

Small scale Industries Development Policies in India – A Study

***Bahadur Khan.J. Asst Professor of Commerce and Management, Govt First Grade College, Bangarpet.**

Abstract

This paper intends to study the Small Scale Industries Development Policies startup ecosystem in India added by startup and standup initiatives of Government of India. Among the many initiatives launched by the Government of India in the recent past has been the unique Stand Up India Scheme aimed at boosting the entrepreneurial capabilities of the not so privileged which covers the SC/St and women. This flagship endeavour of the Government launched in April 2016 is anchored by the DFS (Department of Financial Services) under the overall supervision of the Ministry of Finance. It is typically designed to facilitate Stand Up India Loan to the eligible entrepreneurs who qualify for assistance from the banks and NBFCs.

A detailed study to learn the Stand Up India scheme details and the features of the loan shall be able to draw a clear picture of the scheme in general and also its relation with Startup India Scheme launched a few months earlier with more generalised goals to help grow entrepreneurship and greenfield projects in India. It is interesting to note that both the Stand Up India and Startup India are similar to the extent being enablers and beneficiaries of the other landmark schemes of the Government of India like Make in India, Bharatmala and Sagarmala to name a few. However, Stand Up India is dedicated to the uplift of the Scheduled Caste and Tribe (SC/ST) community as well as Women entrepreneurs who have faced bias and challenges in their business ventures. To remove this deficiency in the eco-system within the country, the scheme was launched with a very broad spectrum. The Startup India Action Plan intended to build a strong support ecosystem that is conducive for the growth of startups and supports the spirit of entrepreneurship in the country. It emphasised on self-compliance, which made the team working at the Startup India Hub a key stakeholder in the ecosystem to work in a hub-and-spoke model and collaborate with various enablers. With the introduction of the Fund of Funds worth INR 10,000 Cr, the Indian government took the first step in making startups a viable means of livelihood and not just 'jugaad' (a Hindi word meaning an improvised or impromptu solution to something). Also, it made the youth of the country look at entrepreneurship as a viable career option. At the same time, government think tank NITI Aayog launched the Atal Innovation Mission to foster innovation among budding entrepreneurs at the grassroots level. As part of this, 5,441 Atal Tinkering Labs have been set up across the country. In the Union Budget for 2017, the government also allocated \$480 Mn (INR 3414.19 Cr) for new-age technologies to further support innovation in the Indian startup ecosystem.

Keywords— NITI, India, Atal Tinkering Labs, Indian startup ecosystem, innovation

Introduction

Under the Startup India programmed, startups were defined and redefined. For instance, the startups' age was also increased from 5 to 7 years (10 in the case of biotech). The government has taken various initiatives to boost the growing startup culture in the country such as fast-tracking of startup patent applications, income tax exemption, and self-certification. It also launched the Startup India Hub to bridge the gap between various stakeholders of the startup ecosystem. And if that's not enough, the buzz generated by the programme helped open up a lot of opportunities for startups. Take funding, for instance — according to Inc42 DataLabs, between 2016 and 2017, over \$30.3 Bn was invested in Indian startups across 2,550 deals. Also, VC investments saw

a moderate rise despite an overall fall in funding in 2017, which indicates a positive sentiment among the investors in the near term. Startup India: Impact On Individual States In the past few years, several states have taken the onus to build their own incubators, coworking hubs, etc, to boost the innovation in the state.

Earlier, defence minister Nirmala Sitharaman had asked local MPs to set up coworking spaces in their constituencies. Recently, Rajasthan launched Bhamashah Techno Hub, one of the largest incubators in the country, and Kerala launched one of the biggest coworking spaces in India. Karnataka announced a credit line of INR 2,000 Cr (\$281 Mn) for the startup ecosystem in the state, with an aim to have at least 20,000 startups by 2017. Telangana, Andhra Pradesh, Odisha, Madhya Pradesh, and Gujarat are some other states that offer end-to-end support to startups and have come up great initiatives to boost their respective ecosystems. DIPP's State Startup Ranking Framework: The Game Changer At the core of the Startup India programme are the state startup policies, which the states have started to take seriously under the overview and guidance of Department of Industrial Policy and Promotion (DIPP) and the Centre. Before Startup India was launched, just four states had their startup policies in place and today, 24 Indian states have introduced their own policies. The DIPP recently released the State Startup Rankings on the basis of the Startup Policy Framework for 2017 under which Gujarat was rated the 'Best-performing state', while Karnataka, Rajasthan, Odisha, and Kerala took the title of the 'Top-performing states.' One of the interesting aspects of these rankings was the DIPP's effort to highlight the strength and weaknesses of each state in a separate state report, in which they highlighted the steps forward for the state to perform better.

