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# ENTREPRENEURSHIP AND FINANCE: CHALLENGES FACED BY STARTUP INDIA

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## Abstract

India is a developing country. It is the seventh-largest country and the second-most populous country with over 1.2 billion people. It is also a country of many great legends that were famous all over the world because of their devotion to work and high skill. On the 69th India's Independence Day, our PM gave slogan of "Start-up India, Stand up India". A complete action plan of scheme launched on 16<sup>th</sup> of January 2016 by the Modi government was to help youths of the country. Youths in India are very talented, highly skilled and full of innovative ideas. Once given financial and technical support, they would be able to establish themselves not only in the Indian market but also internationally. It would mean addition to the GDP of the economy, thereby, enhancing the economic growth. Making people self sufficient by giving them jobs would also help them become financially stable enough to help to grow future generation. Therefore, Startup initiative of the government provides the youth with number of employment opportunities and also helps new entrepreneurs come up with innovative ideas. Easy banks loan will facilitate, encourage and inspire the talented youth to come up and establish themselves with innovative ideas. Though the idea and vision of startup is good but its implementation may have serious limitations. The major constraint in implementation of the program is that though Government may make available finances for startup but starting up a business is not practicable until and unless, competent persons to impart training and guidance, future support to run business and risk coverage is not genuinely addressed. This program can not be expected to succeed if government agencies are not supportive. It is better to involve big companies in this task.

This paper is intent to explore the main difficulties faced by startups in India, and discuss the financing resources of startups in India by using a literature-based analysis.

**Keywords:** Entrepreneurship, Facilitator, Startups, Financing, Ventures

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## 1.1 Background

India is a country of many great legends that were famous all over the world because of their devotion to work, sharp mind and high skill. However, our country is still on the developing track because of the lack of some solid support and ways to work in right direction. Youths in India are very talented, highly skilled and full of innovative ideas. A new campaign named as Startup India, was announced by the Prime Minister Narendra Modi during his speech on Independence Day 2015. This is an initiative launched on 16<sup>th</sup> of January 2016 by the Modi government to provide opportunities to the youths to become industrialists and entrepreneurs through network of establishment of a startup. Startups means youths of the country will be supported through finance from banks to come forward so that they can create more employment in India.

Startup India program is a big start to enable entrepreneur through financial support so that they can use their innovative ideas in right direction. This scheme will motivate and promote new comers towards business and grow their career and economy of the country. This paper emphasizes the various ways to raises funds for startup and what are the possible difficulty that may rise to startup.

## 1.2 Action Plan of Startup India Scheme

The Prime Minister of India, Shri Narendra Modi announced “Start-up India” initiative. This initiative aims at fostering entrepreneurship and promoting innovation by creating an ecosystem that will be helpful for growth of economy. The action plan of startup is designed while keeping in mind the importance of innovation in the country. This initiative will go a significant way in reiterating Government of India’s commitment to making India the hub of innovation, design and Start-ups. The objective is that India must become a nation of job creators instead of being a nation of job seekers. The action plan for startup is:

1. Compliance regime based on self-certification
2. Legal Support and Fast-tracking Patent Examination at Lower Cost
3. Relaxed Norms of Public Procurement for Startups
4. Stand India across the world as a start-up hub
5. Rolling-out of Mobile App and Portal



6. Legal Support and Fast-tracking Patent Examination at Lower Costs
7. Relaxed Norms of Public Procurement for Startups
8. Faster Exit for Startups
9. Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore
10. Credit Guarantee Fund for Startups
11. Tax Exemption on Capital Gains
12. Tax Exemption on Investments above Fair Market Value
13. Tax Exemption to Startups for 3 years
14. Organizing Startup Fests for Showcasing Innovation and Providing a Collaboration Platform
15. Launch of Atal Innovation Mission (AIM) with Self-Employment and Talent Utilization (SETU) Program
16. Harnessing Private Sector Expertise for Incubator Setup
17. Building Innovation Centers at National Institutes
18. Setting up of 7 New Research Parks Modeled on the Research Park Setup at IIT Madras
19. Promoting Startups in the Biotechnology Sector
20. Launching of Innovation Focused Programs for Students
21. Annual Incubator Grand Challenge

### 1.3 Objectives and Methodology of Study

1. Indian economy consists of the people living in urban as well as rural areas. This paper is intended to study the problem faces by entrepreneur in relation to unemployment, illiteracy and finance
2. This paper will also try to explore the main difficulties which might be facing startups in India, and discussing the principle financing resources of startups in India. More specifically, this paper tries to analyze challenges of Indian financing startups.

