

Banking Policies for Promotion and Funding of Startups

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The term startup refers to a company that's in the initial stages of business. Startups are founded by one or more entrepreneurs who want to develop a product or service for which they believe there is demand. Flipkart, Snapdeal.com, Shop Clues, Jabong.com, Big Basket, Hungama, BookMyShow, Yatra, Cleartrip, InMobi, Ola, TaxiForSure, Collegedunia etc are the examples of startups under various field. These companies typically don't have a fully developed business model and lack adequate capital to move onto the next phase of business and generally start with high costs and limited revenue therefore they look for capital from a variety of sources such as family and friends or by using venture capitalists and crowd funding. Venture capitalists is a group of professional investors that specialize in funding startups. The entrepreneur sets up a crowd funding page online, allowing people who believe in the company to donate money. Startups may use credit to commence their operations. A perfect credit history may allow the startup to use a line of credit as funding. This option carries the most risk, particularly if the startup is unsuccessful. Other companies choose small business

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loans to help fuel growth. Banks typically have several specialized options available for small businesses—a microloan is a short-term, low-interest product customize for startups. A detailed business plan is often required in order to qualify. The first few years are very important for startups - a period during which entrepreneurs should concentrate on raising capital and developing a business model. The government must help startups promote themselves, not just in India but across the globe, as well as create policies that are startup friendly so that Indian startups get a major boost and they can further create better employment opportunities for the youth of the nation. We will discuss the major policies by banks to Support Startups in this paper.

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1. Introduction

India needs more than a 100 million jobs a year and the jobs which are generated are mostly from startups and not big enterprises. In August 2015, the Hon'ble Prime Minister, Shri Narendra Modi, announced the launch of the national flagship initiative - Startup India, with a mandate to promote and encourage young entrepreneurs of our country. He envisioned the aim of the initiative to transform India into a Startup nation, "a country of job creators instead of job seekers". Shri Narendra Modi, launched the Startup India initiative on January 16, 2016. An Action Plan with 19 action points, focusing on simplification and hand-holding, funding support and industry academia partnership and incubation was outlined. The Department of Industrial Policy and Promotion has been actively taking essential measures to encourage entrepreneurship and promote innovation. There are over 14,600 Startups recognized under Startup India that are spread across 479 districts, covering all 29 States and 6 UTs.

Startup entrepreneurship is crucial because it also brings new innovations, new jobs and competitive dynamics into the business environment and enterprises. The role of startups in economic prosperity is enhancing in today's world. One of the main advantages of startups is that it creates new jobs. Global data shows that startups are creating more jobs in our nation than the large companies or enterprises. As of now, many of the startups have introduced latest technology Artificial Intelligence, and Robotics etc. Most of the technology giant companies outsource their tasks to startups now days. It will also help to increase the cash flow of startups.

Start-ups in India previously have received investments from various private institutional and non-institutional funders but banks had always been reserved in warming up to the idea of start-ups. The inherent risky nature and low success percentile of the start-ups so-far combined with the conservative outlook of Indian banking system were the key determinants of such a policy outlook. But the efforts of government for start-ups have made banks eventually respond to the growing importance of start-ups in the economy through a whole range of banking services specially customized to meet the needs of Indian start-ups.

In light of the 'Start-up India' programme, various public and private sector banks have come up with a number of initiatives to serve the funding as well as non-fund based banking needs of the start-up entrepreneurs. We try and summarize some of them with a view on what more a start-up still seeks.

RBI has created a dedicated mailbox to provide assistance and guidance to start-up sector. It has also started a FOREX helpline to provide regulatory service for cross border transactions and necessary guidance required from the RBI related to FEMA (Foreign Exchange Management Act). In another announcement, Angel tax has been removed to promote investments in the country. With RBI being in the lead, some of the initiatives by other banks are highlighted below:

2. initiatives by banks for start-up in India

2.1 'Thought Factory' by AXIS Bank

The Axis bank's initiative is called 'Thought Factory'. The bank will work with companies at various stages of maturities, including those at the ideation level such that there can be a two-way benefit to the lender. It can either get existing problems solved by start-ups or integrate their solutions into its business. Henceforth, they will not be subjected to exclusivity clause while undergoing the mentorship programme. The bank will be looking at disruptive solutions in technologies such as block-chain, artificial intelligence, mobility and cloud as part of its 'Thought Factory' initiative to subsequently integrate and roll them out in their main stream operations. Axis Bank already has a dedicated team called 'New Economy Group' serving the banking needs of such new-age companies.

