

Would Startup-India Assist The Economy In 'Starting Up' After The Covid-19 Pandemic?

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Abstract

This paper brings into light the trending topic of the Indian Startup Ecosystem and the Government's initiative for the same, 'StartUp-India.' It begins by introducing Startup as a business concept and how it has benefited the national economy. It discusses issues that new and existing startups face, ranging from capital acquisition to marketing strategies. It further discusses how the Indian Economic Environment is a suitable place to run a startup and the opportunities it presents. The present paper critically analyses the 'StartUp - India' scheme and how it has helped develop home-grown startups by providing legal and financial resources and the required expertise. It also examines the economic impact of the COVID-19 pandemic and how startups can help revive the economy once things return to normal, as well as suggesting specific sectors for investors and venture capitalists to target.

Keywords: *Economy, Start-Up, Start-Up India, COVID-19*

1. INTRODUCTION

'Startup' has become a popular expression among people and for the right reasons. India positions third all-around regarding its startup environment after the USA and China.¹ Indian society's view of business and development has changed critically with time. The general public harbored a very traditional approach earlier, and the mere idea of leaving a settled occupation and opening a startup was disliked. The system of investors and venture capitalists was exceptionally weak in the country during the early 2000s.² Whatever the case may be, today's inventiveness is highly enabled as visible from the high number of

¹ PTI, *India emerges 3rd largest ecosystems for successful startups*, THE ECONOMIC TIMES (Oct. 17, 2019) <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/india-emerges-3rd-largest-ecosystems-for-successful-startups/articleshow/71636451.cms?from=mdr>.

² Premansh Sahni, *The Scenario of Startups in India*, YOUNG BHARTIYA (Feb. 28, 2019), <https://www.youngbhartiya.com/article/the-scenario-of-startups-in-india>.

entrepreneurs who are just out of school, government support for entrepreneurship, spreading the idea of business and competitive entrepreneurship rivalries in schools and colleges, and the mentorship available from segment leaders and resource persons from organizations like IITs and IIMs. Failure, which was earlier equated with disappointment, is now viewed as a step towards progress.³

The world is grasping information economy-drove development. Where physical labor and resources describe agrarian/mechanical economies, growing economies use data to expand products and ventures quickly.⁴ The growth drivers are creativity, human capital, R&D, intellectual property, and centered formation of new specializations.⁵

Startup India is a prime venture by the Government of India, in the line of building up a solid financial system to support the growth of Startups in the nation alongside encouraging young entrepreneurs who will be the driving force of the sustainable economic development of the country and which would produce a large amount of job opportunities.⁶ Startup India will help bolster financial development – by ensuring that people all set to get into the business are empowered with the required skills and resources – with proactive assistance and extra incentives at different instances, as and when required.⁷ Through this activity, the Government intends to engage Startup to help enhance business, economic development, and employment all over India.

Initially, providing an affordable labor workforce and contributions in the IT sector was what India was known for. This was one of the reasons for the slow pace of development. Still, India has not yet crossed the point of no return, and startups' culture has arrived in India. The initial startups have proven to be a boon for the Indian Economy and would likely help revive the same post the COVID-19 crisis.

³ *Id.*

⁴ Lydia Zepeda, Agricultural Investment, Production Capacity, and Productivity, FOOD AND AGRICULTURE ORGANISATION (May 22, 2020), <http://www.fao.org/3/x9447e03.htm>.

⁵ ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, INNOVATION-DRIVEN GROWTH IN REGIONS: THE ROLE OF SMART SPECIALISATION (2013)

⁶ *Ministry of Commerce to showcase Startup India tableau at Republic Day Parade*, THE ECONOMIC TIMES (Jan. 21, 2020), <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/comm-min-to-showcase-startup-india-tableau-at-republic-day-parade/articleshow/73480785.cms>.

⁷ Dr. G. Suresh Babu & Dr. K. Sridevi, *A study on issues and challenges of Startups in India*, 2 INTERNATIONAL JOURNAL OF FINANCIAL MANAGEMENT AND ECONOMICS 44, 44 (2019).

