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NAVIGATING UNCERTAINTY: EXAMINING COVID-19'S IMPACT ON STARTUP FUNDING

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ABSTRACT

In spite of their modest scale, startups wield substantial influence on the economy, generating a surge in employment opportunities that catalyse economic expansion. Additionally, their emphasis on fostering innovation and fostering competition contributes to economic vibrancy. Proprietors of new businesses inject fresh concepts to stimulate innovation and competition, propelling economic growth. Since 2014, a total of $50 billion has been raised through more than 3,700 transactions. The ecosystem boasts over 250 robust accelerator-incubator systems, alongside 500 institutional and 2,000 active investors. This ecosystem has already spawned 750,000 new jobs and witnessed over 500 acquisitions. Bengaluru, Mumbai, and Delhi-NCR serve as pivotal hubs, housing half of the globe's active startups, thus assuming a prominent position in the global arena. However, the advent of the COVID-19 pandemic has dealt a severe blow to startups, exacerbating their challenges. The pandemic's repercussions extend beyond specific sectors, impacting all economic entities. Drawing on secondary sources such as websites, publications, and news articles, this essay delves into the opportunities and hurdles confronting nascent businesses in India against the backdrop of COVID-19.

KEYWORDS: Covid-19, Startup, Entrepreneur

INTRODUCTION

A "startup" refers to a fledgling business in its early stages of development, typically initiated by one or more entrepreneurs who identify a market need for a new product or service. These ventures often incur significant initial expenses with limited revenue streams, prompting them to seek funding from various channels, including venture capitalists. Startups, also known as early-stage enterprises, usually focus on developing and marketing a single product or service. Frequently lacking a robust foundation and resources for expansion, these businesses primarily rely on funding from their founders. To secure additional capital, startups often turn to investments from friends, family, and external investors. Silicon Valley is a renowned hotspot for startups, yet attaining success there is notoriously challenging. Seed funding is crucial for new ventures, financing essential activities such as market analysis and business plan formulation. Market research aids in estimating potential sales, while a well-crafted business plan delineates the company's mission, vision, and strategies for effective management and marketing.

REVIEW OF LITERATURE

V. Ambika and K. Rajeswari R. Saranya (2019) underscored the significant contribution of startups to the burgeoning growth of the Indian economy. In a nation like India, where employment opportunities are scarce, relying solely on government initiatives to generate jobs is not feasible. With the conducive business environment fostered by the government, private citizens bear the responsibility to empower themselves. Drawing from the insights of Adam Smith, an eminent economist of the 18th century, who expounded the concept of the "Invisible Hand" in his seminal work, "Wealth of Nations," it is posited that individuals pursuing their self-interest ultimately contribute to the greater good of society.

Dr. Gopaldas Pawan Kumar (2018) delved into the intricacies, challenges, and prospects confronting Indian startups. The paper delineates the myriad hurdles and obstacles that Indian startups encounter, along with the vast potential inherent in the existing ecosystem. The startup landscape is replete with challenges ranging from financial constraints to human resource limitations, from inception hurdles to sustaining growth with resilience. However, given India's substantial population, diverse opportunities abound across various startup sectors including food, information technology, retail, sanitation, and renewable energy like solar power.

In his 2001 article, Christopher A. Pissarides delves into the theoretical examination of how the costs associated with initiating a business impact employment performance. His research highlights that the disparities in labour market performance are predominantly influenced by structural factors rooted within the institutional frameworks of various countries. Similarly, Karbalaei Hosain's 2015 study sheds light on the financial challenges confronting startups in India and elucidates the hurdles these nascent businesses face during their early stages. The research underscores a notable trend wherein investors now demand a higher level of groundwork from entrepreneurs before considering investment, spurred by significant technological advancements.

Furthermore, a panel comprising Dr. Meenakshi Bindal, Dr. Bhuwan Gupta, and Sweety Dubey in 2018 underscored the pivotal role of startup businesses in bolstering the Indian economy. Given recent governmental policy shifts, the focus of this article is to enhance awareness about startups, recognizing them as vital entities. To propel Indian startups and enhance employment opportunities for the nation's youth, the Indian government must extend support to startups, facilitating their promotion not only domestically but also on a global scale. Additionally, the formulation of startup-friendly policies is imperative to foster an environment conducive to their growth and success.