This study is mainly based on secondary sources and data is obtained from government publications, annual reports of various department of government of India, research journal and internet.



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## 1.4 Existing Financial Resources of Startup India

### 1.4.1 Bootstrapping

Self-funding, also known as bootstrapping, is an effective way of startup financing, especially when to start a new business. First-time entrepreneurs often have trouble getting funding without first showing some traction and a plan for potential success. Entrepreneurs invest from his own savings or can get your family and friends to contribute. This has less formalities/compliances, plus less costs of rising.

### 1.4.2 Crowd funding:

Crowd funding is one of the newer ways of funding a startup that has been gaining lot of popularity. It's like taking a loan, pre-order, contribution or investments from more than one person at the same time. An entrepreneur will put up a detailed description of his business on a crowd funding platform. He will mention the goals of his business, plans for making a profit, how much funding he needs and for what reasons, etc. and then consumers can read about the business and give money if they like the idea. Those giving money will make online pledges with the promise of pre-buying the product or giving a donation. Anyone can contribute money toward helping a startup business.

### 1.4.3 Angel Investment:

Angel investors are individuals with surplus cash and a keen interest to invest in upcoming startups. They work in groups of networks to collectively screen the proposals before investing. They also offer mentoring or advice alongside capital. Angel investors have helped to start up many prominent companies, including Google, Yahoo and Alibaba. This alternative form of investing generally occurs in a company's early stages of growth, with investors expecting up to 30% equity. They prefer to take more risks in investment for higher returns.

### 1.4.4 Venture capital

Venture capitals are professionally managed funds who invest in companies that have huge potential to grow. They usually invest in a business against equity and exit when there is an IPO or an acquisition. VCs provide expertise, mentorship and acts as a litmus test of where the organization is going, evaluating the business from



the sustainability and scalability point of view.. Venture capitalist traditionally receives equity in the startup business in return for funding it. However, now-a-days the trend involves demanding a mixture of debt financing and equity. In India, the Venture Capital Funds can be categorized into the following groups.

- Promoted by Public Banks
- Promoted by the Central Government controlled development finance institutions
- Promoted by State Government Controlled development finance Institutions
- Overseas Venture Capital Funds
- Promoted by Private Sector Companies

#### **1.4.5 Raising finance through bank loans**

The bank provides two kinds of financing for businesses. One is working capital loan, and other is funding. Working Capital loan is the loan required to run one complete cycle of revenue generating operations, and the limit is usually decided by hypothecating stocks and debtors. Funding from bank would involve the usual process of sharing the business plan and the valuation details, along with the project report, based on which the loan is sanctioned.

Almost every bank in India offers SME finance through various programs. For instance, leading Indian banks – Bank Of Baroda, HDFC, ICICI and Axis banks have more than 7-8 different options to offer collateral free business loans.

#### **1.5 New Government Programs For Startup funds**

The Government of India has launched 10,000 Crore Startup Fund in Union budget 2014-15 to improve startup ecosystem in India. In order to boost innovative product companies, Government has launched ‘Bank of Ideas and Innovations’ program.



Government backed ‘Pradhan Mantri Micro Units Development and Refinance Agency Limited (MUDRA)’ starts with an initial corpus of Rs. 20,000 crore to extend benefits to around 10 lakhs SMEs, Shishu, Kishor and Tarun are three categories of loans available under the promising scheme.

Also, different states have come up different programs like Kerala State Self Entrepreneur Development Mission (KSSEDM), Maharashtra Centre for Entrepreneurship Development, Rajasthan Startup Fest, etc to encourage small businesses.

SIDBI – Small Industries Development Bank of India also offer business loans to MSME sector.

### **1.6 Challenges Faced By Startup India**

The common challenges faced by startup are:

#### **1.6.1 Funding**

Money is the bloodline of any business. The financial services ecosystem is still running on an old engine and the evolution of change is extremely slow. According to a recent study, over 94% of new businesses fail during first year of operation due to lack of funding. Lack of funding turns to be one of the common difficulties for startup.