Startups and the Indian Economic Ecosystem

The Startup ecosystem is in a developing phase, with thousands of startups currently running in the country. The number of startups is expected to cross the 11,000 mark by the end of this year and employ over 2,50,000 people with technical expertise.⁸ It is outstanding to take note that India is among the top five nations on the planet as far as startups are to be taken into consideration with 10,000+ startups, led by the US with 83,000+ involving 43% tech-based firms, 9% of which are looked over by female business visionaries.⁹

Since 2014, start-ups have by and large raised \$50 billion over 3,700+ deals. There are 250+ quality enhancing incubators and around 500 institutional and 2,000 active funding agents.¹⁰ These startups have generated over 7 lakh employments, and the projection is growing at an increasing rate. Cities like New Delhi, Mumbai, and Bangalore, which harbor over 50% of the Indian startup ecosystem, have gained global acknowledgment. With 39,000+ start-ups and 33+ unicorns, India is home to the third biggest startup environment, behind just the US and China.¹¹ Tech startups are driving the development of the startup era, and it is prepared to enhance revenue created by the IT-BPM sector by right around 12-14 percent for the current fiscal year.

Being a gigantic country with over 130 crore residents, India boasts of high statistical benefits on account of a massive young workforce. India has a stand-out set of issues resulting from demographics consisting of various cultures and languages that need headways to find answers for health, education, and many other such topics.¹² The Indian Government's digital incentives will improve data collection and usage to increasingly raised levels getting all the more programmed applications to find answers for day-to-day problems. The decline in internet charges will in like manner help new

⁸ *Id.*

⁹ GRANT THORNTON LLP & ASSOCHAM, STARTUPS INDIA – AN OVERVIEW, at 11 (2016).

¹⁰ NASSCOM, INDIAN TECH STARTUP ECOSYSTEM, at 13 (2019).

¹¹ Shradha Sharma, *Budget 2020: Watch startup founders and investors discuss wishlist to propel India towards*

\$5T dream, YOURSTORY (Jan. 31, 2020), <https://yourstory.com/2020/01/startups-india-budget-2020-business-nirmala-sitharaman>.

¹² Jalvir Singh, *Why rural India still has poor access to quality education?*, FINANCIAL EXPRESS (Nov. 26, 2018), <https://www.financialexpress.com/education-2/why-rural-india-still-has-poor-access-to-quality-education/1393555/>.

organizations to take advantage of the new markets or even develop a whole new segment in certain cases.¹³

The Problems

A powerful start-up cannot run a business with just an idea. In order to convert that idea into a successful startup, one needs to have an in-depth understanding of the current market dynamics and exceptional leadership and communication skills integrated with the courage to take calculated risks.¹⁴ Following are a few of the major challenges faced by this sector-

Unavailability of Proper Mentoring:

Running a startup, though, is not a one-person job but feels like a forlorn undertaking. One might have co-founders ready to carry forward the same business idea, but having the business astuteness to do so and making that startup a successful business is completely different.¹⁵ It is crucial for startups in the growing phase to have guidance from mentors who have been through a similar starting and expanding business process.¹⁶ However, there is no proper system to guide new start-ups in the nation. Each mentoring that happens is on an ad-hoc premise.

Hardships in finding the right talent:

India is well known worldwide for its affordable bunch of talented individuals, especially in the IT sector.¹⁷ Nonetheless, when a startup is in the make, talent acquirement transforms into a problem, given that not everybody is flexible enough to work in a startup. With low pay

¹³ *Data is giving rise to a new economy*, THE ECONOMIST (May 6, 2017), <https://www.economist.com/briefing/2017/05/06/data-is-giving-rise-to-a-new-economy>.

¹⁴ Dr. S S Sodha, *Challenges, Issues and Opportunities faced by Indian Startups*, 2 GAP INTERDISCIPLINARITIES JOURNAL (2019).

¹⁵ Melanie Haselmayr, *You Just Came Up With A Great New Business Idea - So Now What?*,

FORBES (Sep. 25, 2014), <https://www.forbes.com/sites/allbusiness/2014/09/25/you-just-got-a-great-idea-for-a-new-business-so-now-what/#2fcdf4f236a1>.

