

## Fundraising Issues in Indian Startup Ecosystem

### Why in news?

Due to interest rate hikes of global central banks and the ongoing banking crisis in the US, startups are facing difficulties in fund-raising.

### What is a startup?

*India had become the 3<sup>rd</sup> largest startup environment in the world as of August, 2022.*

*India has the 3<sup>rd</sup> highest number of unicorns in the world next to US and China.*

- **Startup** - A startup is defined as an entity that is headquartered in India which
  - Was opened ***less than 10 years*** ago and
  - Has an annual turnover ***less than Rs 100 crore***
- It is an entrepreneurial venture in the early stages of operations, typically created for resolving real-life problems.
- **Unicorn** - It is a term given only to startups who have a valuation of ***over \$1 billion***.
- **Decacorn** - The startups that exceed the valuation of ***\$10 billion*** are grouped under the term called decacorn (a super unicorn).

### What is the role of startups in the growth of the Indian economy?

- **Employment creation** - The startups are enabling more jobs than large companies or enterprises thus curbing the unemployment problems.
- **New investments** - Many multinational corporations are now outsourcing their tasks to small businesses in order to focus on their core competencies.
- **Research and Development (R&D)** - Start-ups heavily subsidise R&D as they frequently have to deal with high-tech and knowledge-based services.
- **Better GDP** - It is feasible to increase revenue domestically by promoting and supporting more start-up initiatives.
- **Democratizing the technology benefits** - Fintech startups are reaching out to remote areas with their solutions and making financial solutions easily accessible in tier 2 and tier 3 cities.

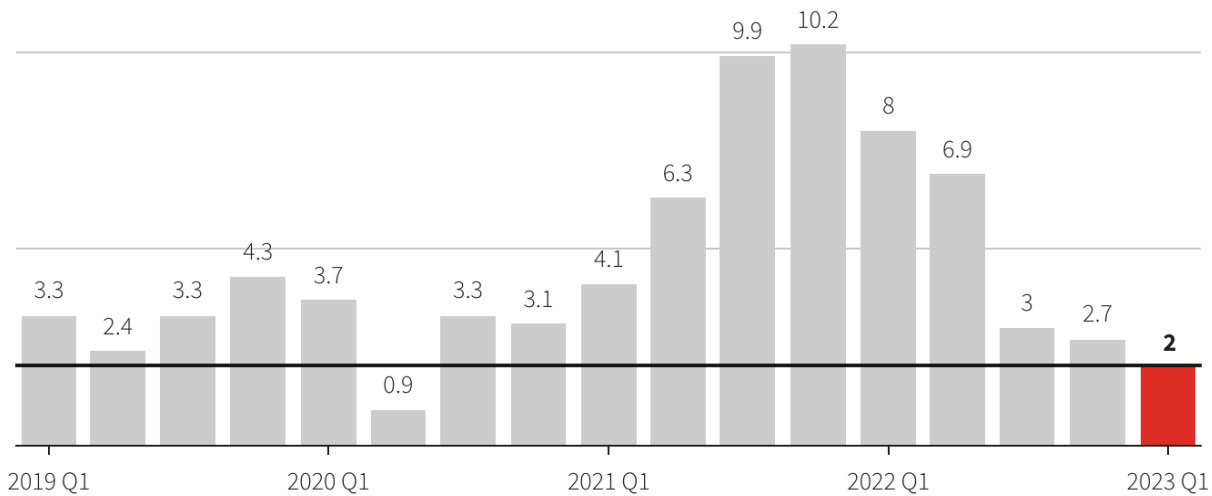


### Why there is shortages in fund-raising?

- Interest rate hikes of global central banks
- Steep correction in valuation of technology stocks
- Increased risk aversion
- Ongoing [banking crisis](#) in the US and Europe
- Failure to deliver on their exaggerated growth promises due to Covid-19 pandemic
- Excessive liquidity created during the pandemic
- Change in consumption habits post-Covid
- High borrowing cost impacting profitability, leading to massive lay-offs in this segment
- Global venture capital investors who have suffered large losses in their portfolio are unlikely to provide much funding support

# India startup funding falls to lowest level in nearly 3 years

Value of funding raised, in billion US dollars



Source: CB Insights | Reuters, April 18, 2023 | By Prinz Magtulis

## What could be done to address fund-raising?

- **Policy support** - The high net worth investors, investment funds and companies who have displayed a willingness to invest in fledgling companies should be channelized.
- **Fiscal and regulatory policies** - Investors need to be encouraged with suitable fiscal and regulatory policies to support the segment in periods when global funding dries up.
- **Abolition of angle tax** - [Angel tax](#), which requires start-ups to pay income tax on capital received at a premium to their fair valuation should be abolished, since it deters fund raising from angel investors.
- **Alternate Investment Funds** - Investment into Alternate Investment Funds which invest in start-ups could be incentivized through a tax concession.
- **Capital gains tax rate** - Paid by resident individual investors on their start-up investment can be lowered.
- **Overseas exchanges** - Indian startups should be allowed to list on overseas exchanges.

## References

1. [Reuters | Issues Of Fundraising](#)
2. [The Hindu Business Line | Issues About Fundraising For Startups](#)