

# **Supporting innovative entrepreneurs and startups – Policy interventions, support mechanisms and best practices**

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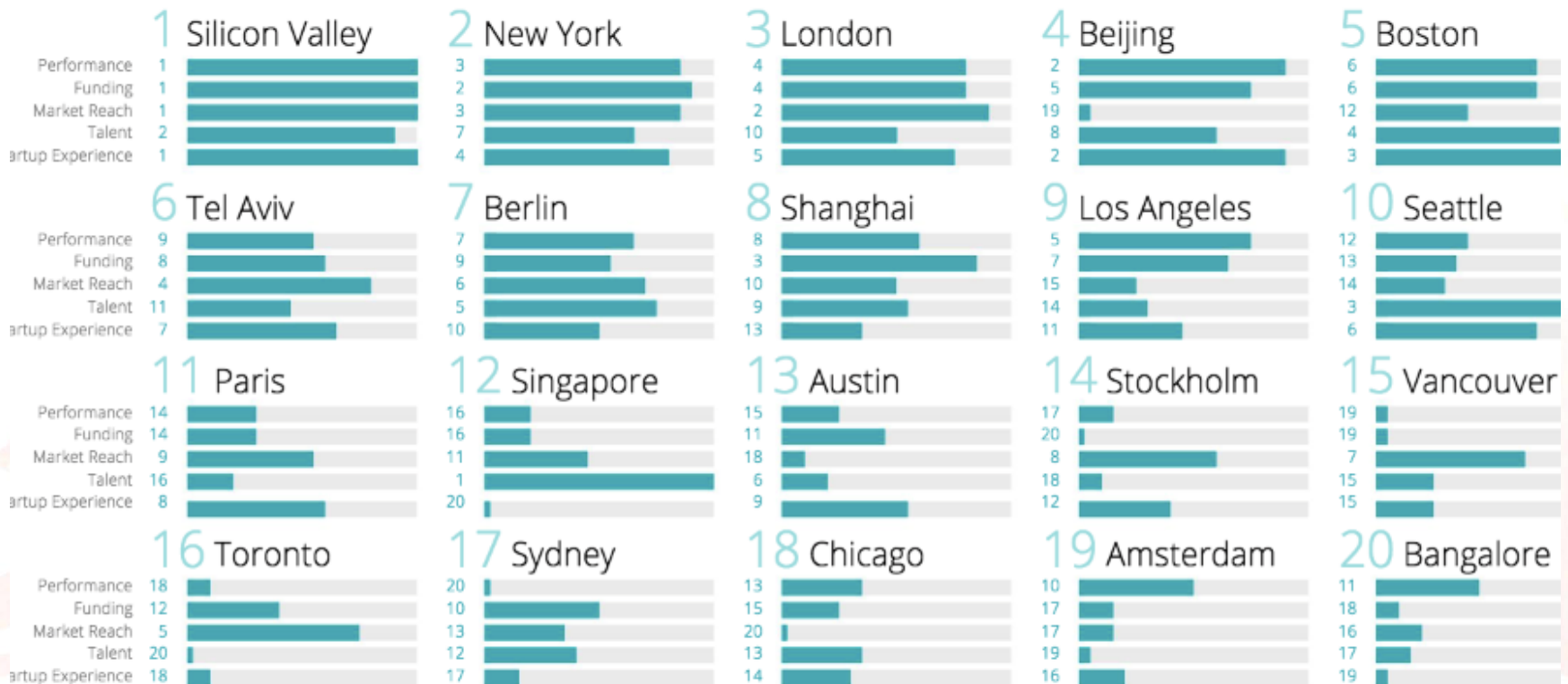
*UN ESCAP-APCTT-DOST-TAPI Regional Forum on Strategies to Enhance Innovation and Management Capacities of Startups and SMEs*

# Outline

- Definition of a Startup
- Legal requirements to establish a startup
- Tax benefits for Startup
- Six other Institutional support systems:
  1. Incubation Support
  2. Seed Funding Support
  3. Funding Support: Angel and Venture Funding
  4. Simplified Regulations- Ease of doing business
  5. Easing public procurement
  6. Awareness and outreach
- Summing up