¹⁶ Ashish Mittal, *Indian Startups: Challenges and Opportunities*, THE ECONOMIC TIMES (Nov. 25, 2014), <https://economictimes.indiatimes.com/small-biz/startups/indian-startups-challenges-and-opportunities/articleshow/45272839.cms>.

¹⁷ Naveen Lakkur, *Immense growth opportunity for talent in tech industry in India*, INSTITUTE OF INSPIRING INNOVATION (May 22, 2020), <https://www.iii.today/immense-growth-opportunity-talent-tech-industry-india/>.

rates in correlation with different corporates, recruiting skilled labor may not be conceivable.¹⁸

Lack of Proper Marketing Strategy:

One of the primary issues that restrict a startup from flourishing quickly is a lack of a good branding strategy.¹⁹ The ability to influence the proposed target audience towards a product or an organization is the core of advertising. As far as affordability is concerned, most startups fall short of assembling a decent marketing framework.

Capital procurement and management:

Many-a-times, the investor's reaction to a new start-up can be drowsy. Scaling is important for a startup, and scaling originates from the capital.²⁰ The challenge is not just to create enough seed capital but also to help develop sustenance and support.²¹ It is basic to design your finances ahead of time.

The Opportunities

Regardless of difficulties and issues that new start-ups are confronting, Indian markets give plenty of chances to discover arrangements customized to settle them. Some of them are:

Huge Population:

The population in India is a colossal resource for the nation. This unique and statistically favorable position will offer an extraordinary chance to any startup. The bottom-level consumer market would give tremendous opportunities for new startup businesses to expand.²²

¹⁸ Ananya Bhattacharya, *The talent crisis plaguing Indian startups reflects the country's deep education crisis*, QUARTZ INDIA (Jan. 14, 2020), <https://qz.com/india/1783995/skill-shortage-is-deflating-indias-startup-story/>.

¹⁹ Ross Kimbarovsky, *What is Brand Identity and How To Create a Unique and Memorable One in 2020*, CROWDSPRING BLOG (Jan. 9, 2020), <https://www.crowdspring.com/blog/brand-identity/>.

²⁰ Feras Cherad, *Growth vs. scaling: What's the difference and why does it matter?*, SPEND JOURNAL BLOG (Feb.5, 2020), <https://blog.spendesk.com/en/growth-vs-scaling>.

²¹ *Id.*

²² Babu, *supra* note 7, at 46.

Investment by large scale business houses:

As of now, huge business houses are putting resources into existing startups as they cannot utilize their foundation to focus on little equips like startups that require distinctive ranges of skills. In order to provide the required traction for the startups to grow, many prominent industrialists, including Azim Premji and Ratan Tata, have started investing in the same.²³

Opportunities at the bottom scale:

Start-ups in the Indian business ecosystem have an enormous degree in considering local and niche markets that could be practical and maintainable with the early capability of revenue generation.²⁴ The rate of achievements can be high with possible opportunities for an extension of the activity zone is restricted and the right support. The bottom-of-the-pyramid space is a widely expanding market with scope in the area of food, clothing, hygiene, etc.²⁵ The choice of things would be founded on the entrepreneur's mastery and the area of activity.

How does Startup-India help the Start-Ups?

Self-Certification:

Self-certification for compliance with a total of 9 labor and environmental laws would be permitted for Startups. No evaluation concerning labor laws would be done for 3 years. As far as environmental laws are concerned, startups falling under the 'White Category' (as per the Central Pollution Control Board) would be allowed to self-certify compliance and would only have to undergo random checks.²⁶

Legal and Financial Support:

According to this plan, the Central Government would bear the cost of all the licenses, trademarks, or designs that a startup may apply for, and the only cost to be paid by the startup.

²³ *Id.*, at 47.