2.2 'Launchpad' by Federal Bank

Federal Bank's initiative called 'Launchpad' has an exclusive outlet for start-ups in Bangalore and Kochi. It is a one stop facility providing a range of advisory services in addition to customized banking offerings to budding entrepreneurs who wish to set up start-up ventures in diverse sectors like Digital Financial Services, Biotechnology, Hi-Tech Farming, Healthcare, Logistics, E-Commerce/E-Markets etc. These outlets offer counselling and guidance on key aspects involved in setting up of start-ups like registration, regulatory compliance, investments and accounting, Intellectual Property Protection, trading and taxation. It also provides customized banking offerings for Start-up ventures to run their business seamlessly which include exclusive start up Account, digitally powered Payroll accounts, payment/collection solutions and FOREX services, apart from facilitating space and required infrastructure to needy start ups to incubate their ideas. The Bank would also consider investing in eligible start-ups with innovative ideas, potential for high growth and ability to bring socio-economic impact. Federal Bank is one of the very few banks to have created a Corpus exclusively for investment in Start-ups.

2.3 "Smartup" by HDFC Bank

The initiative "SmartUp" for Start ups has been launched by HDFC in association with Zone Start ups India (ZSI), a Mumbai-based start-up accelerator. It is tailored to meet the requirements such as banking, payment solutions, FOREX and advisory services. The benefits of SmartUp current account include-waiver of AMB (average monthly balance) for the first six months and extendable to 12 months, salary account for employees by waiving the minimum number of employees criteria, 'PayZapp' for business - a payment and collection solution and a dedicated relationship manager. Account holders can also get recommendations of a chartered accountant for tax, regulatory and compliance issues. They also would have the opportunity to showcase products on SmartBuy to 32 million HDFC Bank customers.

2.4 "iStartup Garage" by ICICI Bank

The iStartup Garage, launched recently in select ICICI Bank branches across the country, is a one stop facility providing space to work in addition to a range of advisory services to budding

entrepreneurs who wish to set up start-up ventures in diverse sectors like Digital, Financial Services, Biotechnology, Hi-Tech Farming, Healthcare, Logistics, E-Commerce/E-Markets, etc. The Key benefits provided include the following :

1. Special deals on legal & regulatory consulting - The bank connects the entrepreneurs with consulting firms for advice and support on various registrations and on meeting regulatory requirements.
2. Business networking with Biz-Circle - An online platform of products & services for buyers and sellers.
3. Opportunity to meet leading Venture Capitalists and Private Equity players at the bank's events and summits.
4. Customized solutions offering quick, secure and convenient banking experience like Zero balance Current Account for first 6 months, Higher variants of Current Account to accelerate your business, Digital Banking platforms, Customized payment & collection solutions to suit your business model, Technology led integrations to make banking convenient, Salary solutions for employees and FOREX services and advisory to manage FDI.
5. Business Compliments - This feature helps save on day-to-day procurement of materials through exciting deals and offers.
6. Personalized service with dedicated Relationship Manager: For personalized financial services and personal banking solutions for promoters.

2.5 'Kotak Business Boosters' by Kotak Mahindra Bank

'Kotak Business Boosters'. The bank has a seven-member core team which is working with an equal number of startups in the artificial intelligence, analytics, biometric or iris scanning and machine learning space. The start-ups initiatives being undertaken by them include launching of dedicated funds, starting incubation centres, organizing hackathons and ideation contests.

2.6 IT-ISEP for Start-Ups by State Bank Of India

The IT Innovation Start-up Engagement Programme (IT-ISEP) has been established with an initial outlay of Rs. 50 crore. Under this programme, the bank shall consider investments and debt/structured engagements of up to Rs. 3 crore to an Indian registered

entity for promoting their business innovations using IT in India for banking and related technology. The type of financial assistance can be in any one or combination of the following :

1. Equity/Quasi Equity/Mezzanine Equity.
2. Loan of Long term/Structured Financing.
3. Joint IPR/Restricted IPR.
4. Perpetual unlimited free license for use of technology across State Bank Group.
5. Resources and skilled manpower costs for POCs and innovation.
6. Purchase of the product/service from the start-up.

