Our Heritage

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Encouraging Start Ups: Issues and Challenges

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The present regime's election manifesto promised the establishment of about 50,000 start-ups apart from assuring the establishment of 500 new incubators and accelerators along with 100 innovation zones under the urban local bodies. It is likely that this will be part of the **Start Up India Initiative** that was launched on 16th January 2016 with the initial promise that it will encourage building up a robust start up ecosystem that will "make India into a country of job creators instead of job seekers". It is expected that the government will lay out a broader vision for the creation of such an enabling environment in the coming up budgetary allocations. The government's 2018 status report[1] lists a number of initiativeshave been undertaken as part of this programme. It claims 14,036 Start-up applications have been recognised as Start-ups by DIPP while the Start-up India hub has been able to handle more than 1,16,000 queries and facilitate more than 660 Start-ups by providing advisory on business plans, pitching support, etc. The government has also allotted money for Start-ups. A 'fund of funds' of Rs 10,000 Crores was established and is under the management of SIDBI while anotherRs.1611 Crores have been committed to 32 Alternative Investment Funds, which in turn will invest in Start-ups. These funds have already invested in 170 Start-ups. The other benefits offered by the government include offering tax benefits and subsidies for registration of trademarks, designs and patents. A useful feature of the present programme is the establishment of 5000 tinkering labs in selected 5441 schools. Each such tinkering lab received Rs.12 lakh as grant-in-aid. By any measure, despite these benefits there is little doubt that the progress has been very slow.

Need and Importance

Any encouragement to improvement and expanding economic activity should be encouraged due to possible positive impact on the larger economy including job creation and

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[1]https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/Status_report_on_Startup_India.pdf

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increased collection of taxes for the government. Various government statistics clearly indicate that there is no dearth of entrepreneurial talent in the country. While lofty goals and vision are useful, implementing and working towards fulfilment of this vision in the real economy needs more than statements. The importance of business establishments to employment and overall economy can be gauged by official statistics. These statistics clearly show that India has substantial entrepreneurial talent and interest – which needs to be further nurtured.

According to the Sixth Economic Census (SEC) there are a total number of 5.85 crore establishments, an increase from 4.125 crore establishments in the country. Out of the total establishments, 22.6% belong to primary sector of which agriculture sector constitutes 22.45%, mining and quarrying constitutes 0.15%, 19.72% belongs to secondary sector (including construction which contributes 1.66%) and 57.68% pertain to tertiary sector. Invariably, start-ups are in the tertiary sector. Of course, all of these do not count as start ups and these may vary from SHGs, informal enterprises, shops and other types of business. A majority of them are those that are operated by individuals operating in the household and from a person's own home. Only about 45.37% or about 2.65 crore establishments operated outside the household and with fixed structure indicating that these qualify as businesses that provide employment to those from outside the family. These 5.85 crore establishments provide employment to 12.19 crore persons of which about 51.71% are employed or about 6.789 crore are employed in rural areas while the remaining 6.34 crores are employed in urban areas. Non-agricultural establishments provide employment to 10.841 crore persons or about 82.58%. The average number of people employed per establishment decreased from 2.30 during the fifth economic census to 2.24 during the sixth economic census period.[2]This means that though the number of establishments has increased, the average number of people employed has declined in the country.

[2]http://www.mospi.gov.in/all-india-report-sixth-economic-census

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Challenges in India

There are innumerable cases of how start-ups have grown and are useful to the economy - even in a country like India. A good example of the type of employment that start-ups can create are the cases of companies like Ola and Flipkart which have created thousands of jobs in different parts of the countries including small towns. All over the world, the growth of a start-up to a large size (called 'Unicorn') is similar to a dream come true for not only the entrepreneur but also to those who funded it and the government. A start-up is called a 'Unicorn' when they reach a valuation of US$1 billion (or about Rs.7000 crores). Unfortunately, as with most other important economic measures, encouraging start-ups is plagued in a number of problems. One of the major issue that is the need to have a greater and more exhaustive understanding of the life cycle of Start-ups and a clear approach that indicates that any investment in businesses or research and development can and often fail. It is important to note that any investment in start-ups and their subsequent success is always based on the existing enabling environment in the larger economy. As the age old saying goes "we can only take the horse to the water, we cannot force it to drink water". Hence, there is always a limit to how much the government can and must do in the business. Any inability to facilitate policy from gaining traction will mean that the policy and its efforts would have been wasted. The slow pace of traction for start-ups is one such case.

Definition of Start Up

A start-up is defined by the Department of Industrial Policy and Promotion (DIPP) of the Ministry of Commerce as an entity that is registered in India and whose annual turnover does not exceed Rs.25 crore in any preceding seven financial years if it works towards innovation, development or improvement of products or processes or services or it is a scalable business model with high potential for employment generation or wealth creation. They will be considered accordingly for a period of 7 years from incorporation. In the case of Biotechnology companies it will be 10 years.