According to the research findings by Omid Sharifi and Bentolhoda Karbalaei Hossain (2015), newly established businesses in India face numerous formidable financial challenges, alongside the inherent hurdles of the early stages of development. Their study underscores the heightened expectations placed on entrepreneurs by investors, necessitating thorough groundwork even before presenting their companies, a trend catalysed by significant technological advancements.

In a conceptual research endeavor titled "A New Model for Aspiring Young Business Owners in India: Startup India," Abhrajit Sarkar explores the indispensable role of support and encouragement required by startups throughout their inception and growth phases until they attain stability. The study emphasizes the paramount importance of technology-driven startup ventures in the Indian context. However, it acknowledges a limitation as it primarily relies on secondary data for its analysis, thereby constraining its applicability. To enhance the depth of understanding, future research endeavours could leverage primary data and employ various statistical tools to further explore the business prospects and advantages of embarking on entrepreneurial ventures.

Research Objectives

1. To determine the possibilities and difficulties faced by start-ups during the epidemic.
2. To examine how government initiatives and economic restructuring affect new businesses in the context of COVID-19

Importance of The Study

New businesses are launched with the dual objectives of profitability and market share acquisition within their respective regions. While small firms possess the potential to evolve into large-scale organizations, their growth is primarily propelled by expanding teams, supply chains, manufacturing capacities, and distribution networks at national and international levels. However, the COVID-19 pandemic has introduced unprecedented challenges for India's startup ecosystem. In response, the Indian government, alongside various partners, has initiated collaborative efforts to support fledgling businesses. These endeavours aim to combat the pandemic by leveraging innovative strategies devised by entrepreneurs. Efforts are underway to assist incubators in transitioning their operations online, facilitating webinars to offer strategic mentorship to nascent businesses. This study seeks to elucidate the measures undertaken by the government to address the current challenges encountered by startups, while also highlighting the prevailing opportunities in the ecosystem.

RESEARCH METHODOLOGY

For the purpose of this study, an exploratory research approach was chosen as the method for gathering information about start-ups that occurred during the pandemic. This study relies heavily on secondary sources for its information. These statistics come from a variety of sources, including websites, journals, and stories from newspapers.

Role Of Government

The Ministry of Human Resource Development and the Department of Science and Technology have forged an alliance to collaborate on an initiative aimed at establishing over seventy-five startup support hubs across various prestigious educational institutions in India. These include the National Institutes of Technology (NITs), the Indian Institutes of Information Technology (IIITs), the Indian Institutes of Science Education and Research (IISERs), and the National Institutes of Pharmaceutical Education and Research (NIPERs), strategically located throughout the nation. In tandem with this initiative, the Reserve Bank of India has affirmed its commitment to taking proactive measures to enhance the "ease of doing business" in the country and foster an enabling environment conducive to the growth of new enterprises.

Investments in New Businesses

SoftBank, representing Japan, has injected a substantial $2 billion investment into emerging enterprises based in India, valuing its overall ventures at an impressive $10 billion. Google, propelled by the highest number of votes, has announced a startup competition, wherein the top three innovative businesses will secure spots in the upcoming Google Launchpad Week. The ultimate winner stands to gain a generous sum of one hundred thousand dollars in Google cloud credits. In parallel, initiatives such as the Mantri Mudra Yojana are being employed to reassess the prospects of small-scale units, particularly startups, amid times of crisis.

Despite the profound economic disruptions wrought by the COVID-19 crisis, proactive measures can be taken now to mitigate its long-term impacts on employment and innovation. These measures can help alleviate the negative effects discussed earlier. Recessionary periods often precipitate intensified restructuring efforts, potentially culminating in a stronger and more resilient economy.