A recent study done by the India-based research firm Venture Intelligence says 64 startups have together received nearly \$242 million of venture capital funding. But industry experts claim this number is negligible, and there is a need to increase it to sustain early-stage risk capital. Venture capital required high interest rates and lengthy processes in getting funded, debt as a source of funding is also not a viable option. Again, unlike the scenario in the US, personal funding becomes difficult as people are not financially stable here and have family responsibilities so there is the demand for job for immediate revenue.

#### **1.6.2 Business strategy**

Strategy refers to a plan of action designed to achieve a particular goal. Strategy is usually thought as a management tool suitable only for large organizations with small entrepreneurs not feeling the need for it.



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Business strategy is an imperative for organizations of all sizes .A well formulated strategic plan provides a direction and a clear vision of a firm’s purposes and objectives.

### 1.6.3 Building a team

Building a good team is the major challenge of any startup especially at the nascent stage, wherein a team can make or break the enterprise. Common Indian mindset says that getting a job with a big brand improves career growth more than a startup. Also, job security plays a vital role in decision making. Working at larger organizations is more secure and socially valuable than working with startups. It is not uncommon to see people working in startups being pressured from home to take up better jobs with larger organizations. Moreover, employee benefits are also minimal in startups when compared to big corporations. Hence, getting the right talent becomes challenging. According to a survey, team failure was attributed to the shutdown of 23 percent of failed startups. A top reason for failed startups is the absence of co-founders. A team of dedicated individual with complementary skill sets is required. A team with a perfect balance of skills but different ways of communicating can also cause problems early on.

### 1.6.4 Intense competition

There is intense competition in Indian market with a consumer product. People are generally price-sensitive, and competition is fierce. Therefore, selling premium products becomes a hard task. Moreover, when a startup aims to do B2B sale, the decision making process to buy the product is very slow and may take several months. For example, for selling software to banks and government is difficult and there is always a risk factor involved.

### 1.6.5 Regulations

Rules and Regulations are becoming more liberal, it is still challenging to register the company. Regulations pertaining to, intellectual property rights, monopoly restrictive practice act, labor laws, information technology, contracts, dispute resolution etc. are stringent in the country which might make it difficult for the startup initially. According to the latest tax policy, tax Exemption to Startups is for 3 years but later on





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startup firms are mandated to pay income tax on the premium they have charged over their fair market, thus heavy tax burden will discourage the individual to take risk and invest in startup.

### **1.6.6 External pressure**

One of the major challenges in startup is the influence of external organizations which try to control, manage, take advantage of their, brands in the name of mentoring. Most innovative, fast growing companies which started making profits early on have been self dependent and have never been incubated or mentored. The initial growth might have been slower; however it offers more in terms of stability and profits in the longer term.

### **1.6.7 Incorrect Choice of Business Location**

The most important challenge for a startup is the location from which it is to be launched. Incorrect choice of location hamper the selling and distribution of the product startup would need to tweak products existing in the market to suit the demands of the clientele.

### **1.6.8 Constant Reinvention**

The need to constantly reinvent and come up with a service to be able to match customer expectations is one of the biggest challenges. Due to the advent of technology and competition, the challenge to provide over and above an earlier innovation is immense.

### **1.6.9 Selling is hard**

It is hard to break into the Indian market with a consumer product. People are substantially price-sensitive, and competition is fierce. Therefore, selling premium products becomes a hard task.

Moreover, when a startup aims to do a B2B sale, the decision making process to buy the product is very slow and may take several months. For example, for selling software to banks and government, or larger organizations, you may send the quote, keep following up for months, and then end up with a “no thanks.”





This primarily happens because of poor decision making processes in companies and a “playing it safe” attitude. Hence, the risk factor remains.

### **1.6.10 Lack of Expertise in Critical Areas**

No individual, however capable, can have expertise in all areas. To compete effectively, Business, on the other hand, needs expertise in Marketing, Selling, Finance, Purchasing, Production, Hiring, Motivating and Managing. Small Business Owners, unfortunately, fail to recognize the need for outside help.

## **1.7 Other Problem for Startup India**

### **1.7.1 Unemployment rate in India**

Constant increase in population and unemployment will be a big problem faced by startup India. Unemployment Rate in India is reported by the Ministry of Labour and Employment. India's unemployment rate remained at 3.5 per cent in 2014 and 2015 but expected to decrease slightly to 3.4 per cent in 2016 and 2017, according to the ILO findings. However, the number of people seeking jobs will increase to 17.6 million people in 2017 from 17.5 million people in both 2015 and 2016. . Under such circumstances, some graduates try to find a way out for themselves and choose to start their own business to reduce the employment pressure. In recent years the self-employment consciousness among college students are increasing and the students are less likely to rely on parents or schools or wait for opportunities. Instead, they tend to take initiative to look for new chances for themselves.