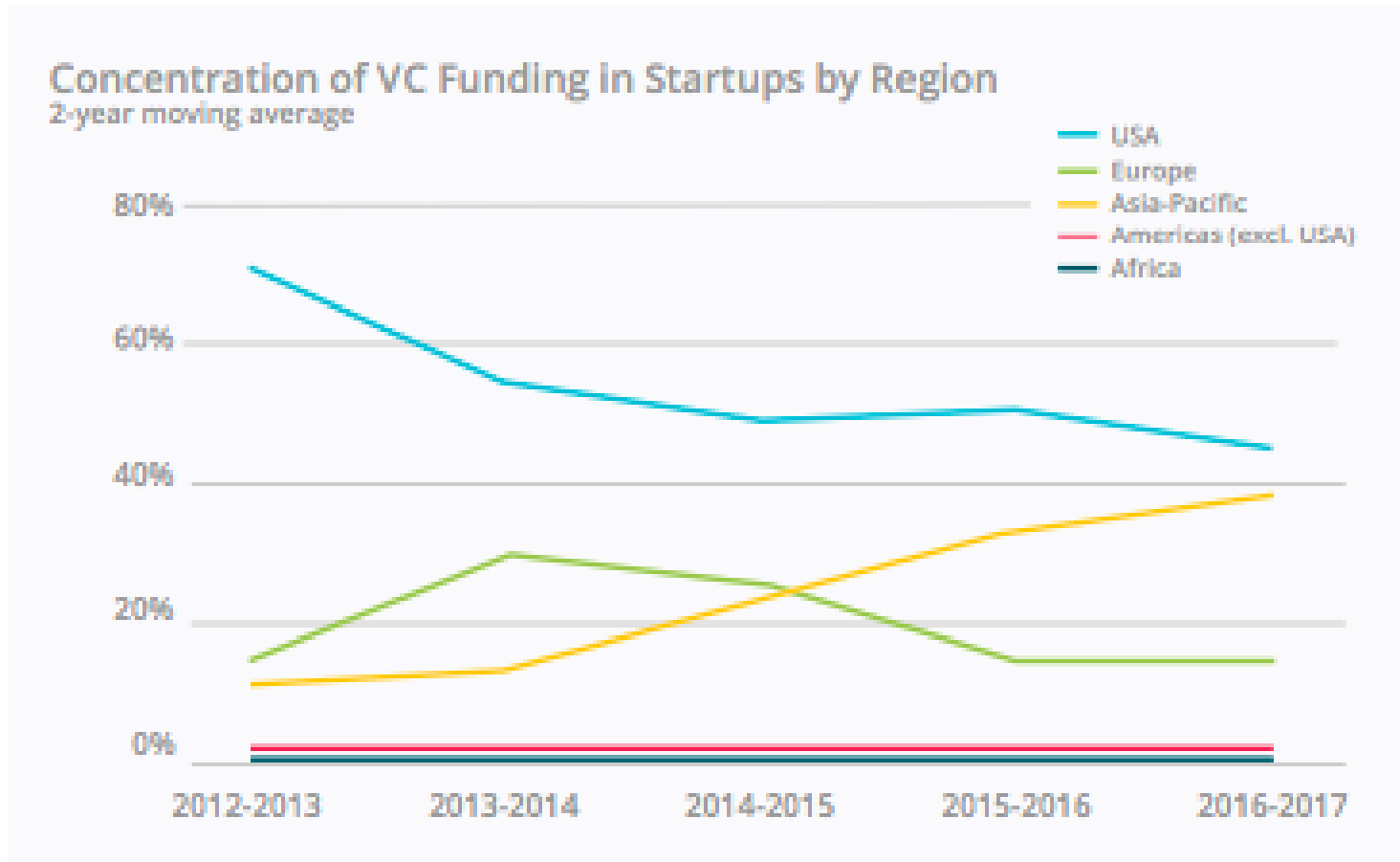
# Ranking of Global Startup Ecosystem Ranking, 2017



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# Rise of China and the declining dominance of the USA in Startups



