Startup India: Funding the Future & Fueling the Growth of Startups through Financial Support

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The Startup India initiative, launched in 2016, is a visionary undertaking by the Indian government to propel the nation into the forefront of global innovation. The 19-point Action Plan unveiled by the Honourable Prime Minister, outlines a roadmap that prioritizes the creation of a conducive environment for startups to flourish. Managed by a dedicated team within the Department for Industrial Policy and Promotion (DPIIT), Startup India strategically focuses on three key pillars: simplification and handholding, funding and incentives, and incubation and industry-academia partnerships. This multi-faceted approach reflects a commitment to addressing the diverse needs of startups at various stages of their development.

'Simplification and Handholding' forms the first pillar of Startup India, acknowledging the complexities that startups often face in navigating the regulatory and compliance landscape. By streamlining processes and providing guidance, the initiative seeks to reduce barriers, enabling entrepreneurs to focus on innovation rather than bureaucratic hurdles. The third pillar "Industry-Academia Partnership and Incubation" underscores the importance of incubation and industry-academia partnerships in nurturing a vibrant startup ecosystem. Startups benefit immensely from mentorship and collaborative opportunities, and the initiative envisions creating a network that facilitates these connections. By fostering ties between startups, established industries, and academia, Startup India aims to create a synergistic environment where knowledge flows freely, innovation thrives, and emerging businesses find the support they need to make a lasting impact.

The final pillar, and arguably the one where startups require considerable amount of support, is centred around funding. Through a combination of financial assistance and tax benefits, Startup India aims to alleviate the financial burdens that startups typically encounter, fostering a more favourable environment for sustainable development.

Need for financial support to the Indian entrepreneurial ecosystem

Securing funding is a universal challenge for startups, extending beyond mere financial support to encompass collaboration, partnerships, and valuable guidance. As businesses evolve, so do the funding options available, prompting the question of whether early-stage startups should pursue the same funding avenues as their late-stage counterparts. In response to this, Startup India offers a tailored guide for startups at different stages, ensuring they make informed decisions in their pursuit of funding. This strategic approach equips startups with the insights needed to align their funding strategies with the specific challenges and opportunities of their current growth phase, empowering them to optimize their chances of securing the right funding at the right time. Read in detail about

Startup India's funding guide here:[1]

Keeping in mind the different stages of any startup, a series of different avenues have been curated to align as customised and targeted support as possible. From startups in the ideation stage, to late-stage startups, in a span of few years, Startup India has launched various schemes to cater to different demands that oscillate between the changing times. However, to avail any benefit of the Government of India's Startup India scheme, it is imperative that your startup is officially recognised by DPIIT. To get your startups recognized, read about DPIIT recognition here:[2]

1. **The Start of a Revolution: Early Stage (Ideation, Pre Seed, and Seed stage):**

   The ideation stage of a startup is the initial phase where the founder or founding team conceptualizes and develops the core idea for the business. It includes the problem identification, extent of the problem, and the idea generation for solving the problem. This is the stage where a startup does an evaluation of its concepts and understands if it is feasible, sustainable, and has a competitive advantage. It is crucial for the startup founders to understand the market they are entering, the competition they are likely to face and opportunities to network to present their product. Therefore, the funding needs of the startup during this stage is limited not just to the traditional money against equity trade, but rather a form of collaboration that fosters them, gives them guidance, and provides them with resources that are difficult to locate for the startups normally. Hence, finding the right match at this stage becomes very important. Even for the investor, investing at this stage means more risk as the startup has not been tested in waters much yet.

   Typically, seed funding or seed fund supports the startup at this stage. Seed funding essentially helps in product development, market entry, and customer acquisition while providing them with necessary guidance and additional resources required for a startup who has recently entered the ecosystem. Incubators and Accelerators, Angel Investors, Early-Stage Venture Capital Funds & Government Schemes are some of the basic avenues to raise the seed funding from.

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Startup India Seed Fund Scheme (SISFS)

At the embryonic stage of a startup's life cycle, easy access to capital is crucial. Recognizing an obvious gap in the ecosystem to reach out to maximum innovators across sectors, domains, and states of India, DPIIT introduced the Startup India Seed Fund Scheme with a substantial outlay of INR 945 Crore. Launched in 2021, this scheme aims to provide financial assistance for proof of concept, prototype development, product trials, market entry, and commercialization. It is projected to support 3,600 entrepreneurs in the next four years.