**Source** – Ministry Of Labour and Employment 2016

### **1.7.2 Education system in India**

India has changed socially, economically, and globally .Education is the main foundation for social and economic growth of the country. According to census 2011 census, literacy rate India was found to be 74.04%.it seems like a very great accomplishment to achieve this figure but still, it is a matter of concern that so many people in India cannot even read and write. The education system in India is one of hindrance for startups. In university and college, students are usually trained with advanced techniques but there is the lack

of marketing, sales and operational ability and leadership skills which is needed to advance their own enterprises. In addition, conservative lifestyle also contributes as one of obstacles. As a culture of family peoples do not adopt change and prefer options that are able to provide a steady income rather than taking risk.

#### **Problem of Indian education system affecting startup are:**

- (i) Half the country does not even have access to proper education, and only a small fraction can go to university.
- (ii) Everything is about rote memorization, leading to behavior which encourages cramming and forgetting rather than lifelong learning
- (iii) Standardized testing in education system determines everything and aptitude of students is not recognized outside this format.
- (iv) Lack of diversity in the subjects in colleges
- (v) Additional extreme pressure due to limited seats resulting in very intense competition between students.
- (vi) Reservation system in India
- (vii) Management quota system in India.
- (viii) Few opportunities and flexibility to cross over into different streams of education.

#### **1.8 Discussion and conclusion**

The recently announced “start up India” programme seeks to direct public sector banks to sponsor and promote entrepreneurship ideas among the various sections of the society. Though this is a welcome first step, funding is just one component to develop an ‘ecosystem of entrepreneurship’ and needs a much wider support. The ‘start up India’ programme should bring relevant aspects under one umbrella so that ease of business can be achieved. Following issues must be resolved:

1) Finance is just a fraction of issues the entrepreneurs are facing. Only with financial support an entrepreneurial venture cannot become successful. There are a lot of issues such as infrastructural support – roads, regular electricity supply, broadband connectivity, institutional support – promoting skill development, training for entrepreneurship and moderate risk taking, regulations, competition and finding markets for their products should be discussed.

- 2) The money obtained from banks may be channeled for the wrong purposes. This is a big task to handle. Unscrupulous youths are often involved in misuse of money. Monitoring by Government agencies is difficult.
- 3) Issues like red-tapism and liscence raj are not yet sorted out. “Ease of business doing in India” is still an issue.
- 4) India is a developing economy but still there is disparity between man and woman. Decreased labor force, participation of women in India is a big problem. It is very important to promote their participation, their involvement in the growth of Indian economy.
- 5). The Startup India initiative doesn't necessarily mean more employment. India's number of job seekers is increasing and the persistent cause behind this problem today is the lack of adequate skills. India's largest demographic dividend will soon turn into a demographic disaster if proper measures are not taken to address this issue. However, the government has been focusing on skill development issues by launching many targeted programmes in order to produce talent in concordance with the needs of the industry. These include:
- Setting up National Skill Development Corporation
  - Skill India Mission
  - Pradhan Mantri Kaushal Vikas Yojana
  - Pandit Deendayal Upadhyaya Grameen Kausalya Yojana
- 6) Foreign investment should be boosted. This will help to build the infrastructure, and also it will mean that foreign companies will build their offices in India to tap into the huge growth of India. Foreign investment will also helps the businesses more feasible for those who wish to start up
- 7) Various measures should be adopted for changing the remote learning system to a system of education by training an individual for startup. This will increase the productivity of the individuals and also develop key critical thinking skills, to start a business
- 8) The main hurdle to the program will be its implementation. Many good programs are initiated by the government but they fail because of inability of deployment of competent personnel for imparting training and guidance, interference by government machinery in day to day functioning, tax inspectors, making available



genuine raw material for the job. It is better to engage large companies to provide necessary skill, raw material and machinery. The unfinished product must then be collected, refined and finished complete for assembling in their plant just as many countries are doing. Initially, Government must bear extra costs. The mission cannot succeed if Government agencies are deployed.

Overall “Start up India” is a good programme which can revolutionize Indian economy and even may result in an “economy growth” But care must be taken that the above lacunae are also taken for consideration.

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