²⁴ *Id.*

²⁵ *Id.*

²⁶ Rebecca Furtado, *All About Labour Law Compliances for Startups in India*, IPLEADERS BLOG (Apr. 7, 2017), <https://blog.ipleaders.in/labour-law-compliances-startups-india/>.

would be the statutory charges.²⁷ The government is planning to set up a fund to provide the requisite financial assistance to startups, with the initial amount being Rs. 2,500 Cr is increasing to Rs. 10,000Cr in a period of 4 years.²⁸

Tax Exemption:

People will be provided with exemptions if they have invested any capital gains they have acquired in the fund as mentioned above created by the Government. Additionally, the startups would be provided with the current expenses on capital gains exception for investment in therecently created MSMEs.²⁹ No income tax would be levied on the profits of startup activities for the initial 3 years.³⁰

Expertise from the Private Sector:

To guarantee proficient administration of Government supported/financed incubators, Government will arrange the setting-up of incubators all over the nation in public, private partnerships.

Focus on Student backed Start-ups:

Every year, the Annual Festival of Innovations, held in the Rashtrapati Bhavan, showcases the best 100 inventions developed by school kids from the over 10 lakh such inventions received from over 5 lakh schools. In order to encourage young talent amongst the IITians, the government has set aside Rs. 250Cr under the Uchhattar Avishkar Yojna.³¹

COVID-19 Pandemic and the impact on Startup Economy

A change in the startup investment framework was brought about due to the COVID-19 crisis. Venture Capital Firms are now preferring startups working in the field of online grocery.

²⁷ PTI, *Govt to bear the patent cost, relax procurement norms for startups*, FINANCIAL EXPRESS (Jan. 17, 2016), <https://www.financialexpress.com/economy/govt-to-bear-patent-cost-relax-procurement-norms-for-startups/> 196516/.

²⁸ *Id.*

²⁹ NITIN ZAWARE, *ENTREPRENEURSHIP DEVELOPMENT AND STARTUPS MANAGEMENT* 35 (2019).

³⁰ *Id.*

³¹ *Startup India Action Plan: PM Modi's 12 big announcements*, NDTV GADGET 360 (Jan. 18, 2016), <https://gadgets.ndtv.com/internet/features/12-significant-announcements-from-the-startup-india-action-plan-790781>.

marketing and delivery, home entertainment, etc., instead of conventional technology-centered startups.³² Apart from the sectors mentioned above, startups working in online education and cyber-security are expanding their customer base and thereby attracting investors. Even the government itself is offering \$130k to startups to build a video conferencing solution capable of simultaneously working on many different platforms.³³

While, on the one hand, the pandemic has drastically affected the financing of startups, it has also created numerous opportunities for the startups to adjust to the present economic conditions. Many of those startups that could adapt have shown high levels of growth and, hence, have attracted venture capitalists and client investors.

Whatever the case may be, the chances are very low for the entertainment and leisure industries to return to the point they were in January 2020, anytime soon. With the destruction of assets of the said industries due to the crisis, investors would be reluctant to invest in the same industry where they had been investing for the past many years that led to the crisis.³⁴

As far as the statistical impact is concerned, Indian startups raised approximately over \$350 million in over 34 deals compared to the over \$700 million earned in February in 40+ deals.³⁵ The startup industry saw a 22% decline in investment in the very first quarter of the year, with workforce layoffs and salary cuts noted across almost all major startups, including OYO, MakeMyTrip, LimeRoad, and many others³⁶

Future Prospects post the Pandemic and the sectors to target.

The government has additionally begun progressing in the direction of improving India's position in the World Bank ease of doing business index in which India is, as of now, positioned

³² *What COVID-19 crisis means for India's startup funding ecosystem in 2020*, THE ECONOMIC TIMES (May 16, 2020), <https://m.economictimes.com/small-biz/startups/newsbuzz/what-covid-19-crisis-means-for-indias-startup-funding-ecosystem-in-2020/articleshow/75771891.cms>.

³³ *Id.*

³⁴ Mohan Kumaramangalam & Alok Jagdhari, *Coronavirus impact: What Indian companies need to do to survive in a post COVID-19 world*, BUSINESS TODAY (May 8, 2020), <https://www.businesstoday.in/opinion/columns/coronavirus-impact-companies-businesses-jobs-indian-economy-profits-revenues-covid-19-pandemic/story/403186.html>.

³⁵ *Supra*, note 32.

³⁶ *Id.*

at 63rd positions.³⁷ Outside financial investors have begun looking towards India as a positive investment location. Indian start-ups demonstrate to be the significant device for occupying an enormous piece of outside riches into the Indian economy.

