



COVID-19 PANDEMIC INDUCED LOCKDOWN EFFECT ON STARTUPS AND REFORMS

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Abstract: *Startups may be small companies but they can play a significant role in economic growth. They create more jobs which mean more employment, and more employment means an improved economy. The COVID-19 crisis forced startups to rethink everything from their management to their business models. This paper is a study to understand the effect of Covid-19 pandemic induced lockdown on start-ups and various reforms offered for their development. A meta-analysis is done based on the published data and the findings were channelised for better understanding. This study will serve as a reference to comprehend issues faced by start-ups and reform measures available for their sustenance.*

Keywords: *Startups, Covid-19, Economic Impact, Atmanirbhar, startup India, lockdown.*

Introduction:

Start-ups can be called as a young company just establishing to develop. They are small with initially funded and administered by fellow founders or certain times even by a single person. Start-ups gear up offering product and services that are not provided anywhere in the industry or market. In recent stages, they tend to exceed their revenues as they start competing, developing and testing their business ideas.

India's perfect demographics availability is a huge opportunity for any business houses opting to dominate the international market. According to StartupBlink a global comprehensive start-ups ecosystem map and research centre, India is the home to third-largest start-ups ecosystem. Start-ups create valuable jobs. 16,105 Department for Promotion of Industry and Internal Trade (DPIIT)-recognised start-ups provided 187,004. People of the nation would get the benefit when start-ups grow. Since the money shared with society is the wealth created within the nation.

India has about 50,000 start-ups in 2018; around 8,900 – 9,300 of these are technology-led start-ups 1300 new tech start-ups were born in 2019 which implies there are 2-3 tech start-ups born every day. By supporting and encouraging more start-ups, it is possible to generate more revenue domestically and

consumer's capital will also flow around the Indian economy.

The country faces a huge decline in revenues for the government and income growth for at least two quarters as the coronavirus hits economic activity of the country as a whole. A fall in investor sentiment impacts privatization plans, government and industry.

With an increasing number of coronavirus cases, the government has locked down transport services, closed all public and private offices, factories and restricted mobilization. Based on recent studies, some economists have said that there is a job loss of 40 million people (MRD report) in the country, mostly in the unorganized sectors.

In this scenario, they are predicting that India would go into recession affecting the unorganized sector and semi-skilled jobholders losing their employment. Referring to the recent happenings and data, the unorganised sector is likely to suffer a great downfall in the coming days as the job generation is going down in an alarming rate with the prolonged lockdown and weak GDP.

The investment sector is adversely impacted by COVID-19. Business across all sectors are affected by COVID 19, particularly start-ups are most vulnerable and facing challenges from business and

operations perspective. The start-up ecosystem has been continuously striving to adapt to the present situation as flexibly as possible, by focussing on the need to innovate and diversify their business techniques and its operations.

In the past couple of years, the start-up ecosystem in India has emerged as a reckoning force, largely attributable to the efforts of the stakeholders, and the initiatives implemented by the government to facilitate the growth of the start-ups. Investments in start-ups have surged from \$550 million in 2010 to \$14.5 billion in 2019.

It is suggestive that the value of investments in India has fallen to \$0.33 billion in March 2020 from \$1.73 billion in March 2019, which indicates a fall of nearly 81.1%. There has been a total fall of 50% in the number of companies funded - presently, 69 firms in March 2020, in contrast to 136 firms in March 2019. Further sources suggest that sometime between mid-February, 2020 & end of March 2020, several investors have also pulled back from closing current funding rounds. Thus, one of the major challenges faced by the start-ups has now become sourcing funds, which has resulted in cash flow issues, for many.

The lock-down has not only impacted the daily business operations, but it has also forced good-many start-ups into preparing for contingency plans to limit workforce and to cut down employee salaries. Various start-up founders have also taken pay-cuts to limit the losses faced.

Nasscom conducted an e-survey with participation from over 250 startups during April to study the impact of Covid-19 pandemic Lockdown on Indian startups.

The Report Recommended that

- With about 9300 tech start-ups, India continues to be the worlds third-largest tech startup ecosystem. Over 1300 start-ups were added in 2019.
- About 92 per cent of the respondents said they are facing a revenue decline after Covid-19 Pandemic lockdown. About 62 per cent said the topline decline would be over 40 per cent while 34 per cent said they are looking at a fall of over 80 per cent.

- About 40 per cent of startups were temporarily halting operations or closing business and 60 per cent of B2C are facing business closure.
- There are green shoots as well, about 14 per cent of Ed-tech, fin-tech and Health-tech start-ups said they expect growth in revenue.
- Startups are facing client payments delay and manpower crunch, which are impacting business startups going for significant marketing spend reduction and three out of four low revenue start-ups are going for pay cuts.

The comparison form April to June 2020 showed that the percentage of startups and SMEs are out of funds. These organizations are cutting or deferring marketing and human resource costs to sustain their business.

