



## AN ANALYSE THE GOVERNMENT SCHEMES SUPPORT TO STARTUPS IN INDIA

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### **Abstract**

*Although India's start-up ecosystem has expanded quickly in recent years, many businesses still struggle to secure capital, gain access to markets, and comply with regulations. The Indian government has introduced a number of programmes and initiatives aimed at assisting start-ups in order to overcome these issues. The Start-up India programme and other related programmes are highlighted and how government programmes aid start-ups in India. The examines how these activities have affected the start-up ecosystem, including the quantity of new businesses founded, the number of jobs generated, and the amount of financing raised. The report also analyses the difficulties start-ups experience in obtaining government assistance and offers suggestions for enhancing the efficiency of these programmes. The critical role played by government initiatives in fostering innovation and entrepreneurship in India and makes recommendations for how to further increase their influence on the start-up ecosystem.*

*Overall, the study highlights the government's efforts to create an enabling environment for startups in India through these schemes. It provides valuable information for entrepreneurs, policymakers, and researchers interested in understanding and analyzing the impact of government initiatives on the start up eco system. Further research and analysis can be conducted to delve deeper into the effectiveness and outcomes of these schemes, as well as their implications for the growth and success of startups in India.*

**Key Words:** *Start-Up Eco System, Secure Capital, Fostering Innovation, Government Assistance, Government Initiatives*

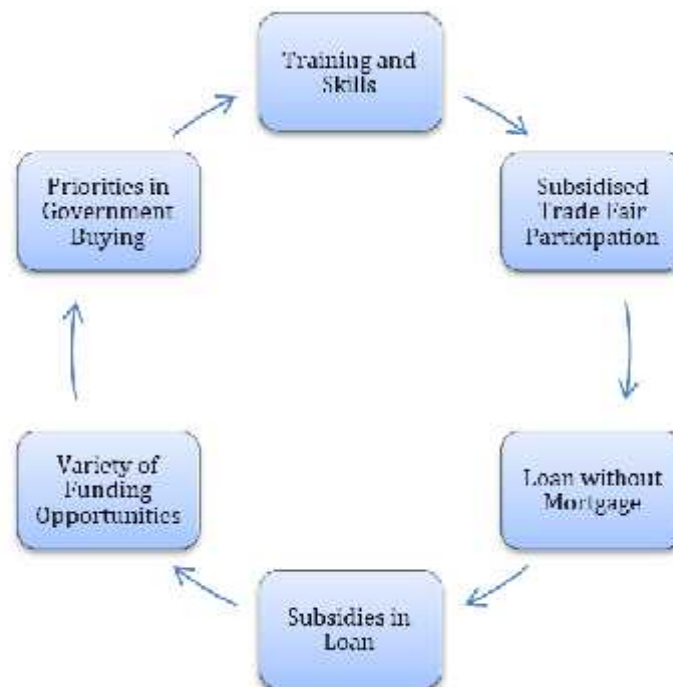
### **Introduction**

The development and support of India's startup ecosystem has been greatly aided by government programmes. Several programmes and incentives were adopted as part of the "Startup India" campaign, which the Indian government launched in the year 2016 (Godha et al. 2019). These plans included "tax advantages," "easier compliance with regulations," "access to funding and capital," and "capacity building programmes." The government sought to foster an environment that would enable startups and business owners to prosper and advance the economy of the nation through these measures. Offering "tax benefits" has played a big role in luring businesspeople to India to launch their companies. The government established tax advantages for qualified companies, including exclusions from capital gains tax, tax holidays, and lower tax rates. These steps not only made it easier for entrepreneurs to pay their bills, but they also prompted investors to provide funding. In order to encourage entrepreneurship and investment in creative startups, the government lowered tax burdens. The government has put a strong emphasis on "easier regulatory compliance" to speed up the startup establishment and management processes. Complex regulatory procedures are a common obstacle for startups, which can limit their ability to expand. In order to solve this issue, the government put into place procedures that would make the licensing, compliance, and registration procedures for startups easier to complete and quicker. Online platforms and self-certification tools made it simpler for entrepreneurs to circumvent bureaucratic constraints and concentrate on their main business operations.



The creation of "incubators and accelerators" across the nation was one of these government programmes' major accomplishments. To increase their chances of success, these facilities offered companies "mentorship," "infrastructure," and "networking opportunities" (Jain, 2016). The government saw the value of mentoring and assistance for entrepreneurs, particularly in the early phases when they face multiple difficulties with regard to resources, experience, and market access. The government made sure that entrepreneurs had access to seasoned mentors who could offer helpful direction and advise by establishing incubators and accelerators. Additionally, these facilities' infrastructure and shared resources allowed entrepreneurs to cut their operating expenses and concentrate on innovation and growth.

