Action Plan for Startup India

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[**Abstract**: *This Note elaborates the Action Plan Government of India for the Startups.*]

People have the potential to work hard and all they need is a promising start. Many people have ideas and want to try them out, both to make a living and create employment for others. However, they do not know where to begin and how to access resources to give shape to their ideas. The Government of India launched the "Startup India" action programme on 16th January 2016 to help and encourage people with capabilities in idea generation and realisation. This initiative is expected to make greater contributions to economic growth and employment. Job seekers will become job creators and will have opportunities to fructify their ideas and grow further through innovation and design.

Whether in urban, semi-urban or rural areas, people have innovative ideas that may be relevant to any of the sectors of the economy, including digital technology, agriculture, manufacturing, social sector, healthcare, and education. Such people need an opening and a hand to lead them forward, without the usual trappings of the system. The 16th January initiative is one such simple "handholding" move, aimed at providing incentives and funding along with incubation support from the academia and industry for startups. A startup has been precisely defined as 'an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding Rs 25 crore in any preceding year, working towards innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property'. An entity will

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cease to be termed as a startup on completion of five years after incorporation or on attaining a turnover in excess of Rs 25 crore in a year. In order to claim tax benefits under the scheme, innovative startups will need "certificate of eligibility" from recognised incubators.[1]

The Scheme specifically mentions that the qualified startups must either develop and commercialise new products, services or processes, or significantly improve existing ones. The mere act of developing with no significant commercial value or potential will not qualify as a startup. Similarly, undifferentiated products, services and processes will be excluded.

The scheme recognises that many startups either do not get initiated or reach their potential due to limited guidance and access. Therefore, it is proposed to create a single point of contact—a hub—in collaboration with central and state governments, venture capitalists, banks, incubators, legal partners, consultants, universities and R&D institutions. The hub will assist the startups throughout their life cycle with focus on aspects like obtaining finance, feasibility testing, business structuring advisory, enhancement of marketing skills, technology commercialisation, and management evaluation. Further, the hub in collaboration with government organisations, incubation centres, educational institutions and private organisations shall organise mentoring programmes for those aspiring to foster innovation.[2]

To ensure that the startups focus on their core business and the costs of compliance remain low, the regulatory burden will have to be reduced. Accordingly, self-certification procedure shall be followed to ensure regulatory compliance with various labour and environmental laws. An inspection of the compliance to labour laws will not be carried out for three years unless a verifiable complaint is submitted in writing and is ordered by an officer above the rank of Inspector. In case of environmental laws, the inspections, if any, will be random.

[1] Katre, M. (2016), 'Startup India Standup India Action Plan, Eligibility and Scheme Details,' *Profit Books*.

[2] *Ibid*.

The procedure to register a startup will be speeded up with the help of a Mobile App w.e.f. April 01, 2016 to (i) provide easy online accessibility to relevant agencies, and (ii) help integrate with the Ministry of Corporate Affairs and Registrar of Firms for seamless exchange of information, especially with regard to downloading of registration certificate and its submission. The App will also include provisions for filing of compliance certificate as well as for obtaining information on clearances/approvals/registrations, etc. Further, the App will also be a platform for collaboration with a national network of stakeholders, enabling discussions towards enhancing venture funds, incubators, academicians, mentors, and bolstering the startup ecosystem. The App will also enable the start-ups to apply for various schemes on offer.

Startups need to be sensitised to safeguard their innovation-related knowledge with Intellectual Property Rights (IPRs). There will be a scheme for facilitating Startup Intellectual Property Protection (SIPP). Under the scheme, a panel of facilitators will be present to give advice and assist with the filing and disposal of IP applications relating to patents, trademarks and innovative designs, including appearing on behalf of the startups at hearings until the disposal of the IPR applications. While the central government will bear the entire fee of the facilitations of any number of patents/trademarks/designs, the startup will only bear the cost of the statutory fee payable.[3]

To enable the startups to pitch for government procurement contracts, the criterion of “prior experience/turnover” will not be applicable, provided they match the technical specifications with market needs. The Scheme, however, recognises that some startups may fail to take off. Therefore, subject to Limited Liability Partnership[4], such startups are allowed to voluntarily wind up within a period of 90 days.

[3] Indian Express (2016), ‘Govt to Bear Patent Cost, Relax Procurement Norms for Startups,’ January 17.

[4] Under the *Limited Liability Partnership Act, 2008*.

