

India Needs Regulations To Promote Tokenomics To Boost Startups, MSMEs

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Tokenomics refers to the fragmentation of real-world assets into digital units or tokens, which can then be sold to investors through a blockchain platform

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India must frame regulations to promote tokenomics as a mainstream avenue for fundraising by 1.2 lakh growth-stage startups and MSMEs in the country, who stand to benefit from this funding avenue, said experts at a cross-border startup summit in Mumbai.

The summit was organised by MVIRDC World Trade Center Mumbai and Sardar Patel Technology Business Incubator along with the All India Association of Industries (AIAI).

“At present, tokenomics is a regulatory grey area. We need clear regulation, investor awareness and technology adoption to develop tokenomics in the country,” said Satish Kataria, Co-founder, Fandora, a content Intellectual property tokenisation platform.

Tokenomics refers to the fragmentation of real-world assets into digital units or tokens, which can then be sold to investors through a blockchain platform. This would facilitate fundraising through these digital units or tokens that can be traded just like stocks and bonds in the secondary market.

Unlike large corporates, startups do not have deep pockets and have to raise funds at regular intervals, for which they can set up structures in foreign countries. However, they need to be wary of regulations applicable to offshore entities, experts said.

Priya Kapasi, Principal Associate, Treelife, a consulting firm said, “When it comes to offshore entity structuring, such as flip or externalization, startups should prioritize gaining a comprehensive understanding of the legal and tax implications involved. This includes considerations such as Exchange Control Regulations and Transfer Pricing, among others. Thorough research and compliance with both Indian regulations and the regulations of the chosen offshore jurisdiction are also crucial.”

Earlier in his welcome remarks, Vijay Kalantri, Chairman, MVIRDC WTC Mumbai called for a dedicated ministry for the startup ecosystem, which is facing various challenges such as the slowdown in funding, stringent norms of angel taxation and complex procedures for doing business.

“Improving ease of doing business, capacity building support for growth-stage startups, easing angel tax norms for genuine startups and effective implementation of government schemes and incentives for startups are needed,” Kalantri said.

Pointing out that the global recessionary outlook, rising interest rates in the global market and the uncertainty amidst geopolitical tension are some of the reasons for the decline in start-up funding in India, Kalantri added that India’s startups should re-examine their strategy to become profitable instead of focusing on unsustainable growth in turnover.

Devansh Lakhani, Startup Fundraising expert and Director, Lakhani Financial said, “Byjus, Pharmeasy, Ola, Pinelabs and Swiggy all have got their valuation marked down by approximately 30 per cent which shows investors want to back only profitable startups and not loss-making ones.”

Vikram Pandya, Director- Fintech, S P Jain School of Global Management pointed out, "Lack of product-market-fit, me-too (copied) business models, increasing competition, highly price sensitive market resulting in razor-thin margins and lack of R&D-led innovation are some of the reasons behind high startup mortality rate in India."

Pandya suggested that government should nurture entrepreneurship culture, add that as a topic in education, increase R&D in emerging technologies and make funding more accessible.

Shrikant Patil, CEO & MD, DigiAally outlined the importance of product-market fit to develop the right product for the right customer segment at a sustainable cost.

Patil added, "Startups must invest in constant customer validation, strategic digital partnerships and developing cultural sensitivities as a critical foundation to build correct product-market fit (PMF). While large corporations may have the ability to absorb these misalignments and start over, for startups and SMEs, PMF is a survival game - especially when the scrutiny from investors has tightened in the recent past."