

**BUSINESS**  
ECONOMICS

406

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# STARTUP POLICY

AND IT'S IMPACT ON  
INDIAN ECONOMY





# TABLE OF CONTENTS

**01** Introduction

**02** Literature Review

**03** Methodology

**04** Govt. Initiatives & Investments

**05** Government Schemes

**06** Analyzing Subsidies & Investments

**07** Laws & Regulations

**08** Conclusion



# SUMMARY

**59,000**

Startups spread over **623 districts** from **30 States and 7 Union Territories of India** have been recognized by the Govt.

- The purpose of this research is to acquire a comprehensive understanding of how start-ups affect the Indian economy and what policies the government has put in place to encourage these start-ups.
- First, we'll look into numerous ways of raising funds. Then we'll go over the processes for obtaining funding from government programmes.
- It is vital to understand every area of policymaking that promotes new ventures and why such policies are vital.

- We'll determine whether the business is investable and, if so, how much money should be invested.
- Then, assess the performance of the numerous start-ups in which these investors have invested, as well as the rationale for the government's offering of such subsidies.
- Analyzing the impact of laws and regulations on small businesses and offering solutions to such problems.

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Jobs were created across the country, with 45% of them having a base in Tier 2 - Tier 3 cities

# INTRODUCTION

Startups have gotten a lot of attention in India, as well as many other parts of the world, in recent years. A small startup idea can grow into a large revolutionary solution that has the potential to impact the future of developing countries.

Startups being small entities play a dominant role in economic growth. They can generate meaningful solutions and so operate as vehicles for socioeconomic development and transformation through innovation and scalable technology.

Even though start-ups are small businesses, they play a significant role in creating jobs in India. When more employment are produced, more revenue is generated for people, resulting in a much improved economy.

The circular flow of income is critical, because when people have money to spend, it is circulated in the Indian market, increasing the government's revenue. The government has introduced many policies that aim to ease the business environment for startups.



# METHODOLOGY & LITERATURE REVIEW

There were very few published articles on this particular topic. The information on this topic was obtained from an official government handle called startup India, which promotes businesses and assists in the smoothing of the funding process.

Various economic ideas were applied, for which I resorted to the cb2 book and other reading material to comprehend the rationale and present empirical evidences against the decisions made by investors when investing in start-ups.

The study provides a broad overview of these schemes, including how they are implemented in real-world scenarios and how useful they are.







*Startup India*

# GOVERNMENT INITIATIVES & INVESTMENTS

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India is the largest in number of startups being added every hour (4 startups/per hour), 3rd largest in number of startups and the 3rd largest unicorn community. The Startup India initiative was launched on 16th January 2016, by the Hon'ble Prime Minister.

The Government has recognized over 59,000 startups since then. Easy availability of capital is essential for entrepreneurs at the early stages of growth of an enterprise.

Proof of concept (POC) is required to determine whether a notion or hypothesis has practical application. In the seed and 'Proof of Concept' development stages, the Indian startup ecosystem suffers from a lack of funding.

Startups can only get funding from angel investors and venture capital firms when they have POC. Similarly, banks only lend to applicants who have assets to back up their claims. Many great business ideas fail to take off because they lack the necessary capital at an early stage.

Seed capital is critical for firms with new ideas to undergo proof of concept trials. A ₹1,000 Cr Startup India seed fund has been launched in 2021 to aid setting up and growth of new startups.

# Government Schemes

Startups require funding to expand and scale their operations. There are a number of government schemes available to help with the process of raising finances.

## 01 Types of Schemes

Various other schemes to support start-ups in India have also been introduced by the government, depending on the type of funding needed and the stage of the business cycle. MSME, Apprentice Protsahan Yojana, MUDRA scheme, Atal Innovation Mission (AIM), and SAMRIDH are a few examples of these policies.

## 02 Services offered

Different schemes have different options. Some offer tax exemptions while some provide grants depending on the business idea. There are various events arranged for people to demonstrate their innovations and providing platforms for collaborations. Startups requires funding for prototype creation, product development, Team hiring, managing working capital, legalities, licenses and certifications, etc.

## 03 Stages of Funding

They help in connecting startups with Angel investors, Venture capitalists and many more Financial Institutions that can provide funds to these businesses. There are three forms of funding mainly: equity, debt and grants. It helps startups raise finance in different series of funding. There are particularly 4 sets of funding. pre seed stage, seed funding, Series A funding, Series B,C,D,E funding.

# ANALYZING SUBSIDIES & INVESTMENTS

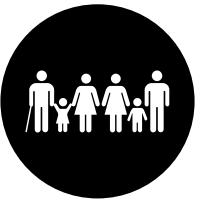
Now that we know that the government provides several incentives to new businesses, the question is whether these startups truly deserving.