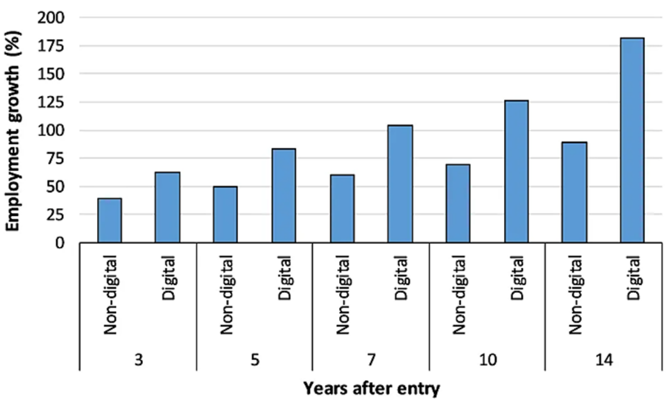
Historically, periods of crisis have birthed numerous successful and innovative startups, countering the common trend of reduced new business registrations during recessions. Notable examples include Dropbox, Uber, Airbnb, WhatsApp, Groupon, Pinterest, and Alibaba's Taobao, all established during or shortly after the global financial crisis or other crises. These instances underscore that crises not only pose challenges but also present new opportunities for entrepreneurial ventures. New businesses can address limitations imposed by challenging conditions and adapt to shifting preferences and needs, as exemplified by the following illustrations relevant to the COVID-19 era:

Firstly, startups can seize opportunities by introducing or scaling up radical innovations that address immediate needs, such as telemedicine, remote personal care, medical equipment, home delivery, food processing, teleworking, online education, and contact tracing. Governments have introduced measures to support such endeavours, like the European Commission's expedited funding under the EIC Accelerator program for companies offering COVID-19 solutions.

Secondly, the pandemic may catalyse enduring societal, consumer, or demand shifts, offering startups equipped to anticipate these changes lucrative commercial prospects. Medium-term changes may include increased demand for remote working, e-commerce, education, and health services, as well as transformations in global value chains and urban landscapes.

Policymakers should consider interventions aimed at raising awareness of these opportunities, particularly in resilient sectors like digital-intensive industries, which not only withstand the impacts of COVID-19 better but also exhibit higher post-entry employment growth and contribute significantly to job creation. This emphasis is crucial in fostering resilience and growth, particularly in the face of crises.

Policy interventions should strive to enhance the potential and capabilities of prospective entrepreneurs while fostering an environment conducive to innovative startups and entrepreneurial ventures. Mitigating the adverse impacts on employment and innovation resulting from a dearth of new firms requires initiatives aimed at reducing barriers to entrepreneurship. This entails streamlining administrative processes, offering incentives for startups and entrepreneurs, ensuring continued availability of funding, and bolstering entrepreneurial training and potential. By addressing these factors, the recovery process can be accelerated, minimizing the potential negative consequences associated with the absence of a new generation of businesses.



Source: Organisation for Economic Co-operation and Development

Figure 1: Digital-intensive entrants have higher post-entry employment growth

CHALLENGES BY START-UPS DURING COVID-19

Startups in India have faced numerous challenges during the COVID-19 pandemic, including:

1. Financial Constraints: Many startups have experienced cash flow issues and difficulty accessing funding due to economic uncertainty and reduced investor confidence during the pandemic.
2. Operational Disruptions: Nationwide lockdowns and restrictions on movement disrupted supply chains, manufacturing operations, and customer interactions, leading to operational challenges for startups across various sectors.
3. Remote Work Transition: Startups had to quickly adapt to remote work arrangements, which posed challenges in maintaining productivity, communication, and team collaboration, especially for those reliant on physical infrastructure or face-to-face interactions.
4. Market Uncertainty: Rapid shifts in consumer behavior and demand patterns during the pandemic made it challenging for startups to predict market trends and adjust their business strategies accordingly.
5. Reduced Consumer Spending: Economic downturn and job losses resulted in reduced consumer spending, affecting the revenue streams of startups, particularly those operating in discretionary sectors such as travel, hospitality, and luxury goods.
6. Supply Chain Disruptions: Disruptions in global and domestic supply chains due to lockdowns, transportation restrictions, and logistical challenges affected the procurement of raw materials and components, impacting production and delivery schedules for startups.
7. Regulatory Challenges: Regulatory changes and government policies implemented in response to the pandemic posed compliance challenges for startups, requiring them to navigate complex legal and regulatory frameworks while ensuring business continuity.
8. Employee Well-being: Ensuring the health and well-being of employees became a priority for startups, necessitating the implementation of safety protocols, remote work policies, and mental health support measures.
9. Competitive Pressures: Intensified competition and market consolidation during the pandemic posed additional challenges for startups, requiring them to innovate, differentiate, and adapt quickly to stay competitive.
10. Uncertain Future Outlook: The prolonged duration and evolving nature of the pandemic created uncertainty about the future outlook for startups, making strategic planning and decision-making more challenging amid unpredictable market conditions.

