Appeared on Page 14
Economic Times
Tuesday, November 17, 2015

STARTUP POLICY

Let's Pick Those Brains

Rana Kapoor

India now ranks third among global startup ecosystems after the US and Britain, with more than 4,200 new-age companies, a growth of 40% year-on-year, with over 72% of the founders being younger than 35. Given that the startup sector has already attracted close to $5 billion investment and created around 80,000 new, creative jobs, it is mission critical to have a policy framework that provides a conducive ecosystem for it to thrive.

On the back of disruptive and breakthrough innovations, Silicon Valley is the global hub for venture funding, with the Valley attracting over a third of all the venture capital investment in the US. On GDP per capita basis, the Valley ranks third globally with per-capita income at $77,440. One of the integral elements of the success of Silicon Valley can be traced back to federal support for research that it received.

Oracle's roots originate from the work it did for the Central Intelligence Agency (CIA). Intel supplied much of its early output to the Pentagon. Google was conceived by Sergey Brin while working on bibliographic research that was funded by a grant of $4.5 million from the National Science Foundation. The internet itself springs from the US defence department's Advanced Research Projects Agency (Arpa).

All these elements, along with supportive policy, a strong industry-academia connect, ambitious entrepreneurs and deep pools of risk capital helped shape the Valley as we know it.

Indians account for 15% of startups in Silicon Valley, a demonstration of the inherent strength, knowledge and their entrepreneurial ethos. Building on this spirit, it is essential that policymakers draw up strategies to create an enabling ecosystem in India.

First, ease of doing business remains a top priority for global investors. This includes simpler ways for starting, operating and closing a company. For startups, one of the critical elements relates to the ease with which new ventures can be wound up, considering that startups have a high mortality rate of 80-90%. Firms are more likely to enter and receive startup financing if bankruptcy proceedings are less costly in case of default.

While the US federal bankruptcy law allows companies filing for bankruptcy to pay off creditors and close business, India's bankruptcy law is governed by the Provincial Insolvency Act, 1920. This makes it difficult to close down a failed venture. It takes an average of 4.3 years for completing insolvency proceedings in India, as compared to 1.7 years in OECD countries.

An effective insolvency framework would enable entrepreneurs and investors know for certain the liability, risk and cost of a failed venture, thereby attracting entrepreneurs to design, innovate and create with risk capital to support these new ventures.

Second, it is essential to recognise that research-oriented academic institutions with a framework for an industry-academia interface provide the best ecosystem for new startup ideas. At present, there are only a few institutes in India that provide a framework for an industry and academia interface, even fewer that have an active incubator promoting entrepreneurship.

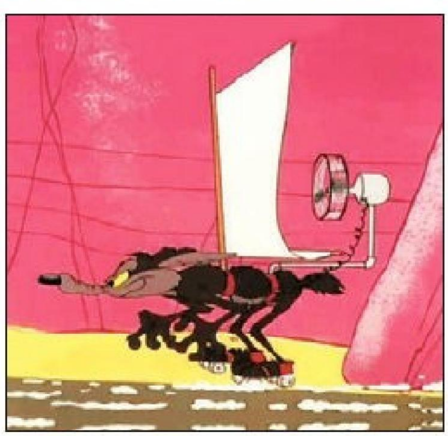
The passage of the Universities for Research and Innovation Bill, 2012, would enable the central government to set up new universities, and declare existing public-funded university as one for research and innovation of national importance. Even in the private sector, the advent of the Indian School of Designing and Innovation in Mumbai's Lower Parel Innovation District (LPID) is a pioneering effort as a domicile for accelerators and incubators.

Third, a comprehensive approach is needed to make taxation supportive of the startup ecosystem. One such example is the capital gain tax. While India has seen around $10 billion of investment from venture capital and private equity funds into the technology sector between 2010 and 2015, a majority has followed the Mauritius and Singapore route due to favourable capital gains tax regime prevalent there.

Other taxation issues include taxation of angel investment, minimum alternate tax (MAT) clarity, tax deducted at source (TDS) for startups, employee stock ownership plans (Esops) and taxation of expatriates.

Fourth, intellectual property rights (IPR) acquisition and protection is a key element to provide a reliable environment for startups. Considering that most startups are involved in developing disruptive technology and processes, the IPR policy should provide a robust mechanism for its protection, enforcement and redressal.

Recent policy alignment has seen important steps to promote a cohesive ecosystem for startups. Schemes like the Self-Employment and Talent Utilisation (Setu) mechanism, the India Aspiration Fund (IAF) and the Atal Innovation Mission (AIM) are just a few that can go a long way to provide the kind of impetus that Silicon Valley received during the early 1990s.



Putting wind beneath their sails

The writer is MD and CEO, Yes Bank