## No. 01 – Opportunity Cost of Capital

If the government spends a significant amount of money to promote start-ups, it is foregoing benefits that could have been obtained through other means.

Investing in the healthcare sector, for example, would result in instant growth rather than waiting years for a start-up company to prosper and generate profits.



## No. 02 – Risk factor

Despite having the world's third-largest startup community, 80-90 percent of Indian startups fail during the first five years of their operation. For the investor, there is always a risk of business failure.

This risk can be reduced by conducting financial assessments and various forms of analyses that will help them determine whether the business is investable and, if so, how much money should be invested. The decision to offer a grant, equity, or financing is based on the startup's goal, the problems it solves, and if the business is sustainable. , Sales made by the company (if any), as well as market competitors.



## No. 03 – Externalities

If the state spends in promoting start-ups, it will not only lead to future profits, but also in the development of the sector in which the start-up is based.

It may bring innovations that can aid in the resolution of difficulties like as changing climatic circumstances, environmental concerns, sustainable development, resource efficiency, poverty, and social issues, among others. Investment in start-ups provides external benefits to society, which is the government's ultimate goal.



# ANALYZING SUBSIDIES & INVESTMENTS



## **No. 04 – Resource Utilization**

Before offering any form of capital, it is critical to thoroughly examine each and every facet of a start-up company. As we previously noted, many start-ups fail in the early stages of their operations. This has a major impact on the economy.

Resources used by these businesses are scrapped and rendered useless. It has negative externalities for society and causes resource scarcity. The capital invested or the grants permitted become useless in such cases.



## **No. 05 – Economic Development (GDP factor)**

The government anticipates more than simply profits from start-ups in the future. It expects start-ups to expand much more and contribute to the country's GDP growth. Entrepreneurs contribute to economic progress through developing new technologies, products, and services. New technology and their creative uses, in general, fuel economic growth.

Increase in revenue strengthens an economy and promotes the overall welfare of a population. In both the short and long term, entrepreneurs create new job opportunities. Engaging in regional and international trade encourages investment in regional transportation and infrastructure, which strengthens economies.



## **No. 06 – Circular Flow of Income**

The circular flow model demonstrates how money moves from producers to households and back again in an endless loop. Marketing techniques are used by start-up businesses to entice customers to try out new products at least once and experience greater comfort.

Customers will be more willing to accept domestic products rather than rely on imported goods. Instead of income leaking through savings or import spending, consumer capital will flow freely throughout the Indian economy, resulting in an increase in GDP.

# LAWS & REGULATIONS



## No. 01 – Registration Issues

When a firm is in its early stages, many entrepreneurs lack financial literacy and accounting understanding. When they are forced to write out paperwork and execute burdensome processes, many people give up their ideas. The government has addressed this issue and attempted to make the process as simple as possible. Founders are now being mentored under the new Startup India initiative, and rather than being forced to conform with regulations, they are encouraged to demonstrate their business ideas and are assisted with further procedures. This can benefit India in meeting its aim of registering the largest number of startups.



## No. 02 – Information Asymmetry

Information asymmetry occurs when one business party has more information than the other party with whom they are interacting. It is very conceivable that the entrepreneur is concealing private information or engaging in unlawful actions that he does not want to divulge in order to obtain the desired funding. When investing in a start-up idea, it is critical for the investor to carefully examine the business reports and evaluate the entrepreneur's conduct. Strict laws should be implemented to prevent such discrepancies.



## No. 03 – External Costs

When passing laws, the government should consider the interests of third parties who will be impacted. The influence of regulations on the interaction between government and large companies in general, less emphasis has been paid to understanding how government rules have affected small enterprises in particular. There are significant reasons to conclude that size matters. Small enterprises, precisely because of their smaller size, are likely to be less diversified and less able to leverage economies of scale or access capital markets. As a result, small firms may be more risk-averse and less capable of responding to unexpected occurrences than bigger businesses. Furthermore, the cost of complying with a certain legislation may be relatively equivalent for smaller and bigger firms, putting a disproportionate burden on the smaller organization.

# CONCLUSION

The government is not only promoting these initiatives to enable the current set of startups to profit from them, but it is also motivating budding entrepreneurs, startups, and students from all fields to be independent and lead the Atmanirbhar Bharat goal forward. These efforts have been launched to help the Indian startup ecosystem grow. Furthermore, while providing such incentives, the government must pay attention to businesses that innovate products that are unnecessary and have a harmful influence on the ecosystem; such businesses should not be financially supported. Whenever laws are prepared, the government should take small businesses into consideration; otherwise, they should exempt small businesses from state, local, or federal regulations, or subject them to different enforcement standards. The country appears to be entering a golden age of entrepreneurship, with India hosting as many successful companies as the United States or any other leading nation by 2030 if all goes as planned.



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All the information provided in the report is from self-learning and from the help of the above website.