National Policy Framework for Start-Ups Launched In India

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Organized by the Department of Industrial Policy and Promotion (DIPP), the Start-up India campaign was officially launched on January 16. It follows up on the goals announced by Prime Minister Narendra Modi in his annual Independence Day address last year.

The latest economic campaign by the Bharatiya Janata Party (BJP) led National Democratic Alliance (NDA) government, it primarily aims to address the regulatory and funding hurdles facing entrepreneurs. The Start-up India Action Plan opens up bank financing options and facilitates greater ease of doing business for start-up ventures.

"Start-Up India, Stand Up India"

Two aims stand out for the government – entrepreneurship and job creation – both have been viewed in tandem by the Prime Minister's Office (PMO) and policymakers. Thus, the central government has sought to restrict the role of states in policymaking and regulatory oversight when it comes to start-ups. In addition, the proposed regulatory relaxation incentivizes the entry of private investment into the economy – in the face of risk aversion and slow investments from corporate India. Responding to the government's business-positive mood and excited by opportunities in India's internet and solar sectors, Japan's SoftBank has announced that it could scale up its planned investment of US $10 billion in coming years.

Key Benefits

The Start-up India Action Plan is targeted only at those firms that have been recognized as start-ups. DIPP defines a start-up as an entity that is headquartered in India, established less than five years back and has an annual turnover of less than US $3.7 million (Rs 25 crore).

Such firms will benefit from the already launched Pradhan Mantri Mudra Yojana (PMMY) and the Micro Units Development and Refinance Agency Bank (Mudra Bank), which is a new microfinance institution with a fund of US $3 billion. Additionally, with the waiver of the 'angel investor' tax under the Finance Act, 2013, start-ups will now have a diversified access to funding opportunities.

Start-up India's fairly ambitious framework is to establish the following –

- Registration and single window clearance – possible even through a mobile application
- Self-certification based compliance; no inspections for three years including environmental and labor
- Reduction in patent registration fee by 80 percent
- Simpler entry and exit norms for start-ups, modified bankruptcy code
- Freedom from Capital Gain Tax for 3 years
- Freedom from tax on profits for 3 years
- Elimination of red tape
- Access to a dedicated corpus of funds worth US $1.5 billion (Rs 10,000 crore)

- Innovation hub established under the Atal Innovation Mission – to provide advisory services on financing, business structuring and management
- Innovation programs to reach 5 lakh schools targeting 10 lakh children
- Launch of new schemes to provide intellectual property rights (IPR) protection to start-ups
- Promote and facilitate entrepreneurship among women and SC/ST communities

Assessment

The above framework indeed provides start-ups with tangible benefits, which will certainly go a long way to encourage young entrepreneurs and mid-career professionals alike. Government support is also reassuring, particularly when start-up ventures are regarded as challengers to entrenched business establishments. However, the Action Plan needs to acknowledge some flaws.

- Firstly, India's start-up ecosystem has rapidly grown in the last few years largely outside the government's radar. While the new policy aims for the structural ease of doing business, it introduces interference by the government. This is achieved in the first-step where a firm has to be vetted as 'innovative' by an Inter-Ministerial Board and the DIPP – upon recommendation from an incubator – to qualify as a start-up and be eligible for benefits.
- Secondly, as the Action Plan is a key component in the NDA government's slew of economic reforms, it should include structural reforms that will oversee start-ups, for instance, ensuring free and fair competition. In this context, policies such as net neutrality become extremely vital to the tech start-up community.
- Thirdly, the government's proposals have disproportionately focused on India's fast-growing tech start-up community. Federal support – tax incentives, cost saving measures, innovation incubators and funding access – must necessarily extend to agriculture, manufacturing, and other traditional sectors. Only then can an entrepreneurial environment genuinely be fostered in the way of developed countries, not just to create jobs but also to find solutions to entrenched problems and promote R&D.
- Lastly, a three-year waiver on labor inspections obviously protects new businesses from getting stuck in the bureaucratic quagmire. However, the Action Plan exempts start-ups from inspections according to only six labor laws. In reality, there are more than 45 federal laws and even more than this number at state levels that apply to India's labor force. These details need to be ironed out between the central and state governments for meaningful implementation.