

Making a Nation of Job Creators

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Once an enterprise is established, the process of industrialization is set in motion. All these activities foster entrepreneurship and create demand for various types of units and will in turn, lead to overall development of an area due to increase in demand and setting up of more and more units

India needs 10 million jobs a year and global data shows that it is start-ups, not large enterprises that create net new jobs in any country. Start ups are also the centers of innovation and are a great way to enhance employment creation in the economy. The Prime Minister formally launched the “Start-up India” initiative on January 16, 2016 from Vigyan Bhawan, New Delhi. This initiative aims at fostering entrepreneurship and promoting innovation by creating an ecosystem that is conducive for growth of Start-ups. The objective is that India must become a nation of job creators instead of being a nation of job seekers. The Startup India by Prime Minister has already brought lots of positivity among the entrepreneurs in India. Industry is elated by the fact that India has the third largest number of start-ups globally. Fostering a fruitful culture of innovation in the country is a long and important journey. This initiative will go a significant way in reiterating Government of India’s commitment to making India the hub of innovation, design and Start-ups.

A start-up is a young company that is just beginning to develop. Start-ups are usually small and initially financed and operated by a handful of founders or one individual. These companies

offer a product or service that is not currently being offered elsewhere in the market, or that the founders believe is being offered in an inferior manner. In the early stages, start-up companies’ expenses tend to exceed their revenues as they work on developing, testing and marketing their idea. As such, they often require financing. Startups may be funded by traditional small business loans from banks or credit unions, by government sponsored small business administration loans from local banks, or by grants from nonprofit organizations and state governments.

Start-ups are essentially of two kinds. One that starts something ground up, something that no one has thought about and is often ground breaking. This type of start-up is difficult to create but once created often sees unprecedented growth. The second kind of start-ups are primarily the ones who do not want to reinvent the wheel. They are akin to adding old wine in a new bottle to create something new and innovative.

Entrepreneurship and start-ups are only a recent phenomenon in the country. Doing a start-up is tough and every country sees more failures than success. More often than not an entrepreneur needs to be prepared

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to face failures and unprecedented hardship. Entrepreneurship thrives on celebrations and a society that fails to appreciate business failures stifles innovation and creativity even before it can start. A start-up failing has to be OK as failures often teach an entrepreneur, what to do and what not to do.

As a start-up, you may have co-founders, but you may not necessarily possess the business acumen to succeed. Having a brilliant idea is different from making that idea a business success. For a start-up, it is very important to have mentors who have been through a similar process of starting or have business experience. A great mentor is often what separates success from failure by providing valuable inputs. However, there is no formal mechanism to mentor start-ups in the country. Every mentoring that happens is on an ad-hoc basis. A start-up that has raised funds can count the investors for some form of mentoring, but honest, unbiased, good business mentors are far and few in between. For start-ups finding a good mentor is often an uphill task.

Addressing Funding Challenges

Most of the first generation entrepreneurs across the country are applauding the government's efforts to recognize their business ventures under the banner of Start-Up India, but for most challenges of funding, patents and creation of intellectual property remain. Similarly, the long process of registration of patents and lack of incentives for research and development is another bone

of contention, which, according to many is a reason why many start-ups prefer to be domiciled abroad. According to government data, as many as 2,46,495 pendency in patent applications and 5,32,682 trademark applications were pending as on November 1, 2015.

Around 90 per cent of funding for start-ups, at present, comes from foreign venture capitals and domestic financiers could change the nature of innovation as well. A recent study by Grant Thornton revealed that in 2015 more than 600 such companies got funding, with over \$2 billion deployed by PE and VC funds.

According to a recent study, over 94 per cent of new businesses fail during first year of operation. Lack of funding turns to be one of the common reasons. Money is the bloodline of any business. The long painstaking yet exciting journey from the idea to revenue generating business needs a fuel named capital. That's why, at almost every stage of the business, entrepreneurs find themselves asking – How do I finance my start-up? There are various funding mechanisms available in the market for start-ups.

Here are few funding options for start-ups that will help them to raise capital for their business.

1. Pradhan Mantri Micro Units Development and Refinance Agency Limited (MUDRA)-started with an initial corpus of Rs. 20,000 crore to extend benefits to around 10 lakhs SMEs. You can submit your business plan and once approved, the loan gets sanctioned. You get a MUDRA Card, which is like a credit card, which can be used to purchase raw materials, other expenses etc. Shishu, Kishor and Tarun are three categories of loans available under the promising scheme.