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In India, the government should not have given the task of managing fund of funds to SIDBI for the important reason that for decades SIDBI has been mostly in the business of lending not in providing risk capital. Hence, the ethos of SIDBI is one that has no clue to the nature of a start up. Moreover, in most parts of its history, SIDBI has been the business of financing factories, other small industries or financiers including those like Microfinance companies. Therefore the fundamental problem is that the government has placed huge amounts of money in the hands of a lender when it should have placed the funds under the supervision of a highly specialised organisation which understands the nature of innovation.

The above problem indicates that there is a mistaken notion that money is all that is needed for a start-up to succeed and for an enabling ecosystem to develop.The role of money in the success of a start up only comes at a much later date – when it is clear that the idea is (a) idea is workable and competitive in the marketplace, (b) idea can be executed and, (c) idea can be scaled up. According to Carlson, is "to learn the tools of innovation" and forge entirely new, knowledge-based industries inenergy, biotechnology, and other science-based sectors are having lot of scope for start ups.[3]

What ails Start-ups in India?

Any attempt to understand what leads to the slow pace of creation of start-ups despite the huge entrepreneurial talent in the country should first force us to look at what has led to their success in two countries where they have succeeded: USA and Israel. Israel has highest start-up per capita than any country in the world.[4]China is another country where start-ups have succeeded but that is largely due to the role of government and the protection that China offers to their companies at every stage – something that is not possible and not advisable in a poor country like India.

[3]Robert M. Solow, "Growth Theory and After," Nobel Prize lecture,
December 8, 1987,
http://nobelprize.org/nobel_prizes/economics/laureates/1987/solow-lecture.html.
[4]https://hbr.org/2015/09/how-israeli-startups-can-scale

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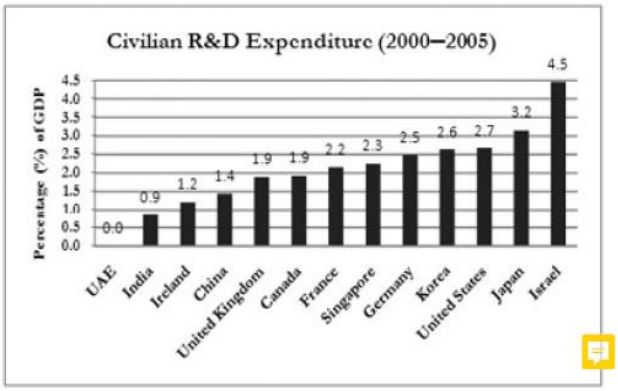
Globally three important segments encourage start ups: (a) Universities, (b) Military and,(c) Research centres of the government and private persons including companies. But the role of second and third segments is invariably linked to the ability of the education system to churn out people who can think and get smart ideas. That means that universities and colleges have to become centres of learning, knowledge acquisition and excellence – none of which exist in the country. Instead of our education system is stuck in caste, religion, regionalism and other rigidities – all of which hinder the growth and nurturing of ideas. Moreover, any such investment in the education system will lead to a qualitative change in the nature of our ideas. This qualitative change is necessary in a country like India because it is important to note that most of the Indian start-ups, especially the highly successful "Unicorns" are essentially those which have tried to replicate already successful models with modifications in India. In other words, most of our start ups are only modified versions of successful ideas in the western countries rather than original ideas. Since Indians tend to compare everything to the USA, it would be useful if we look at a few interesting statistics: a study in US[5] found that four top universities in their country (Stanford, MIT, Harvard and University of California, Berkley) raised US$96.21 billion over a period from 2006 to 2018 and led to the establishment of 3770 companies. The same study found that globally, the top 25 universities raised US$288.09 billion over the same period and led to the establishment of 11,481 – all but two of these 25 universities were in US and the other two were in Israel. Globally the leading university where start ups are established was in Stanford University in US where 1178 entrepreneurs established 1015 companies
in 2018.



[5] https://www.inc.

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Source: **UNDP (United Nations DevelopmentProgramme) Report, 2007/2008.**

The figure from the above graph shows that the investments by civilians in India on R&D is low when compared to other counties this needs to be addressed .The other important stakeholder in the spread of start-up culture is often the military establishment, especially in the Western Countries, Russia, China and Israel. In USA, the National Security Agency along with US Army is one of the most important sources of funding for futuristic concepts – many of which do not even succeed and are never heard about. Infact over the past few decades, the US Intelligence agencies are stated to have funded the establishment and/or growth of many of today's global tech majors including those like Facebook. Israel and Russian intelligence agencies and their front organisations are reported to be in the forefront of funding major investments related to Artificial Intelligence, Cyber security, biometrics and other cutting edgefuturistic technologies. Israeli Defence Force (IDF) has a whole segment reportedly referred to as "Unit 8200" which works with various universities and academic research organisations to identify and fund good ideas and talent. Over the past few years of such sustained, serious activity has created a whole ecosystem, which has encouraged such activity. Monitor study shows that entrepreneurshipis the main engine for economies to "evolve and regenerate."[6]Most often, such activity is beyond the control of the politicians and is results oriented – a practice, which India needs to desperately emulate.

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[6]*Paths to Prosperity: Promoting Entrepreneurship in the Twenty-first Century*, Monitor Company, January 2009.

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