As aimed by the government, these initiatives have a great potential in providing employment opportunities to a large section of population. These banking initiatives are primarily pertaining to advisory services, information assistance and support as well as in selected cases, funding support to the start-ups. This would greatly help in overcoming the information barrier and pave way for opening up newer opportunities for the budding entrepreneurs. However, there is still a lot that needs the attention of the banking system as far as supporting start-ups is concerned. For an example, typically a loan needs a collateral, but it is difficult for young entrepreneurs who are generally fresh out of college to have collateral to support their funding applications. In selected banks, even if they do offer collateral free loans, they are extended only to companies funded by venture capitalists (VCs) or Angel Investors leaving very little scope for students with innovative ideas as well as innovators in the remote rural areas who typically do not come into the limelight in urban areas where these VCs or Angels are mostly based out of. Similarly, for those who need assistance to flourish in diverse fields, there is still some room for improvement in the current policies. Thus, efforts are still needed to shape the policies to address the above gaps while leveraging the current offerings better through integrated service offerings in a seamless manner

2.7 Dairy Entrepreneurship Development Scheme by NABARD

This scheme is headed by the National for Agriculture and Rural Development (NABARD), this government scheme seeks to : introducing structural changes in the process of production of milk;

Altering the structure at the grassroots level itself. Bringing about commercialization of milk production with advanced technology. The benefits highly depend on the capital requirements for undertaking individual projects- technically starting at 25% of the total overlay and then building it up from when required.

2.8 Growth Capital and Equity Assistance Scheme by SIDBI

Entrepreneurs can now avail this distinct type of loan for their start up from the banks. Many banks and financial institutions offer loan schemes that are specifically designed to fund startups and their special needs. Different banks may assign different names for these Startup Business Loans.

2.9 Pradhan Mantri Mudra Yojana (PMMY) by Mudra Bank

The Micro Units Development and Refinance Agency (MUDRA) was launched in 2015; The government has introduced this scheme to support small businesses in India. The MUDRA banks provides startup loans of up to INR 10 lakhs to small enterprises, business which are non-corporate, and non-farm small/micro enterprises. this scheme is headed by the, and it aims at offering loans to all kinds of manufacturing, trading, and service sector activities. PMMY provides loans under three categories - Shishu, Kishor, and Tarun loan. The assets are created through the bank's finance and there is no collateral security. Anyone, from artisans to shopkeepers to machine operators can avail a Mudra Loan.

MUDRA loan scheme offers incentives through these interventions :

- **Shishu** : Loans up to Rs. 50,000
- **Kishor** : Loans above Rs. 50,000 and up to Rs. 5 Lakhs
- **Tarun** : Loans above Rs. 5 Lakhs and up to Rs. 10 Lakhs

The Mudra scheme can be availed by artisans, shopkeepers, vegetable vendors, machine operators, repair shops, etc

2.10 Bank Credit Facilitation Scheme by NSIC

The National Small Industries Corporation (NSIC) is targeted at fulfilling the credit requirements of the MSME units. The NSIC scheme has partnered with various banks to provide loans to the MSME units. The loan repayment tenure of the scheme ranges between 5 years and 7 years; it can be extended up to 11 years. The

loan repayment tenure varies depending on the income generated from the startup and generally extends from 5 to 7 years. However, in exceptional cases, it can extend up to 11 years.

2.11 CGS Scheme by Public, Private Sector and Foreign Banks

New and existing MSMEs that are in manufacturing or service activities, excluding retail trade, agriculture, self-help groups (SHGs), training institutions, etc. can apply for CGS. The Credit Guarantee Scheme (CGS) was launched by the government to strengthen the credit delivery system and to facilitate financing to the MSME sector. The lending institutions that offer this scheme mainly include public, private sector banks, foreign banks, along with regional rural banks, the SBI and its associate banks. This MSME scheme for entrepreneurs comes with several benefits, including term loans and working capital loan facility up to Rs. 100 Lakhs per borrowing unit.

2.12 Standup Scheme

Businesses that fall under the trading, manufacturing, or service industry can apply for the standup scheme. For non-individual enterprises, at least 51% of the shareholding needs to be held by an SC/ST or a woman entrepreneur. The applicant should have a good credit history and not have default payments with any bank or financial institution. This Stand Up India scheme facilitates bank loans between Rs. 10 Lakh and Rs. 1 Cr to at least one SC or ST individual and at least one woman borrower per branch to build their business.

2.13 Coir Udyami Yojana

The Coir Udyami Yojana is aimed at supporting the establishment of coir units. Banks will offer finance capital expenditure in the form of a term loan to meet the working capital requirements. The bank can also fund projects in the way of composite loans consisting of Capex and working capital. All coir processing MSME startups registered under the Coir Industry (Registration) Rules, 2008, are eligible for this scheme. Banks will Finance projects that cost up to Rs 10 Lakh one cycle of working capital, which should not exceed 25% of the total project cost. This amount should be exclusive of the Rs 10 Lakh limit, and the credit amount will be 55% of the total project cost after deducting 40% margin money and the owner's contribution of 5% from beneficiaries.

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