Policy Changes Making Slow Progress Inc42 in its annual year-end series '2017 in Review', noted that the pace of policy formulation has been slow in the country. While some of these policies, like Drone Regulations 1.0, are already in effect, others have been drafted, are being redrafted, or are pending approval. The list includes: The Startup India programme has, in fact, been facing a serious threat because of the angel tax issue and angel investments have been declining in the last two years. Recently, the DIPP issued a notification easing the angel tax exemption process. However, the notification has limited appeal. It neither caters to the concerns of all the startups facing angel tax issues nor addresses the core concern — the DCF (discounted cash flow) valuation method. Further, this existing angel tax exemption mechanism is applicable only to those DIPP-recognised startups whose aggregate amount of paid-up share capital and share premium after the proposed issue of share does not exceed INR 10 Cr (\$1.4 Mn). Additionally, the approval mechanism will also be applicable to startups incorporated before April 2016. Initially, the exemption was restricted to a maximum 3-years for startups. Startups that were born before 2012 and those that have received assessment orders have already been excluded from the exemption mechanism.

Objective:

This paper author explores the startup and standup initiative taken by Indian government under the leadership of the prime minister Narendra Modi and how this schemes are empowering the youth of India

Is Indian Startup Ecosystem Gunning the Number 1 Slot?

Overall, Startup India has provided a major push to the country's entrepreneurial and innovative spirit. According to Inc42's State Of The Tech Startup Ecosystem Report 2017, India now has 26 unicorns and more than 31 soonicorns. Overall, startups have created a value of \$130 Bn. With global investors such as Sequoia Capital, SoftBank, Tencent, and Alibaba bullish on the Indian tech and consumer internet segment, we are also seeing startups come up in core manufacturing to leverage the Make In India campaign. Just last year, India surpassed Vietnam and gained the second position in the mobile manufacturing segment. Also,

the Indian government's attempts to build exchange programmes with foreign startups in countries like Germany and SAARC nations has opened new doors of opportunities for the stakeholders in the startup ecosystem.

The formation of international startup corridors with countries like Japan, the US, the UK, Israel, and Portugal, among others, will certainly boost the startup and cross-border investor sentiment as well. Even as the Modi government enters the last phase of its current term, there are a plethora of issues such as pending policies, angel taxation, infrastructural and bureaucratic hurdles that startups still have to face and need to be resolved at the earliest. According to a survey of 15K startups, only 18% of the respondents said they actually benefited from the Startup India scheme. Only 163 startups had benefited from the Fund of Funds in the last three years till December 31, 2017, and the fund allocation and distribution is coming down further. This poses a question over the efficacy and cost-effectiveness of the scheme. The government needs to address each of these concerns before we can even think of an ecosystem like that of Israel or Silicon Valley. Gender parity is still an issue in the startup ecosystem and the revelations of #MeToo left the Indian startup ecosystem disturbed. But amid the good and the bad, the Indian startup ecosystem continues to grow manifold and carve out an ever-expanding niche for itself in the global ecosystem.

The salient features of Stand Up India Scheme are:

- It is aimed to remove and acknowledge the challenges faced by members of the SC / ST community and women entrepreneurs by providing loans to build greenfield projects comprising of services, manufacturing or trade.
- Amount of Loan: The loans are designed to be in the range of Rs.10 lakhs to Rs.1 crore at the maximum. However, the cap of finance of 75% shall not apply if there is a contribution by the borrower greater than 25%.
- Holding Pattern: In the case of group enterprise, a minimum of 51% stake and shareholding must belong to a woman entrepreneur or a member of the SC / ST community.
- Nature of Stand Up India Loan Scheme: It is in the form of a composite loan which includes term loan and working capital loan.
- Loan Delivery: The loan will be extended by all scheduled commercial banks and some NBFCs with loans designed in the pattern of the scheme via SIDBI's Stand Up India portal or the Lead District Manager.
- Security: At the discretion of the bank the primary security will be additionally reinforced by the provision of collateral or Stand Up India Scheme subsidy in the form a guarantee from the Credit Guarantee Fund Scheme for Stand Up India Loans (CGFSIL).
- Repayment: The repayment terms of the loan under Stand Up India is very liberal, extending up to a maximum of 7 years inclusive of a moratorium of 18 months.
- Working Capital Finance: Up to Rs.10 lakhs can be drawn in the form of Overdraft. But if the need is higher, then the facility has to be converted into a Cash Credit facility with an appropriate limit.
- Margin Money: It is expected that the State / Central Government will provide Stand Up India Scheme Subsidy to the tune of 25%, it is also expected that the promoter of the project will cough up 10% of the overall cost.