The cabinet has approved Rs.3 Lakh crore emergency credit line to MSME. However, a large number of start-ups might not be able to avail these benefits under Atairbhar Bharat Scheme even if they are registered as MSMEs. This is because a start-up needs to have loan/debt on their books to qualify, but most startups usually opt for venture capital funding, which makes them ineligible for a government scheme.

COVID-19 Start-up Assistance Schemes:

- A. After recognising the numerous financial and operational challenges faced by start-ups, the Small Industries Development Bank of India ("SIDBI"), which also operates as an implementing agency for the 'Fund of Funds' for start-ups, has promulgated a 'COVID-19 Start-up Assistance Scheme' (hereinafter "the Scheme") which is intended to assist certain eligible start-ups that have successfully demonstrated the ability to implement innovative measures to ensure business continuity amidst the COVID-19 crisis and has also ensured employee safety as also financial stability. Small Industries Development Bank of India (SIDBI) has recognized the operational and financial challenges faced by startups across the nation. It has been making

efforts to provide aid to the affected startups by launching a scheme called COVID-19 Startups Assistance Scheme (CSAS). This scheme will aid inventive startups that have proved the ability to adapt to economic impact from Covid-19 and ensure its employees' safety and financial stability. CSAS assists startups that will directly benefit from the scheme. This scheme aims to offer quick working capital in the next 45 to 90 days to startups. To faster processing, a Recommendation Committee comprising 5 members (3 from SIDBI and its nominees and 2 from the Venture Capital industry) will be created. Startups can receive a loan of up to INR 2 crore through this scheme.

- B. The Ministry of Corporate Affairs ("MCA") has also provided temporary relaxations to all corporates for compliances under the Companies Act, 2013. These include among others:

(i) waiver of additional fees on late filings made with the MCA;

(ii) relaxations on the holding of board meetings with the physical presence of directors;

(iii) the prescribed interval period between board meetings is provided with an extension

(iv) relaxation of the 'minimum residency' requirement of a director.

- C. Furthermore, vide a notification dated March 24, 2020, the Ministry has also increased the threshold for default for initiating corporate insolvency INR 1 crore (from INR 1 Lakh). The Reserve Bank of India ("RBI") has also drawn up a 'COVID-19 regulatory package' which is intended at reducing the burden of debt-servicing and aims at easing working-capital requirements, under which lending institutions would be permitted to grant a moratorium of three-months (i.e. from March to May) on payments of instalments on loans, that are outstanding as of March 1, 2020. Further, various

timelines including the ones for filing of certain income tax and GST returns have been extended.

- D. SBI COVID-19 funding scheme. It is one of the largest Indian lenders, The State Bank of India has introduced a funding scheme to assist small and medium businesses to continue their operations. As per an article by Business Standard, SBI will make additional credits available via Covid-19 Emergency Credit Line (CECL) to its existing borrowers on an ad-hoc basis. CECL will be in force till 30th June. CECL will provide loans of up to 10 per cent or a maximum of up to INR 200 crores under existing fund-based working capital (FBWC). A fixed interest rate of 7.25 per cent will be charged as and when applied.
- E. Atal Bimit Vyakti Kalyan Yojana scheme: A lot of businesses are temporarily shutting down or laying off their employees since they are not able to pay wages to them. If you are a business that is struggling to pay wages to your employees, this scheme is something you can recommend to them. An individual can avail the benefit of The Atal Bimit Vyakti Kalyan Yojana though it is not particularly designed for Covid-19. Essentially, under this scheme, individuals who have lost their employment will be granted compensation in the form of cash deposited in their bank accounts for three months from the time of unemployment. Only individuals who have subscribed to Employees State Insurance (ESI) scheme can be a part of this.
- F. MSME Ideas Portal Launched by Mr Nitin Gadkari, the idea behind MSME Ideas Portal is to facilitate venture capital inventors to connect with businesses. This portal will also act as a central repository to explore the schemes offered by the central and the state government to the growing MSMEs during these times of a pandemic. Primarily, the portal aims to provide and promote MSMEs based in rural and semi-urban areas. The pre-

requisite for MSMEs to be a part of this is to have a patented business idea.

Conclusion:

The country is facing an extraordinarily challenging time in this financial year. India has to find a way to cushion the demand side shocks induced by potential lockdowns and other ongoing containment measures. Developing countries like India have more fragile economic and social fabric and the present situation will create more suffering for the unorganized sectors and migrant labour. A global recession now seems inevitable. But how deep and long the downturn will depend on the success of measures taken to prevent the spread of COVID-19, the effects of government policies to alleviate liquidity problems in Start-ups and to support families under financial distress.

India is also contemplating to implement a comprehensive and more formal relief scheme that would provide access to capital, while also establishing an effective monitoring system to assess the utilisation of the funds. Start-ups play an important role since they not only encourage innovation among home-grown entrepreneurs but also generate employment opportunities. It also depends upon how companies react and prepare for the re-start of economic activities.

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