Enhancing Startup Financing Ecosystem: Need of the Hour

The government has initiated various schemes to foster entrepreneurship in India. Some of these include the Startup India Seed Fund, Startup India Initiative, ASPIRE, MUDRA Bank, ATAL Innovation Mission, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Software Technology Park (STP) Scheme, The Venture Capital Assistance Scheme (VCA), Single Point Registration Scheme and Modified Special Incentive Package Scheme (M-SIPS), among others.

However, fund raising is difficult in India, especially since India is a huge and diverse country, and therefore, developing products and services catering to a variety of people becomes difficult. Further, developing market strategies to reach out to our rural population is a challenge, given the huge digital divide in India. Even in urban areas, while initially, it may be easy to attract customers by launching an interesting website, product or service, eventually the going gets tough.

The Covid-19 pandemic has further lowered demand and people's willingness to pay has dwindled, given the availability of competitive goods and services at cheaper rates. While startups generate employment, many require a skilled workforce, and find it difficult to hire qualified employees, matching their skill sets. Startups find it difficult to scale up, as also rules for exiting business are complex. The above factors impinge the startups' ability to raise capital domestically.

The RBI, in its report in 2019, had suggested that, a board that allows equities exchange of these SMEs will give the wider public to participate in the dynamic Indian startup ecosystem. "The Innovators Growth Platform (IGP) proposed by SEBI is a welcome development. Some modifications are required for the success of IGP. SEBI must relax the norms defining the Accredited Investors (AIs) who could participate. To create enough liquidity, participation of HNIs, Mutual Funds, FIIs, etc. must be encouraged. Most technology startups or high-growth startups are often loss making hence there should be no profitability requirement to list. SEBI should facilitate dual class share structure which is very popular with tech startups across the world. Further, standards for internal governance of MSMEs may be developed that can help MSMEs identify current gaps and areas of improvement".

Some regulatory improvements carried out in recent years include, approval of framework of issuing Differential Voting Rights, easing of main board listing norms, allowing startups to choose the Qualified Institutional Buyer route, halving of post-IPO lock-in period for promoters to 18 months, easing of IPO disclosure requirements, improving legroom for Alternative Investment Funds to invest in unlisted firms etc.

However, the direct overseas listingroute on stock exchanges should also be explored. With this reform, Indian companies will list themselves in overseas capital markets, with attendant benefits such as access to a much larger pool of capital, broader investor base, higher valuations, increased brand awareness and assistance in future international expansion plans.

The government has recently suggested that LIC and the EPFO may invest in startups. Startups are being widely recognized as engines of growth and employment generation In India. They can generate impactful solutions, given their technological and innovation capabilities, and act as vehicles for socio-economic development and transformation.However, they need a conducive environment to thrive and institutional support to scale up. Given the government's commitment to build a self-reliant India, enhancing the startup financing ecosystem becomes the need of the hour.