetted and approved, easy funding on favourable terms must be made available based on the capital required to initiate the business and expand as per projections.
- Lack of government-sponsored physical incubators with the latest technology backbone is important for an ecosystem to develop. This along with mentors and subject matter experts that can assist first time entrepreneurs to handle the required paper work for establishing the business and guide the business to the next level of funding is essential.
- Lack of government experience at the Centre and state level in supporting tech-based entrepreneurs is yet another problem. The government needs to bring state governments on board to ensure that bureaucrats are trained to extend full support

to young entrepreneurs and ensure they contribute to growing their business rather than act as a hindrance.

- A lot of talent exists in smaller towns and villages for basic need based innovation, as well as social innovation. At present, there is a complete lack of eco-system outside the larger metros, therefore, if Start-up India; Stand-up India has to succeed, it is important for the government to extend this new initiative at the grassroots level. And this will be no easy task as many government officials at the district and block levels still don't know how to use the computer, let alone advise anyone on innovative entrepreneurship. The government has to identify officials at the Centre and state level, in coordination with state governments, and initiate an extensive and ongoing training program that will prepare these officials to be entrepreneur friendly and actually develop the skills required to provide support, as needed.
- Going by these above said criteria, roughly 60% of existing startups could be rendered ineligible for the Startup India plan. One of the eligibility criteria states that "The product or service should be a new one or a significantly improved version of existing services or products." Let's take the example of startups who are engaged in creating and developing online marketplaces like Flipkart and Amazon. So a new startup engaged in the same field may not be eligible unless its product is significantly improved than what existing players provide. Another eligibility criteria states that the startup should get a recommendation letter from the recognized incubator cell or be recognized by the Government of India or should be funded by recognized funds. Now this will be quite a task for startups.

Conclusion

Among the developing countries, India is one of the fastest growing economies, but the challenge of job creation will remain the single most important factor affecting growth for governments and industry. A lot still needs to be done because India needs to provide 300 million jobs by 2030. Startups have the key to solving one of the biggest problems India is facing now.

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