# Definition of a startup

- There has to be a very clear and practical definition of what exactly is a Startup;
- For instance in India, a Startup is defined as:
  - Upto a period of seven years from the date of incorporation/registration or upto ten years in case of Startups in Biotechnology sector
  - As a private limited company or registered as a partnership firm or a limited liability partnership
  - With an annual turnover not exceeding Rs. 250 million (\$3.68 million) for any of the financial years since incorporation/registration
  - Working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation



# Legal requirements to set up a Startup

- For instance in India:
- For a corporation, entity, or a business to be termed as a startup, it must be established under either of the following legal frameworks:
  - Registered under the Companies Act, 2013;
  - Registered under Section 59 of the Partnership Act, 1932, as a partnership firm; or,
  - Registered under the Limited Liability Partnership Act, 2002, as a limited liability partnership.
- This legal definition means that Sole Proprietorship Firms are not under the Startup India scheme.



# Tax benefits for Startups

- Exemption of capital gains up to a threshold
- Exemption of Investments above fair market value
- Funds from angel investors, family and friends and from VCs will not be taxed on their investments into a startup firm



# Six Other Factors

## 1. Incubation Support

- Business incubation supports the start-up and early stage of new business ventures by providing them with the safe harbour, intensive resources and a development environment in which they can flourish
- Incubator is the 'physical' manifestation of this process and generally involves the provision of a 'with-walls' facility through which concentrated business incubation support processes can be delivered
- Businesses can thus gain from close proximity to like minded enterprises, mutual development and a shared learning environment.
- 'Virtual' business incubation programmes also exist, though they seek to deliver business incubation processes using means other than physical premises





# 8 advantages of Incubators

- ❑ help young companies to negotiate the hurdles that often lead to their early downfall;
- ❑ help entrepreneurs overcome the isolation and stress of starting a business;
- ❑ provide access to an array of expertise, mentors, investors and specialist advisors;
- ❑ provide visibility and credibility in the marketplace
- ❑ facilitate linkages with and the commercialisation of university or corporate research and new ideas utilising R&D expertise and proof of concept functions
- ❑ encourage faster sustainable growth and greater survival rates of new and existing companies
- ❑ act as catalyst for urban and rural regeneration
- ❑ enable growing companies to become stand alone entities within the community



# Typical services rendered by an Incubator to Startups

- Product definition & idea validation
- Launch of product/service pilots
- Customer Acquisition
- Building Systems & Processes for day to day operations
- Support for Sales, Marketing & Business Development
- Expectations & Conflict Management with stakeholders, clients, vendors, partners, etc.
- Compliance & setup
- Performance Review & Monitoring
- Regular Mentoring



