

## STARTUP-INDIA: WOULD IT HELP THE ECONOMY 'START UP' POST THE COVID-19 PANDEMIC?

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### Abstract

*This paper brings in light the trending topic of Indian Startup Ecosystem and the government's initiative for the same, 'StartUp-India'. It starts by introducing Startup as a business concept and how it has contributed to the nation's economy. It talks about problems faced by new and existing startups ranging from capital procurement to marketing strategies. It further goes on to talk about how the Indian Economic Environment be a fit place to run a startup and the opportunities it presents. The paper critically analyses the 'StartUp - India' scheme and how it has helped in the development of home-grown startups by providing legal and financial resources as well as the required expertise. It further analyses the impact of the COVID-19 pandemic on the economy and how startups can help revive the same once the situations start turning normal, alongside suggesting the specific sectors for investors and venture capitalists to target.*

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

### 1. Introduction

'Startup' has become the popular expression among people and for the correct reasons. India positions third all around regarding its startup environment after USA and China.<sup>1</sup> Indian society's view of business and developed has changed critically with time. The general public harboured 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.<sup>2</sup> Whatever the case may be, today's inventiveness is highly enabled as visible from the high number of

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<sup>1</sup> 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>.

<sup>2</sup> 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 organisations like IITs and IIMs. Failure, which was earlier equated with disappointment is now viewed as a step towards progress.<sup>3</sup>

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

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.<sup>6</sup> Startup India will help bolster financial development – by ensuring that people all set to getting into business are empowered with the required skills and resources – with proactive assistance and extra incentives at different instances, as and when required.<sup>7</sup> Through this activity, the Government intends to engage Startup to help enhance business, economic development and employment all over India.

Initially, providing affordable labour 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 hasn't yet crossed the point of no return and the culture of Startups has arrived in India. The initial startups have proven to be a boon for the Indian Economy and would likely help in reviving the same post the COVID-19 crisis.

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<sup>3</sup> *Id.*

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

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

<sup>6</sup> 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>.

<sup>7</sup> 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).

## 2. Startups and the Indian Economic Ecosystem

Startup eco-system is in a developing phase with thousands of startups currently running in the country. The number of startups are expected to cross the 11,000 mark by the end of this year and would employ over 2,50,000 people having technical expertise.<sup>8</sup> It is outstanding to take note of 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 US with 83,000+ involving 43% tech-based firms, 9% of which are look over by female business visionaries.<sup>9</sup>

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.<sup>10</sup> 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 harbour over 50% of the Indian startup ecosystem has gained global acknowledgement for the same. With 39,000+ start-ups and 33+ unicorns, India is today home to the third biggest startup environment, behind just the US and China.<sup>11</sup> Tech startups are driving the development of startup era and it is prepared to enhance revenue created by IT-BPM sector by right around 12-14 percent for the current fiscal year too.

India, being a gigantic country with over 130 crore residents, boasts of high statistical benefits on account of gigantic number of young workforce. India has a stand-out set of issues as a result of demographics consisting various cultures and languages, that need headways to find answers for issues identified with health, education and many other such topics.<sup>12</sup> 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

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<sup>8</sup> *Id.*

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

<sup>10</sup> NASSCOM, INDIAN TECH STARTUP ECOSYSTEM, at 13 (2019).

<sup>11</sup> 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>.

<sup>12</sup> 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.<sup>13</sup>

### 3. The Problems

A powerful start-up can't run as 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.<sup>14</sup> Following are few of the major challenges faced by this sector-

#### *Unavailability of Proper Mentoring:*

Running a startup though isn't a one man 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 a completely different thing.<sup>15</sup> It is very crucial for startups, who are in the growing phase, to have guidance from mentors who have been through a similar process of starting and expanding a business.<sup>16</sup> 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 across the globe for its affordable bunch of talent individuals, specially in the IT sector.<sup>17</sup> 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

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<sup>13</sup> *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>.

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

<sup>15</sup> 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/#2fcd4f236a1>.

<sup>16</sup> 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>.

<sup>17</sup> 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 labour may not be conceivable.<sup>18</sup>

### *Lack of Proper Marketing Strategy:*

One of the primary issue that restricts a startup from flourishing at a fast pace is a lack of good branding strategy.<sup>19</sup> The ability to influence the proposed target audience towards a product or an organisation is the core of advertising. As far as the subject of 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 capital.<sup>20</sup> The challenge isn't to just create enough seed capital yet additionally to help in development, sustenance and support.<sup>21</sup> It is basic to design your finances ahead of time.