Start-ups in India are progressing in the field of the internet as well as in different fields too. Educational tech start-ups are another hot honey bee among different investors since it is foreseen that the total educational framework will be digitized soon.³⁸

The biggest roadblock in approaching the current year as an investor is the absence of a comprehensive understanding of the nature of the crisis and the possible exit of the same from what it currently is.³⁹ Nobody alive today has ever come across anything similar to the current COVID-19 crisis, where the future seems uncertain even after over 3 months since the beginning of this crisis. Thus, it is no surprise that most startups will have to survive with the cash reserves they have, as most of the investors will not be willing to invest in startups anymore because of the uncertainty that lies ahead.

Taking into account the important role that the indigenous startups are prepared to undertake in the progress of the economy post the COVID-19 crisis and the proportion of possible payment, as well as a high number of employment opportunities that the startups are capable of generating, even the Securities and Exchange Board has let go of certain restriction to support the flow of finances from markets to the startups.

All around the world, as the economy has either declined or completely collapsed, a large number of developed countries, including the USA, will now search for cheaper and effective ways of redistribution of IT services, monetary exchanges, and many other such industries.⁴⁰ Here lies the opportunity for the Indian Business Ecosystem. Over 1000 manufacturers, which were initially based in China, are now planning to set up bases in India.⁴¹ About 300 of

³⁷ Asit Ranjan Misra, *India's rank jumps 14 places in World Bank's ease of doing business ranking*, LIVE MINT (Oct. 24, 2019), <https://www.livemint.com/news/india/india-jumps-14-notches-in-world-bank-s-ease-of-doing-business-rankings-11571882591868.html>.

³⁸ Trisha Medhi, *E-education is flavour of the month: 7 startups rake in the moolah*, YOURSTORY (Feb. 23, 2020), <https://yourstory.com/2020/02/edtech-startup-listicle-fund-raised>.

³⁹ *Supra*, note 34.

⁴⁰ Lokendra Ranawat, *The Battle For Reviving Startup Economy In The Aftermath Of Covid-19*, INC42 (May 10, 2020), <https://inc42.com/resources/the-battle-for-startup-economy-india-in-the-aftermath-of-covid-19/>.

⁴¹ Nirbhay Kumar, *1,000 foreign firms mull production in India, 300 actively pursue plan as 'Exit China' mantra grows*, BUSINESS TODAY (Apr. 22, 2020), <https://www.businesstoday.in/current/economy-politics/1000-foreign-firms-mull-production-in-india-300-actively-pursue-plan-as-exit-china-mantra-grows/story/401462.html>.

those 1000 manufacturers are already finalizing agreements with the government to deal in multiple sectors.⁴² This would result in large-scale development in towns set up around these manufacturing units and would tremendously bolster employment.

2. CONCLUSION

Home-grown startup ventures will not just help in simplifying the life of people through their affordable and reasonable services but would also be a major shareholder in the progress of the Indian Economy.⁴³

By going all out in producing young entrepreneurs, the government can reduce the brain drain to a large extent and make local talent available to the startups. Small commitments from successful business leaders and visionaries in the form of guidance and financing of startups would impact the economy, which would boost the development of medium and large-scale businesses, thereby leading to a quickly progressing economy. With all that said, startups still have various other challenges to face, starting from launching a startup to its existence and survival in the competitive market.

Dedication and commitment from all sides of the economy and the state machinery would be required to develop India into a \$5 Trillion economy by 2025.⁴⁴ By supporting daring people and wealth creators working for a better future; we can quicken India's change into a relentless financial powerhouse.

⁴² *Id.*

⁴³ Karma Bhutia, *Can Startups Give Boost To Indian Economy?*, ENTREPRENEUR INDIA (Jun. 1, 2016), <https://www.entrepreneur.com/article/276764>.

⁴⁴ Mihir Sharma, *Can India become a \$5 trillion economy?*, THE ECONOMIC TIMES (Jun. 20, 2019), <https://economictimes.indiatimes.com/news/economy/indicators/can-india-become-a-5-trillion-economy/articleshow/69869145.cms?from=mdr>.