Overall, startups in India have demonstrated resilience and adaptability in the face of these challenges, leveraging technology, innovation, and strategic partnerships to navigate the uncertain landscape created by the COVID-19 pandemic.

START-UPS- IMPACT ON ECONOMY

The impact of the COVID-19 pandemic extends beyond specific industries, affecting all sectors of the economy in India and globally. Social distancing measures and self-isolation have hindered investor meetings, leading to a decline in venture capital activity across the Indian ecosystem. This adverse effect is observed across both white-collar and blue-collar sectors. According to data from Venture Intelligence, investments in new businesses plummeted by over fifty percent in March 2020. Indian startups managed to secure only $354 million across 34 deals, a significant drop from the $714 million raised in February across 46 deals. In the first quarter of 2020, startups received a total of $1.74 billion in investments across 126 deals, marking a 22% year-on-year decrease. This slowdown in fundraising activities is primarily attributed to the weakened economy exacerbated by the nationwide lockdown. The revised Foreign Direct Investment (FDI) policy in India is expected to negatively impact startup investments. The government's recent policy changes aim to prevent "opportunistic takeovers/acquisitions of Indian companies" during the pandemic. Under the updated guidelines, investors from countries sharing land borders with India are eligible to invest in the country.

This policy change is significant because Chinese investors play a crucial role in the Indian startup ecosystem. Reports indicate that Chinese investors and venture capitalists are involved in backing eighteen out of every thirty unicorn companies in India, including notable names like Tencent and Alibaba. Chinese investments in Indian businesses surpass eight billion dollars, exceeding investments from all other neighbouring countries combined. With the requirement for Chinese investors to seek government approval, funding rounds may experience delays.

INITIATIVE TAKEN BY GOVERNMENT (IN THE CONTEXT OF COVID-19)/OPPORTUNITIES GROWING INVESTOR INTEREST IN CERTAIN SECTORS

The COVID-19 pandemic has caused a shift in the traditional patterns of initial capitalization for new businesses. Startups operating in sectors such as fast-moving consumer goods (FMCG), online grocery delivery, home entertainment, and similar industries are gaining prominence among venture capital firms. These firms are redirecting their focus away from technology-centric businesses. Additionally, startups in EdTech, FinTech, and cybersecurity are experiencing heightened demand from users, which is attracting investor interest. Furthermore, the Indian government has initiated support for startup companies by offering a grant of $130,000 to develop an encrypted video conferencing solution compatible with various operating systems. While the epidemic has undoubtedly impacted the startup funding landscape in India, it has also created new opportunities for startups capable of adapting to the current environment. Venture capitalists and angel investors are cautiously optimistic, noting that certain businesses are exhibiting growth contrary to the prevailing trend.

FUNDING SOURCES AVAILABLE FOR STARTUPS FIGHTING AGAINST COVID-19 GRANT OPPORTUNITIES

Action COVID-19 Team (ACT) –

ACT has established a grant fund in the amount of INR 100 crore, which was funded by India's start-up community in order to provide ideas the opportunity to tackle COVID-19 with an immediate impact. In order to combat the further spread of the epidemic, we are looking for non-governmental organisations (NGOs) and innovative entrepreneurs who have developed scalable solutions that require an initial seed grant.

United States - India Science and Technology Endowment Fund (COVID-19 Ignition Grants)

The United States-India Science & Technology Endowment Fund (USISTEF) aims to encourage and support collaborative applied research and development to advance the public good through the commercialization of technology created through long-term collaborations between American and Indian researchers and businesspeople. The current world crisis highlights the significance and applicability of USISTEF efforts.