The government's Startup India project also included innovation programmes, incubators, and accelerators, as well as the "Startup India Seed Fund" (Singh, 2021). During their first growth phase, this fund gave early-stage firms the vital financial backing they needed. Startups were able to develop their ideas, expand their businesses, and bring in more investment thanks to the availability of finance at a critical time. By providing the required funding to develop creative ideas into workable enterprises, the Startup India Seed Fund aims to close the gap between the point of inspiration and the business development era. Figure 1 presents the Role of Government Schemes in Building Startup Ecosystem, specifically in the context of the MSME



Despite the overall positive impact of government schemes, start-ups still face several challenges in accessing government support. For example, the process of applying for government support can be cumbersome, and start-ups may not have the necessary resources to navigate the bureaucratic system. Moreover, there may be a lack of awareness among start-ups about the various schemes and initiatives launched by the government.

This paper aims to examine the role of government schemes in supporting start-ups in India, with a particular focus on the Start-up India program and other related schemes. The study will analyze the



impact of these initiatives on the start-up ecosystem, including the number of start-ups established, jobs created, and funding raised. The paper will also discuss the challenges faced by start-ups in accessing government support and make recommendations for improving the effectiveness of these schemes. Overall, the study aims to highlight the crucial role of government schemes in promoting entrepreneurship and innovation in India and suggest ways to further enhance their impact on the start-up ecosystem.

## Background

Start-ups have emerged as a vital component of economic growth and innovation across the globe. In India, the startup ecosystem has witnessed significant growth and attention over the past decade. The government has recognized the potential of startups in driving economic development, creating jobs, and fostering innovation. The rise of startups in India can be attributed to several factors. First and foremost, advancements in technology and the digital revolution have paved the way for innovative ideas and business models. The accessibility of affordable technology, internet penetration, and the widespread use of smart phones have enabled entrepreneurs to reach a larger customer base and disrupt traditional industries. Additionally, India's demographic advantage, with a large youth population and a growing middle class, has fuelled the demand for innovative products and services. This, coupled with a supportive ecosystem of investors, mentors, and incubators, has provided entrepreneurs with the necessary resources and guidance to launch and scale their ventures. Recognizing the potential of start-ups in driving economic growth and employment generation, the Government of India has introduced various initiatives and policies to support the startup ecosystem. These initiatives aim to create an enabling environment by providing financial assistance, regulatory support, infrastructure, and networking opportunities to start-ups. Government schemes such as Startup India, Standup India, and Atal Innovation Mission (AIM) have been instrumental in facilitating the growth of start-ups in India. These schemes provide access to funding, tax incentives, mentorship, and incubation support, allowing entrepreneurs to overcome initial challenges and establish sustainable businesses. The government's focus on startups is also reflected in regulatory reforms, such as the introduction of relaxed norms for angel investments, simplification of business registration processes, and relaxation of labor laws for startups. These measures have reduced bureaucratic hurdles and created a more favourable environment for entrepreneurial ventures. Furthermore, the startup ecosystem in India has witnessed increased participation from venture capitalists, angel investors, and corporate, who have recognized the potential for high returns and innovation. This influx of capital and expertise has further fueled the growth of startups in India.

## Start-Up India Initiatives

Start-up India is an initiative launched by Government of India, in order to create a strong eco-system for nurturing innovation and Start-ups in the country in order to drive sustainable economic growth and generate large scale employment opportunities. The Government's objective is to enhance Start-ups to grow through innovation and design. The Government of India has announced the Action Plan under this initiative which addresses all aspects of the Start-up ecosystem on 16th January 2016. The government has launched various schemes for start-up under this initiative. The schemes are further discussed in the study. The start-up India Campaign led to the formation of start-up India Hub which has been able to access queries varying around 1,14,000 from Start ups through electronic and social media and has guided around 660 Start-ups for incubation, funding support, on business plans, pitching support, etc. Besides this, 14,036 Start-up applications have been recognised as Start-ups by DIPP. 22 States including Andhra Pradesh, Assam, Bihar, Telangana, Chhattisgarh, Goa, Uttar Pradesh, Gujarat, Jammu and Kashmir, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra,



,Haryana, Himachal Pradesh Odisha, Punjab, Rajasthan, Sikkim, Uttarakhand and West Bengal have already formulated Start-up Policies since October 2014(Startup India Report 2018). The present study will gives the idea of viability and usage of government schemes and subsidies in the start-up market.