On 69th Independence Day of India, standing at the historic Red Fort, Mr. Narendra Modi announced the much needed 'Start-up India, Stand up India' campaign which is being welcomed by conglomerates like Soft Bank by identifying it as the beginning of Big Bang for Indian Start-up ecosystem. Does claims like this have any basis in reality ? Give 2 minutes to this blog post and you'll form an opinion of your own.

What is Start-up India, Stand up India ?

A start-up ecosystem comprises of entrepreneurs, different kinds of financial support such as debt financing, equity investments, grants, and non-financial support including incubation, acceleration support, mentoring and technical experts. It also includes the government policies and programmes relevant to start-ups, academia and other organisations and firms that in different ways interact with or support start-ups. The kinds of new start-ups that offer an opportunity for growth and employment generation are considered to be those that are innovating, driven and looking to scale. Cash flow, creating a capacity to scale and finding the right people have always posed to be major challenges for India start-ups and these are the issues that 'Startup India, Stand up India' campaign is aimed at addressing.

The event that witnessed the inauguration of this scheme by Mr. Arun Jaitley on 16 January 2016 was attended by top notch 40 CEOs, start-up founders and investors from Silicon Valley, including Masayoshi Son, CEO of Soft Bank, Sachin Bansal, founder of Flipkart and many others. The event was a huge success as it was for the first time when two lakh passes were sought to attend the Start-up India workshop at Vigyan Bhavan, New Delhi which has a total seating capacity of only 1,350 individuals.

According to the scheme that is announced, a start-up is an entity that is headquartered in India, which was opened less than 5 years ago and have an annual turnover less than Rs. 25 Crore (US \$ 3.7million). Primarily, 'Startup India' campaign is based on an action plan aimed at promoting bank financing for start-up ventures to promote entrepreneurship and encourage start-ups with jobs creation whereas 'Stand up India' initiative is aimed at promoting entrepreneurship among SC/STs, women communities.

If we look back to the times before liberalisation, there was no such climate for a startup ecosystem to thrive. Even after the establishment of National Science and Technology Entrepreneurship Development Board (NSTEBD) in 1982, there was no such ecosystem even in a far sight. It was only in 1995-1996 that the startup ecosystem started to develop. It was possible because India started gaining a lot of experience and expertise in IT sector as more and more young boys and girls started moving to U.S and Europe as IT professionals. That's how sometimes the evil of 'brain drain' helps in disguise.

Stand Up India Registration:

- The basic requirement for Stand Up India Loan Application is through the process of registration, which can be accomplished in a few steps as under.
- Select the category between SC, ST, Woman, and whether the stake held is 51% or higher.
- Select the nature of the proposed business; the loan amount desired description of the business, the details of the premises etc.
- Populate the fields with the past business experience, including tenure.
- Select the need for hand-holding is required.
- Enter all the personal details sought, which include the name of the enterprise and the constitution.
- The last step is to select the register button to complete the process.

- Once you have completed registration, you are eligible to initiate the Stand Up India Loan Application process with the respective financial institution for the officials to contact you for completing the Stand Up India Loan Process and requisite formalities.
- The basic aim of Stand Up India is to work for the empowerment of the not so privileged component of the society who are victims of caste and gender bias. Accordingly, the schemes envisage promotion of economic development of these sections and help in the generation of employment. The digital platform is designed in such a way that the scheme benefits 2.5 lakh borrowers in the targeted SC / ST and women category through the delivery of loans by 1.25 lakh bank branches pan India. In addition to the facilitation of loans to the target audience, it also additionally provides hand-holding, guidance, mentoring and skill development for budding entrepreneurs.