## 2. Seed Funding Support

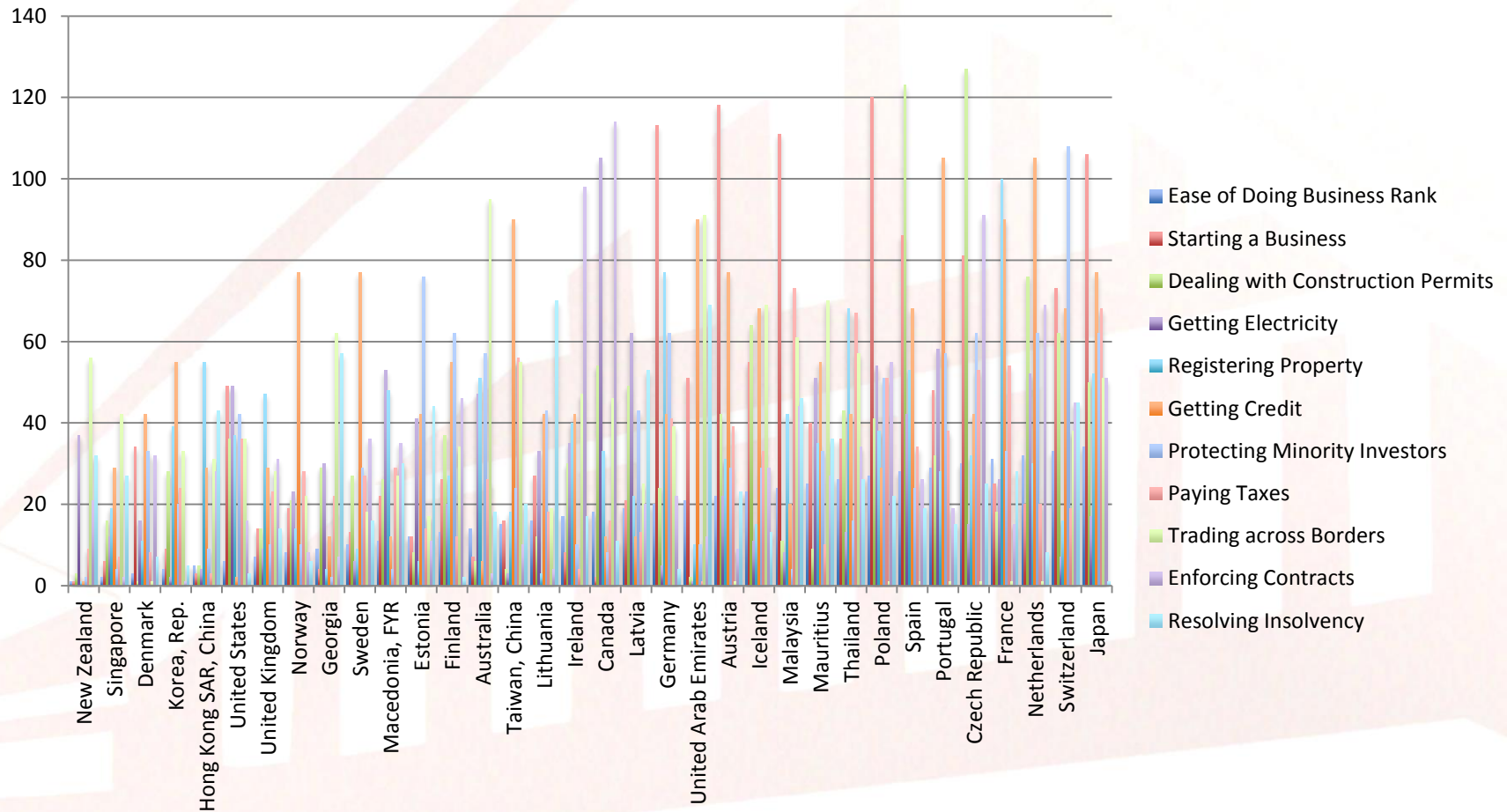
- Seed capital is the initial capital used when starting a business, often coming from the founders' personal assets, friends or family, for covering initial operating expenses and attracting venture capitalists.
- Severe funding gaps here -

# 3. Funding support: Angel and Venture Funding

- According to *KPMG Venture Pulse*:
- Global median deal size rose for every deal stage in 2017, with the median deal size of angel and seed deals rising to \$1 million from \$800,000, early stage deals rising to \$5 million from \$3.7 million, and later stage deals rising to \$10.8 million from \$9.5 million.
- Pharmaceuticals and biotechnology saw a massive year-over-year increase in VC investment, from \$12.2 billion in 2016 to \$16.6 billion in 2017.
- VC investment in artificial intelligence and machine learning doubled from \$6 billion in 2016 to \$12 billion in 2017.
- Global first-time VC financing fell for the third straight year – to \$13 billion across 3,813 deals.
- Singapore closed 2017 with \$1.2 billion invested across 112 deals



# 4. Simplified regulations- Ease of Doing Business



# Easing public procurement

- Exemption of Earnest Money and Bid Security amount for Startups
- Provides the much needed demand for the new technology based products and services



# 6. Awareness and Outreach

- Policy awareness
- Outreach Events
- Boot Camps across schools and higher education institutes
- Entrepreneurship programmes and cells
- Participation in national and international events



# Summing up

- Startup ecosystems need to be clearly mapped out with incentives and reducing the complexities in establishing companies
- Startup is one of the ways in which innovations can be promoted in a whole range of new technologies such as AI and Robotics
- This is because the traditional barriers to entry such as absolute capital requirement, access to proprietary technology are low in these industries
- Countries in the Asia-Pacific region has a comparative advantage in Startup creation





# For further reading

## Global Startup Ecosystem Report 2018

<https://startupgenome.com/all-report-thank-you/?file=2018>