### **Government Schemes for Start-ups: An Overview**

**Definition of Startup:** The definition of a startup can vary depending on the context and the source. In the context of government schemes for startup initiatives in India, the definition generally aligns with the one provided by the Department for Promotion of Industry and Internal Trade (DPIIT), Government of India, under the Startup India initiative. According to this definition, a startup is defined as follows:

"A startup is an entity, incorporated or registered in India not more than ten years ago from the date of its incorporation/registration.

However, in the case of biotechnology startups, the period shall be up to fifteen years from the date of incorporation/registration. It should aim to develop and commercialize a new product, process, or service driven by technology or intellectual property."

### **Characteristics**

Based on this definition, startups are typically characterized by the following aspects:

1. **Timeframe:** The startup should have been incorporated or registered in India within the last ten years (or fifteen years in the case of biotechnology startups) from the date of incorporation/registration.
2. **Innovation and Commercialization:** The startup should have a focus on developing and commercializing a new product, process, or service. The emphasis is often on leveraging technology or intellectual property to drive innovation.

### **Evolution of Startup Initiatives in India**

The evolution of startup initiatives in India has been driven by various factors, including economic reforms, technological advancements, and the recognition of the importance of entrepreneurship in driving innovation and economic growth. Here are key phases in the evolution of startup initiatives in India:

#### **Pre-Liberalization Era (Pre-1991)**

Prior to the economic liberalization in 1991, the Indian economy was characterized by a controlled and regulated environment with limited opportunities for entrepreneurship and private sector participation. Startups were primarily focused on traditional industries and faced numerous regulatory hurdles and bureaucratic challenges.

#### **Economic Liberalization and IT Boom (1991-2000)**

The economic reforms introduced in 1991 opened up the Indian economy, leading to increased foreign investment and the emergence of a more favourable business environment. The IT boom in the late 1990s played a significant role in shaping the startup ecosystem, with a focus on software services and IT-enabled services. The growth of technology parks and the establishment of incubators provided infrastructure and support for startups.



### **Rise of E-Commerce and Mobile Technology (2000-2010)**

The early 2000s witnessed the emergence of e-commerce startups, driven by increasing internet penetration and a shift towards online shopping. The advent of mobile technology and the widespread use of smart phones created new opportunities for startups, particularly in sectors such as mobile apps, digital payments, and online marketplaces. Angel investors and early-stage venture capital firms started showing interest in supporting startups, leading to the growth of the startup funding ecosystem.

### **Startup India Initiative and Government Support (2015-present)**

In 2015, the Government of India launched the Startup India initiative to foster innovation and entrepreneurship in the country. The initiative introduced various policy reforms and measures to create a favorable ecosystem for startups, including tax incentives, easier business registration, and access to funding and mentorship. Government schemes such as Startup India, Standup India, and Atal Innovation Mission (AIM) were introduced to provide financial assistance, support infrastructure, and promote innovation among startups. The government's focus on start-ups has led to increased awareness, a surge in funding, and the growth of incubators, accelerators, and co-working spaces across the country.

### **Expansion Beyond Tech Startups (Present)**

The startup ecosystem in India has evolved to include startups in diverse sectors such as fintech, healthcare, Agritech, edtech, renewable energy, and social entrepreneurship. The focus has shifted towards solving local challenges, creating social impact, and addressing the needs of underserved markets.

The involvement of corporate in supporting startups through innovation programs, incubation centers, and funding has further contributed to the growth of the ecosystem. The evolution of startup initiatives in India has been a dynamic process driven by changing economic, technological, and policy landscapes. The government's active role in promoting entrepreneurship and creating an enabling environment has played a crucial part in nurturing the startup ecosystem and attracting investments and talent to the country.

### **Analysis of Government Startup Schemes**

#### **Scheme 1: The Startup India Initiative**

The Startup India Initiative, launched in 2016 by Prime Minister Narendra Modi, has emerged as the flagship government scheme for startups in India. With a wide reach, encompassing over 50,000 businesses, this initiative offers a plethora of resources, including e books, courses, and mentorship programs, to foster leadership and skill development among entrepreneurs. Key advantages provided by the Startup India Initiative include tax exemptions, cost reduction measures, a streamlined business wind-up option within 90 days, access to funds, self-certification compliance under labor and environmental laws, and expedited patent registration with an 80% fee rebate. To be eligible for this government scheme, startups must be registered as a partnership firm, private limited company, or LLP. Their turnover should not exceed 100 crores in any of the previous financial years, and they must apply within ten years from their date of formation.