More often than not, startups do not have access to finance because of lack of collateral and fail to satisfy the conventional lenders owing to the high-risk nature of their businesses. In order to provide funding support to startups, the Government has proposed to set-up a Fund of Funds with an initial corpus of Rs 2500 crore and total corpus of Rs 10,000 crore over a period of four years. Instead of making direct investments in startups, this Fund will form part of SEBI's Venture Capital Funds. The Fund will be managed by a Board of private professionals drawn from industry bodies, academia and successful startups. The Life Insurance Company (LIC) will be a co-investor in the Fund.

The Fund shall contribute a maximum of 50 per cent of the stated funds. However, to receive the contribution, the balance 50 per cent or more of the stated funds should have already been raised. Credit guarantee fund for startups will be provided by National Credit Guarantee Trust Company (NCGTC)/SIDBI with a corpus of Rs 500 crore per year for the next four years. Additionality to the Fund is sought by exempting contributions from the Capital gains Tax. Even individuals investing in start-ups for purchase of equipment including computers and software are exempt from capital gains tax.

In order to address working capital requirements, the profit earned by the startups will be exempt for a period of three years, provided there is non-distribution of dividends. For similar considerations, the investments/contributions received by the startups from the Venture Funds—which are at the rates above the Fair Market Value of their shares—shall be exempt from income tax provisions.

For startups to grow, it is essential that there be cross-fertilisation of ideas both amongst themselves (nationally and internationally) and with mentors, academia and industry. The 16th January initiative also envisages holding of national and international festivals to enable startups to showcase their ideas and work with a larger audience of potential investors, mentors and fellow startups.

The Action Plan also conceives of the need to provide a nurturing environment to foster innovation and develop entrepreneurial skills. With these objectives in view, it will launch the Atal Innovation Mission (AIM). There will be another platform for generating innovative ideas and promoting the Self Employment and Talent Utilisation (SETU) scheme to encourage entrepreneurship. Towards these ends, it is proposed to have sector specific incubators and Tinkering laboratories. Potential entrepreneurs will undergo pre incubation training in various technology areas in collaboration with academic institutions having expertise in the field. Existing incubators may be strengthened as needed. Awards may also be initiated to encourage innovators. Besides, Seed Money can be given to promising and innovative startups.

A typical incubator provides physical infrastructure, mentoring support, access to market, access to networks, etc. All these will entail capital investments which will be provided by the Government. However, for developing the requisite skills and expertise, support from private sector may be leveraged. Government shall set up 35 new incubators with funding support of 40 per cent (subject to a maximum of Rs 10 crore) from the Centre, 40 per cent from the State and 20 per cent from the private sector. The management will rest with the private sector partner. All these incubators will help bring together governments, academia and industry to nurture innovation.

In order to provide facilities to 1200 new startups, it is proposed to augment the incubation and R&D efforts at 13 startup centres and 18 Technology Business Incubators (TBI). Annual funding support in the ratio of 50:50 (to be shared between DST and MHRD)[5] will also be provided for encouraging student-driven startups from host institutions.

Government has commended IIT Madras for setting up a Research Park, which endeavours to enable companies with research focus to set up base in the Park and leverage the expertise of IIT Madras. There is both a connection and a collaborative interaction between the industry and IIT. Joint Research Projects and consulting assignments help create a self-sustaining and technologically fertile environment. This, in turn, will not only encourage R&D, but also align the startups

5 DST: Department of Science & Technology; MHRD: Ministry of Human Resource Development.

with the potential needs of the industry. Such an arrangement will also result in world-class infrastructure for R&D incubators, enable the development of high quality personnel, and motivate researchers to growth professionally through part time Master's and Ph.D. programmes.

In order to encourage new entrepreneurial ventures in biotech, the biotechnology sector aims to set up an additional 2000 startups by 2020, supported by Bio-clusters and Biotech Equity Fund.[6] The initiative also includes encouraging the creative and innovative potential of scholars from institutions of higher learning and inculcating a sense of competition in them with appropriate recognition. For IIT students, project research is proposed with contributions (funds) from both the Government and the All India Association of Industries towards ensuring that the research projects are industry relevant.

From the foregoing it is apparent that incubators will play an important role in ensuring that an idea becomes a successful commercial venture. The incubators will, at the start, identify promising startups and support them throughout their ecosystem lifecycle. India looks forward to building world-class incubators; in the initial stage, it is proposed to have 10 incubators of such standard. The identified incubators will be provided with 10 crore each to hone their inherent potential and to ramp-up the quality of services on offer. These incubators are expected to become reference models for other incubators.[7] Incubators will be identified through open competition and judged on the basis of predetermined indicators. Such competition will become an annual feature!

[6] Civils Daily (2016), 'Start-up India, Stand up India: Wings to Fly [Part II],' January 25.
[7] *Op. cit.* 1.