Equity

Rapid Response Funding by Omidyar Network India. A request for proposals for rapid response funding has been made public by Omidyar Network India in order to address the difficulties brought on by the Covid-19 issue and its ensuing socioeconomic effects. They will invest INR 7.5 crore ($1 million) on this project.

Fund for Bexley Advisors Covid-19 (BACoAF). The Bexley Advisors Covid-19 Action Fund was created as a gateway to funding for entrepreneurs working to find solutions to the worst problem our country has ever faced. Every week, the Fund distributes entries with participating VCs and investors. Entries are collected on a rolling basis.

Debt and Grant Opportunities

SIDBI Safe

Small Industries Development Bank of India (SIDBI) has introduced the SAFE (SIDBI Assistance to Facilitate Emergency reaction against Corona Virus) scheme in response to the urgent need to combat the Corona Virus from all angles. It is a financial aid programme for MSEs that manufacture items or provide services connected to battling the newly discovered coronavirus, which has been classified as a pandemic.

SIDBI Safe Plus

This programme was initiated by SIDBI with the intention of delivering emergency working capital to micro, small, and medium-sized enterprises (MSMEs) that are producing goods and services that are directly related to the fight against the corona virus in response to specific orders from the government or government agencies.

Dstcawach

The National Science and Technology Entrepreneurship Development Board (NSTEDB), which is part of the Department of Science and Technology (DST), is the organisation that is responsible for launching the Centre for Augmenting WAR with COVID-19 Health Crisis (CAWACH). Given the impact that COVID-19 has had both internationally and in India, it is urgent that efforts to promote research and development in this area be increased so that any additional harm to the economy can be prevented. The Indian government's Department of

Science and Technology (DST) is helping to fund technologies that provide comprehensive answers.

Sidbi Csas

Through the Covid-19 Startup Aid Scheme ('CSAS'), SIDBI aims to provide monetary assistance and stability to start-up businesses in spite of the fact that it is aware of the operational and financial hurdles that these businesses must confront. This programme will provide assistance to forward-thinking new ventures that have showed the ability to adjust to the economic impact of Covid-19 and have ensured the safety and financial stability of their employees.

During the lockdown period spanning from March 25, 2020, to April 14, 2020, the Department for the Promotion of Industry and Internal Trade (DPIIT) established a control room to oversee the real-time status of transportation and delivery of goods, manufacturing, and distribution of essential commodities to the public. The aim was to address any challenges encountered by various stakeholders during this period. Manufacturers, transporters, distributors, wholesalers, or online retailers facing difficulties with transportation, distribution, or resource mobilization were encouraged to inform the Department.

The Department promptly engaged with relevant state governments, district and police authorities, and other pertinent entities to address the concerns raised by stakeholders. To foster innovative solutions for combating COVID-19, DPIIT initiated the United Against COVID-19 Innovation Challenge. With over 750 applications received, all submissions are currently under review. The challenge seeks solutions to various aspects of the COVID-19 scenario, including logistics, testing, critical care equipment, large-scale sanitization, and more.

Business Immunity Platform by Invest India: National Investment Promotion Agency

The Business Immunity Platform (BIP) at Invest India is the active platform for the redressal of business issues. It operates nonstop, has a staff of specialist sector experts, and responds to enquiries as soon as possible. Invest India has also formed a partnership with the Small Industries Development Bank of India (SIDBI) in order to respond to and resolve issues raised by Micro, Small, and Medium-Sized Businesses in India (MSMEs). Businesses and investors will be able to get real-time support from the investor facilitation desk of the Ministry of Food Processing Industries (MOFPI) at Invest India through BIP. This will ensure that all food processing and related industries and business associations are able to function without any complications.

CONCLUSION

Despite facing a severe economic downturn, India's startup ecosystem is displaying resilience and adaptability in response to the crisis. For instance, in early April 2020, the Action Covid-19 Team (ACT) Grants added 49 initiatives to its list of grantees, which included Indian startup founders and investors. This grant of 100 crore rupees was aimed at aiding the government and other stakeholders in expediting the development of innovative solutions that could bolster India's efforts against COVID-19. As responsible Indian citizens, it is incumbent upon us to contribute to and create opportunities for the expansion of our economy and workforce amidst the challenges posed by the pandemic.

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