#### **Scheme 2: The Startup India Seed Fund Scheme (SISFS)**

The Startup India Seed Fund Scheme (SISFS) is a government initiative that provides financial support to early-stage startups in India. With a total budget of 945 crores, the scheme aims to assist startups in their market entry, prototype development, product trials, commercialization, and proof of





concept stages. It is expected to benefit around 3600 startups in the country. Under the scheme, grants of up to 20 lakh rupees are provided to startups for the development of trials or prototypes. The primary objective of the scheme is to foster an innovation-driven culture and promote startup development in India. To be eligible for the Startup India Seed Fund Scheme, startups must meet the following

### Criteria

**Recognition by DPIIT:** The startup must be recognized by the Department for Promotion of Industry and Internal Trade (DPIIT), which is the nodal agency for startup recognition in India.

**Scalable, Innovative, and Tech-Based:** The product or idea proposed by the startup should be scalable, innovative, technology-driven, and feasible for implementation.

**Indian Promoters:** The Indian promoters or founders of the startup must hold shares equal to or more than 51% of the company. **Timely Application:** The startup must apply for the scheme within two years from the date of its incorporation. One unique selling point of the Startup India Seed Fund Scheme is its industry-agnostic approach, meaning it supports startups across various sectors and does not require physical incubation. This allows startups from diverse domains to benefit from the scheme and receive the necessary financial assistance to propel their growth and development.

Scheme 3[Pradhan Mantri MUDRA Yojana

PMMY is a government scheme launched by the Government of India in 2015 with the aim of promoting entrepreneurship and providing financial support to micro and small enterprises. The scheme primarily focuses on facilitating loans to non-corporate, non-farm small/micro enterprises.

Key features of the Pradhan Mantri MUDRA Yojana include:

### Loan Categories:

The scheme offers loan under three categories-Shishu, Kishore, and Tarun - based on the stage of business and financial requirements. **Shishu:** Loans up to 50,000 for businesses in the initial stages.

**Kishore:** Loans ranging from 50,001 to 5, 00,000 for established businesses looking for expansion.

**T arun:** Loans ranging from 5, 00,001 to 10, 00,000 for larger enterprises with higher capital requirements.

### Loan Eligibility

Micro and small enterprises, including small manufacturing units, vendors, shopkeepers, artisans, and service providers, are eligible for loans under PMMY.

### Loan Processing

The loans are provided by various financial institutions, including banks, non-banking financial companies(NBFCs), and microfinance institutions(MFIs), which are registered under the PMMY scheme.

### Collateral-Free Loans

Under PMMY, loans up to 10, 00,000 are collateral-free, meaning borrowers do not have to provide any collateral or security for obtaining the loan. **Timely Application:** The startup must apply for the scheme within two years from the date of its incorporation. One unique selling point of the Startup India Seed Fund Scheme is its industry-agnostic approach, meaning it supports startups across various sectors and does not require physical incubation. This allows startups from diverse domains to benefit



from the scheme and receive the necessary financial assistance to propel their growth and development.

### Refinancing

MUDRA also provides refinancing support to eligible financial institutions, which enables them to offer loans to micro and small enterprises. IT has played a significant role in promoting entrepreneurship, fostering financial inclusion, and supporting the growth of micro and small enterprises in India.

### Conclusion

The study highlights the significance of the Startup India Initiative, which is the largest government scheme for startups in India. It offers several benefits, including tax exemptions, cost reductions, access to funds, fast-track patent registration, and easy business wind-up options. The eligibility criteria for this scheme require the startup to be registered as a partnership firm private limited company, or LLP, with turnover limitations and a specific time frame for application.

Another important scheme analysed in the study is the Startup India Seed Fund Scheme (SISFS), which provides financial assistance to early-stage startups for market entry, product trials, and prototype development. The SISFS aims to foster innovation and doesn't require physical incubation, making it industry agnostic. The eligibility criteria for this scheme include recognition by the Department for Promotion of Industry and Internal Trade (DPIIT), the innovative and scalable nature of the product or idea, and the majority shareholding by Indian promoters.

The study also provides data on the number of new entrepreneur accounts opened and the average amount sanctioned and disbursed during the period from 2015 to 2022. The data reveals fluctuations in the number of accounts opened and variations in the average amounts sanctioned and disbursed over the years, influenced by factors such as economic conditions, policy changes, and the overall business environment.

Overall, the study highlights the government's efforts to create an enabling environment for startups in India through these schemes. It provides valuable information for entrepreneurs, policymakers, and researchers interested in understanding and analyzing the impact of government initiatives on the startup ecosystem. Further research and analysis can be conducted to delve deeper into the effectiveness and outcomes of these schemes, as well as their implications for the growth and success of startups in India.

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