The scheme addresses the capital inadequacy in the seed and proof-of-concept stage, often a make-or-break situation for startups. By offering seed funding, it acts as a catalyst for validating business ideas, fostering employment generation, and contributing to the nation's economic growth. Offering financial assistance up to 20 Lakhs in the form of grant and up to 50 Lakhs in the form of debt/debentures, the SISFS is designed to be inclusive and accessible to startups across the country. It encourages applications from women entrepreneurs, startups in Tier II and Tier III cities, and startups working in underserved sectors. The SISFS fosters collaboration and mentorship within the startup ecosystem, working closely with incubators and accelerators to provide startups with access to valuable resources.

As of 31st October 2023, a total of 192 incubators have been selected from across 26 states & UTs and further a sum of INR 747.34 crores (including 5% management fees) has been approved to the selected incubators. While a total of 1,579 startups have been selected for the fund, a cumulative sum of INR 291.57 crores has been approved to the selected startups on the portal. 57.8% of the selected startups are from Tier II & III cities and 50.4% of the selected startups have at least one women director.

To know more about the eligibility to access the Seed Fund, read here:[3]

In addition to the Startup India Seed Fund Scheme, early-stage funds for startups are also available by different ministries like Nidhi Prayas under Department of Science & Technology, Biotechnology Ignition Grant under Department of Biotechnology among others. To know about different schemes under various departments you may refer to:[4]

2. Preparing for Elevation: Validation Stage and Early Traction stage

The validation stage acts as the junction between the ideation phase and the growth phase. In this stage, a startup is likely to be working with a prototype, getting reviews out of beta testing or perhaps even slowly entering the market. This phase requires continuous feedback from the market, locating the possible problems with their product and business tactics and a need to find the least costly pre-emptive solutions. Since the entrepreneur and their team are still developing their understanding of the ecosystem; it becomes quintessential like the preceding stage that the financial resources accompany the right set of guidance, while the need of additional resources become less. This is because, often, the startup at this stage has gained the ability to recognise its resources need and has sourced it too.

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financial resources. They are generally experts of the field, sometimes accompanied with sector expertise who can understand what bets to take in a particular arena and therefore can also equip the entrepreneur with the Do's and Don'ts of the ecosystem. Therefore, a startup needs to understand the value of their equity in this early stage and reach a valuation that is respectable to both the parties.

Early traction stands as a decisive juncture for startups, where the ability to secure initial momentum can make or break their trajectory. Achieving this early traction is critical as it sets the tone for sustained growth. A robust funding ecosystem, combined with strategic guidance, becomes

instrumental in propelling startups forward during this crucial phase.

Startup India Investor Connect

An innovative platform, the Startup India Investor Connect employs AI-based matchmaking to connect startups with investors. This virtual marketplace facilitates investment opportunities and enables connections between investors and startups in emerging cities. The objective is to bridge the gap and streamline the investment process for startups.

The government realised and understood the significance of the "right match" when it came to investors and startups coming together, especially during the validation stage. Therefore, it came with one of its kind AI-backed Investor Connect Platform. Startups must create a profile showcasing their business model, team, traction, and funding requirements. Investors can easily search and filter through these profiles based on their specific interests and investment criteria. Often, startup founders complain that they are rejected even before they get to present themselves. By giving an opportunity to startup to present themselves at the ease of their mobile phones, it increases the likelihood of their business message reaching a larger message. Moreover, the platform utilizes a sophisticated algorithm to match startups with compatible investors based on various factors like sector, stage of development, and investment size. The platform provides secure communication channels for startups and investors to connect, share documents, and engage in discussions.

As of 30th November 2023, 5300+ Startups are registered, and 120 Investors have been onboarded. The Investor Connect Platform has hosted 31 investment opportunities which have led to interests from 3700+ Startups. The platform has led the facilitation of venture capital funding to startups to the tune of nearly 50 crores so far. Two women led startups, Brainsight Technology Private Limited and Kris Originals Private Limited, received funding via the opportunities on the Investor Connect Platform.