2. Bootstrapping or self funding- Self-funding, also known as bootstrapping, is an effective way of start-up financing, especially when you are just starting your business. First-time entrepreneurs often have trouble getting funding without first showing some traction and a plan for potential success.
3. Crowd funding- Crowd funding is like taking a loan, pre-order, contribution or investments from more than one person at the same time. In this a start-up will put up a detailed description of his business on a crowd funding platform. He will mention the goals of his business, plans for making a profit, how much funding he needs and for what reasons, etc. and then consumers can read about the business and give money if they like the idea. Those giving money will make online pledges with the promise of pre-buying the product or giving a donation. Anyone can contribute money towards helping a business that they really believe in. Some of the popular crowd funding sites in India are Indeigogo, wishberry, ketto, fundlined etc.
4. Angel Investment - Angel investors are individuals with surplus cash and a keen interest to invest in upcoming start-ups. They also work in groups of networks to collectively screen the proposals before investing. They can also offer mentoring or advice alongside capital. Angel investors have helped to start-up many prominent companies, including Google, Yahoo and Alibaba. This alternative form of investing generally occurs in a company's early stages of growth, with investors expecting an upto 30 per cent equity. They prefer to take more risks in investment for higher returns.
5. Venture Capital - Venture capitals are professionally managed funds who invest in companies that have huge potential. They usually invest in a business against equity and exit when there is an IPO

or an acquisition. VCs provide expertise, mentorship and act as a litmus test of where the organisation is going, evaluating the business from the sustainability and scalability point of view.

6. **Business Incubators & Accelerators-** Early stage businesses can consider Incubator and Accelerator programs as a funding option. Found in almost every major city, these programs assist hundreds of start-up businesses every year. Incubators are like a parent to a child, who nurture the business providing shelter tools and training and network to a business. Accelerators are almost or less the same thing, but an incubator helps/assists/nurtures a business to walk, while accelerator helps to run/take a giant leap.
7. **Microfinance Providers or NBFCs-** Microfinance is basically access of financial services to those who would not have access to conventional banking services. It is increasingly becoming popular for those whose requirements are limited and credit ratings not favoured by the bank. Similarly, NBFCs or Non Banking Financial Corporations are corporations that provide Banking services without meeting legal requirement/definition of a bank.

Government Initiatives

Start-Up Action Plan has a 19-point agenda including incentives such as self certification for complying with labour and environment regulations, a panel of facilitators to help file patent and intellectual property applications, tax exemptions for seed funding, capital gains and three year holiday on income tax as well as a Rs 10,000 crore financing support through a fund of funds for four years.

Start-up India's 19-Point Action Plan

1. Self-certification Compliance
2. Single Point of Contact via Start-up India Hub
3. Simplifying Processes with Mobile App and Portal

(for registration, filing compliances and obtaining information)

4. Legal Support, Fast Tracking and 80 per cent reduction in patent registration fee
5. Relaxed Norms of Public Procurement
6. Easier & Faster Exit
7. Funding Support via a Fund of Funds corpus of INR 10,000 crore
8. Credit Guarantee Funding
9. Tax Exemption on Capital gains
10. 3-Year Income Tax Exemption
11. Tax Exemption on Investments above Fair Market Value (FMV)
12. Annual Start-up Fests (national and international)
13. Launch of World-class Innovation Hubs under Atal Innovation Mission (AIM)
14. Set up of country-wide Incubator Network
15. Innovation Centres to augment Incubation and R&D
16. Research Parks to propel innovation
17. Promote Entrepreneurship in Biotechnology
18. Innovation Focused Programs for Students
19. Annual Incubator Grand Challenge

1. Self Certification

The start-ups will adopt self-certification to reduce the regulatory liabilities. The self-certification will apply to laws including payment of gratuity, labour contract, provident fund management, water and air pollution acts.

2. Start-up India Hub

An all-India hub will be created as a single contact point for start-up foundations in India, which will help the entrepreneurs to exchange knowledge and access financial aid.



3. Register through app

An online portal, in the shape of a mobile application, is being launched to help start-up founders to easily register.

4. Patent Protection

A fast-track system for patent examination at lower costs is being conceptualised by the central government. The system will promote awareness and adoption of the Intellectual Property Rights (IPRs) by the start-up foundations.

5. Rs 10,000 crore Fund

The government will develop a fund with an initial corpus of Rs 2,500 crore and a total corpus of Rs 10,000 crore over four years, to support upcoming start-up enterprises. The Life Insurance Corporation of India will play a major role in developing this corpus. A committee of private professionals selected from the start-up industry will manage the fund.

6. National Credit Guarantee Trust Company

A National Credit Guarantee Trust Company (NCGTC) is being conceptualised with a budget of Rs 500 crore per year for the next four years to support the flow of funds to start-ups.