Stand Up India Loan Application:

The process of registration also empowers you to submit the Stand-Up India loan apply online but also allows the benefit to check to Stand Up India loan status.

NBFC has a similar scheme for woman entrepreneurs where the process is completely online. The difference lies in the fact that we grant loans to women without any collateral at competitive rates of interest and are integral to the aim of women empowerment.

Major Action Plan

Prime Minister, Mr. Narendra Modi while addressing the first conference of start-up entrepreneurs introduced the action plan to foster the new start-ups. Here are the major key points of that action plan aimed at reviving the ecosystem of Indian Start-ups:

- To reduce the regulatory burden on start-ups, self-certification option will be provided, and it will apply to laws like payment of gratuity, contract labour, employees provident fund, water and air pollution acts.
- Creation of start up India Hub for easy access to knowledge and funding at one spot.
- Ease of registration by filling up a short form through a mobile app.
- Legal Support for fast-track patent examinations at lower costs. (80 % rebate in fees for filing patent applications)

Possible Hiccups

Although the scheme looks promising for the initial boost, still there will be some hindrances which should be looked into. In India, Startups have always faced snags like corruption and government indifference, and the fear of giant corporates that might oppose or kill the start-ups which challenge them. The author is of the opinion that as far as government indifference towards policy making in this regard is concerned, the clouds seem to be clearing but the blight of corruption, and anti-competitive practices still looms over the budding saplings of start-ups. The setting up of 'inter-ministerial board' led by the Department of Industrial Policy and Promotion to decide on the 'innovative nature' of a enterprise in order to qualify the same as a start-up is also not a laudable step under this scheme because it is quite evident from past experience that the direct involvement of government is not desirable for the unbiased growth of start-up ecosystem. The author would like to recommend that it is a regulation which must

be done away with if the government doesn't want new start-ups to register in a foreign land like Flipkart (a company whose founder is an The idea was simple-simplify compliance and roll out an action plan for giving a fillip to innovation and entrepreneurship in the country. In this direction, the government announced measures such as compliance based on self-certification, a mobile app to provide on-the-go accessibility for registering startups with relevant agencies of the Government, creation of a Startup India hub, legal support and fast-tracking patent examination at lower costs, tax exemption for startups, providing funding support through a Fund of Funds with a Corpus of Rs 10,000 Cr, and launching of Atal Innovation Mission among many other initiatives.

The whole premise of the government was to make India a startup nation. As the BJP government completes its four years, it's time to look at all those promises made and evaluate-has India actually become a startup nation? Have things eased out for entrepreneurs who want to take a plunge in entrepreneurship? How much support has the government been able to provide as far as the funding problem for startups is concerned?

In line with the Startup India Action Plan unveiled by Government in January 2016, the Union Cabinet approved the establishment of "Fund of Funds for Startups" (FFS) in June 2016 at the Small Industries Development Bank of India (SIDBI) for contribution to various Alternative Investment Funds (AIF), registered with Securities and Exchange Board of India (SEBI) which would extend funding support to startups.

The corpus of FFS was set at Rs.10,000 Cr to be built up over the 14th and 15th Finance Commission cycles subject to progress of the scheme and availability of funds. The fund was expected to generate employment for 18 lakh persons on full deployment. Indian citizen) did in 2007 by registering itself in Singapore.

Conclusion

The action plan unveiled by Mr. Modi is a wave maker, but to make it a radical stimulus for the growth of start-ups, it is very much necessary that the power to decide the viability and existence of start-ups is taken away from the 'inter-ministerial board.' It is recommended that instead of 'inter-ministerial board,' a board of 'professional experts' should be set up to decide on the viability of start – ups. Further, to make sure that this board of 'professional experts' takes unbiased decisions on the applications received, a conclusive set of regulations should be made to regulate its conduct while making any decision on the 'existence and viability' as well as 'eligibility for tax benefits' of new start-ups. In the case of any conflicts arising out of bigoted decisions, one should be given an option to approach the Indian Judiciary.

Other than this board of 'professional experts', we need some effective structural reforms that permit free and fair competition'. For example, Net neutrality is a policy requirement that will determine the future for tech start-ups or any other startups which want to float themselves on the net. The author is hopeful that if the above-mentioned policy and structural reforms are done, then this campaign of Government of India will prove to be Big Bang for the Indian start-up ecosystem.

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