Join as an investor, or startup here:[5]

MAARG: Mentorship, Advisory, Assistance, Resilience, and Growth

Apart from funding, the Government recognizing the importance of mentorship and guidance in a startup's overall life cycle has recently launched the National Mentorship Portal – MAARG, to provide pro-bono guidance to all startups on their business models and to fulfil their mentorship needs. The Mentorship, Advisory, Assistance, Resilience, and Growth (MAARG) portal was made live to invite mentor applications on 4th July 2022. The platform provides streamlined mentorship to startups across their lifecycle, from ideation to late stage – all catering to the requirement of a startup. The 1330+ mentors onboarded also come from dynamic sectors, expertise and functions, such as market strategies, finance, marketing, human resources, etc.

As of 31st October 2023, there are 1338 mentors and 2057 startups onboarded on the portal. Overall, with over 5965+ hours of mentorship sessions, the platform is a one stop pro platform to cross collaborate with seasoned experts if you have a startup in India.

To onboard as a mentor, or register as a DPIIT startup, apply:[6]

3. **Ascent to success: Growth Stage**

   In the growth stage, the startup story unfolds in the real waters at it is a critical phase in its lifecycle characterized by a rapid expansion of operations, market presence, and revenue. This stage typically follows the initial development and launch phase (startup phase) and is marked by increasing customer acquisition, scaling of resources, and a focus on market share and profitability. From market diversification to risk management, a growth stage startup is relatively in it most mature stage where funding becomes arguably the most crucial factor in market expansion, customer acquisition, fostering strategic partnerships, and investing in long term.

Funds of Funds Scheme (FFS)

The Fund of Funds for Startups (FFS) Scheme, established in 2016 with a substantial corpus of Rs 10,000 crore, is a pivotal component of the Startup India initiative. Unlike direct investments, FFS operates by providing capital to SEBI-registered Alternative Investment Funds (AIFs), known as daughter funds. These funds, overseen by SIDBI, play a crucial role in channeling capital into growing Indian startups through equity and equity-linked instruments.

As part of the comprehensive Startup India framework, the FFS Scheme receives strategic support from the Government. This initiative, along with other flagship programs, underscores the Government's commitment to creating a conducive environment for startups at various stages of their business cycle. As of 30th September 2023, SIDBI has committed INR 10019.00 crores to 126 AIFs. Further, INR 4,327 crores has been distributed to 90 AIFs. A total of INR 17,010 crores has been injected to boost 910 startups.

To read the scheme in detail, and access SIDBI's Fund of Funds portal, visit:[7]

Credit Guarantee Scheme for Startups (CGSS)

Apart from the several managerial and regulatory challenges, one of the biggest problems faced by startups is the ease of access to early-stage debt to finance their capital requirements. Traditional lending institutions, such as commercial banks, rely on the same old mandate to facilitate funding for startups. With an aim to simplify and ease the process, DPIIT notified the establishment of the Credit Guarantee Scheme for Startups (CGSS) for providing credit guarantees to loans extended by Scheduled Commercial Banks, Non-Banking Financial Companies, and Securities and Exchange Board of India (SEBI) registered Alternative Investment Funds (AIFs).

In terms of how a guarantee will be issued, an eligible startup approaching the MI will be evaluated based on the checks and balances put in place by the MI. If approved, the guarantee cover under CGSS shall be issued automatically upon meeting the required eligibility parameters, which must be ensured by the MI.

There are 2 kinds of covers, namely Transaction based, and Umbrella based. Under the former, the guarantee is provided to Member Institutions (MI) on a single borrower basis. The extent of the cover shall be 80%, 75% or 65% of the amount, depending on the loan amount sanctioned. Under the latter, an overall guarantee is provided to Venture Debt Funds (VDF) registered under AIF regulations of SEBI (a growing a segment of funding in the Indian startup ecosystem), in view of the nature of funds raised by them and debt funding provided by them.

Read more about the scheme:[8]

Funding the future, one startup at a time, Startup India with its multifaceted approach and funding schemes, emerges as a catalyst for fostering innovation and growth. As startups traverse the diverse stages of their life cycle, the strategic alignment of funding options becomes the key to unlocking their full potential. The synergy between Startup India initiatives and the dynamic needs of startups propels India into a realm of unparalleled entrepreneurial success. Visit www.startupindia.gov.in to learn more about the initiative, get your startup DPIIT recognised, and become a contributor to the entrepreneurial ecosystem of the nation.

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