7. No Capital Gains Tax

At present, investments by venture capital funds are exempt from the Capital Gains Tax. The same policy is being implemented on primary-level investments in start-ups.

8. No Income Tax for Three Years

Start-ups would not pay Income Tax for three years. This policy would revolutionise the pace with which start-ups would grow in the future.

9. Tax exemption for Investments of Higher Value

In case of an investment of higher value than the market price, it will be exempt from paying tax.

10. Building Entrepreneurs

Innovation-related study plans for students in over 5 lakh schools. Besides, there will also be an annual incubator grand challenge to develop world class incubators.

11. Atal Innovation Mission

The Atal Innovation Mission will be launched to boost innovation and encourage talented youths.

12. Setting up Incubators

A private-public partnership model is being considered for 35 new incubators and 31 innovation centres at national institutes.

13. Research Parks

The government plans to set up seven new research parks, including six in the Indian Institute of Technology campuses and one in the Indian Institute of Science campus, with an investment of Rs 100 crore each.

14. Entrepreneurship in Biotechnology

The government will further establish five new biotech clusters, 50 new bio incubators, 150 technology transfer offices and 20 bio-connect offices in the country.

15. Dedicated Programmes in Schools

The government will introduce

innovation-related programmes for students in over 5 lakh schools.

16. Legal Support

A panel of facilitators will provide legal support and assistance in submitting patent applications and other official documents.

17. Rebate

A rebate amount of 80 percent of the total value will be provided to the entrepreneurs on filing patent applications.

18. Easy Rules

Norms of public procurement and rules of trading have been simplified for the start-ups.

19. Faster Exit

If a start-up fails, the government will also assist the entrepreneurs to find suitable solutions for their problems. If they fail again, the government will provide an easy way out.

Indian startups saw \$3.5 billion angel and venture capital invested across over 815 deals between Q1-Q3 2016, representing a major decrease in the total deal value from the same period last year. According to YourStory Research, between January and September 2015, \$7.3 billion was invested across 639 deals. This year, while the number of deals has increased by 27 percent, the deal value and ticket size have decreased. To put it in perspective, 2014 had just 300 VC and angel deals in the entire year.

It can be concluded that Start-up companies are the most dynamic economic organizations on the market, since they provide additional dynamics and competitiveness to any economic system. They act as catalytic agent for change, which results in chain reaction. Once an enterprise is established, the process of industrialization is set in motion. All these activities foster entrepreneurship and create demand for various types of units and will in turn, lead to overall development of an area due to increase in demand and setting up of more and more units. Indigenous start ups will not only make the lives of the people easier through their affordable and convenient services but will also act as a major booster for the development and the progress of the Indian economy. We believe that Start-up India is about creating prosperity in India. Many enterprising young people who dream of starting their own business lack the resources. As a result, their ideas, talent and capabilities remain untapped – and the country loses out on wealth creation, economic growth and employment. *Start-up India* is helping boost entrepreneurship and economic development – by ensuring that people who have the potential to innovate and start their own business are encouraged – with proactive support and incentives at multiple levels. □

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Micro and Small Enterprise Facilitation Council (MSEFC) Portal and MyMSME Mobile App

Two important initiatives of the Ministry of Micro, Small and Medium Enterprises (Ministry of MSME), viz. Micro and Small Enterprises Facilitation Council (MSEFC) portal and MyMSME Mobile App were launched by the Union Minister for Urban Development, Housing & Urban Poverty Alleviation and Information & Broadcasting

The Micro and Small Enterprises Facilitation Council (MSEFC) portal on <http://msefc.msme.gov.in>, is expected to facilitate implementation of the delayed payment provisions of the MSMED Act 2006 and also assist in monitoring of delayed payment cases for micro and small enterprises online. It would also help officers of the Ministry of MSME as well as the State Government concerned in monitoring the progress of cases both at the State and National levels. Most of the States have already uploaded the information regarding delayed payment cases on MSEFC portal. As on 31.03.2017, 3690 cases involving an amount of Rs.1660 crore are being considered by various MSEFCs. In fact, the online portal would be of great help to start-ups since delayed payment is probably the single biggest problem for start-ups.

The MyMSME mobile app on <http://my.msme.gov.in>, provides information on all schemes implemented by the Ministry of MSME at one place. With the help of MyMSME mobile app Ministry of MSME would be providing one single window to MSMEs to access information on all schemes implemented by the Ministry and as well as apply for any of them. And MSMEs can also lodge grievances pertaining to Ministry of MSME through this app.