## 4. The Opportunities

Regardless of difficulties and issues that new start-ups are confronting, Indian markets give a 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 exceptional 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.<sup>22</sup>

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<sup>18</sup> 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/>.

<sup>19</sup> 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/>.

<sup>20</sup> 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>.

<sup>21</sup> *Id.*

<sup>22</sup> Babu, *supra* note 7, at 46.



*Investment by large scale business houses:*

Huge business houses are as of now putting resources into existing startups as they can't utilize their foundation to focus on little equips like startups which 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.<sup>23</sup>

*Opportunities at the bottom scale:*

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

5. How does *Startup-India* help the Start-Ups

*Self-Certification:*

Self certification for compliance with a total of 9 labour and environmental laws would be permitted for Startups. No evaluation in relation labour 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.<sup>26</sup>

*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

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<sup>23</sup> *Id.*, at 47.

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> 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.<sup>27</sup> 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 increasing to Rs. 10,000Cr in a period of 4 years.<sup>28</sup>

### *Tax Exemption:*

People will be provided with exemptions if they've invested any capital gains they've acquired in the aforementioned fund created by the Government. Additionally, the startups would be provided with the existing expenses on capital gains exception for investment in the recently created MSMEs.<sup>29</sup> No income tax would be levied on the profits of startup activities for the initial 3 years.<sup>30</sup>

### *Expertise from the Private Sector:*

To guarantee proficient administration of Government supported/financed incubators, Government will make an arrangement for setting-up of incubators all over the nation in public private partnership.

### *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.<sup>31</sup>

## **6. COVID-19 Pandemic and the impact on Startup Economy**

A change in 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

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<sup>27</sup> PTI, *Govt to bear 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/>.

<sup>28</sup> *Id.*

<sup>29</sup> NITIN ZAWARE, *ENTREPRENEURSHIP DEVELOPMENT AND STARTUPS MANAGEMENT* 35 (2019).

<sup>30</sup> *Id.*

<sup>31</sup> *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.<sup>32</sup> Apart from the aforementioned sectors, startups working in the field of online education and cyber-security are expanding their customer base and thereby attracting investors. Even the government itself is offering \$130k to startups in order to build a video conferencing solution capable of simultaneously working on many different platforms.<sup>33</sup>

While, on 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. Resultantly, many of those startups which could adapt have shown high levels of growth and hence, has attracted venture capitalists and alien 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.<sup>34</sup>

As far as the statistical impact is concerned, Indian startups raised approximately over \$350 million in over 34 deals in comparison to the over \$700 million earned in February in 40+ deals.<sup>35</sup> 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 others<sup>36</sup>

## 7. 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 World Bank ease of doing business index in which India is, as of now, positioned

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<sup>32</sup> *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>.

<sup>33</sup> *Id.*

<sup>34</sup> 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>.

<sup>35</sup> *Supra*, note 32.

<sup>36</sup> *Id.*



at 63rd positions.<sup>37</sup> Outside financial investors have begun looking towards India as a positive investment location. Indian start-ups are demonstrating 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 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.<sup>38</sup>

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.<sup>39</sup> 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 won't 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 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.<sup>40</sup> 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.<sup>41</sup> About 300 of

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<sup>37</sup> 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-notch-in-world-bank-s-ease-of-doing-business-rankings-11571882591868.html>.

<sup>38</sup> 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>.

<sup>39</sup> *Supra*, note 34.

<sup>40</sup> 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/>.

<sup>41</sup> 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 in process of finalising agreements with the government to deal in multiple sectors.<sup>42</sup> This would result in large scale development in towns set up around these manufacturing units and would tremendously bolster employment.

## 8. Conclusion

Home-grown startup ventures won't 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.<sup>43</sup>

By going all out in producing young entrepreneurs, the government can reduce 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 have an impact on the economy, which in turn 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 the launch of a startup to its existence and survival in the competitive market.

Dedication and commitment from all sides of economy as well as the state machinery would be required to develop India into a \$5 Trillion economy by 2025.<sup>44</sup> By supporting daring people and wealth creators working for a better future, we can quicken India's change into a relentless financial powerhouse.

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<sup>42</sup> *Id.*

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

<sup>44</sup> 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>.