

# A Comprehensive Evaluation Of Startups In India With Respect To The Ease Of Doing Business Parameters To Figure Out The State – Wise Rankings, Key Drivers And Impact Factors And Shed Light On The Indian Policy Recommendations

**Krishna Rathi**

Anil Surendra Modi School of Commerce,  
Narsee Monjee Institute of Management Studies, Mumbai

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## ABSTRACT

*This research paper analyses the ease of doing business in start-ups in India using both primary and secondary methods of data collection. The purpose behind choosing this paper is that this topic gives the researchers plenty of opportunities to interact with entrepreneurs, gain and broaden their understanding of the current scenario of start-ups and raise questions related to their economic condition in the country. This paper aims to shed some light on the adoption and implementation of government policies for Indian start-ups. It has been found that although the government of India has provided a huge boost to start-ups in the form of the 'Start-Up India' campaign launched in 2015, there are still many parameters in which this country is lagging behind others and hence many alternate solutions to bettering the economic condition for such small-scale companies.*

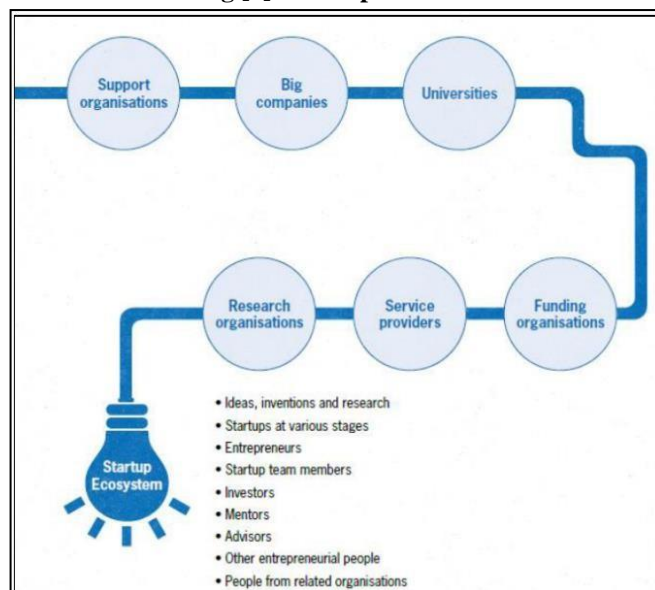
## INTRODUCTION

India is one of the most populated countries in the world and this huge population gives rise to numerous business opportunities. This is a major reason for the startup industry in India growing exponentially, and thus becoming the third largest startup hub globally. It has also been estimated that there will be 11,500 startups by 2020 as compared to 3,100 in 2014 and 5,600 in 2016. The start-up culture is all about fostering innovation through talent. Anybody who has a vision of changing India should be set free from mundane regulation so that they can focus on their unique ideas. Hence, the government has undertaken various initiatives to ease the regulatory norms and thus promote more start-ups. 'Make in India' and 'Start-Up India' are two campaigns undertaken by the state-level and national-level governments of India, respectively, intended to build a strong ecosystem that is conducive for the growth of the startup businesses, drive sustainable economic growth and generate large scale employment opportunities. The various stages in the life cycle of a start-up (Grant Thornton Report, 2016) are-

1. Pre-startup: Discovery by identifying a potential scalable product/service idea for a big enough target market and validation of the service or product discovered hits the market, looking for the first clients ready to pay for it.
2. Startup: Maintenance by maximizing benefits and facing problems derived from the global dimension that the business has achieved. Sale or renewal is the decision to sell the startup to a giant or acquire huge resources that the brand will need to continue growing.
3. Growth: Efficiency of the startup is when the entrepreneur begins to define the business model and looks for ways to increase customer base. Scale stage is pushing the growth of the business aggressively while increasing its capacity

to grow in a sustainable manner.

**Fig [1]: Startups in India**



Source: ASSOCHAM India (2016) Startups India- An Overview

On 15<sup>th</sup> August 2015, the Prime Minister, Narendra Modi, announced the 'Start Up India, Stand Up India' initiative to increase funding from banks resulting in job creation. Shown above in the diagram is the origin of a start-up ecosystem. Since the government has launched various projects and is trying to increase the ease of doing business in the world of startups, it would not be very surprising to see substantial increase in the number of unicorns in India in the coming future. For example, PayTm achieved its unicorn status in 2015 and has an estimated valuation of \$15 billion. Ola Cabs founded by Bhavish Aggarwal and Ankit Bhati is one of the largest and renowned start-ups in India and became a unicorn in 2014. However, despite increasing measures taken by the government to boost the growth of start-ups and an increasing market valuation of Indian start-ups over the last 4 years, a recent study ('Entrepreneurial India' by IBM Institute for Business Value and Oxford Economics) found that 90% of Indian start-ups fail within the first five years. One of the main reasons for failure is a complex regulatory environment, which affects the ease of doing business in the country.

## LITERATURE REVIEW

The landscape of entrepreneurship in India has undergone significant transformation in recent years, with a notable rise in technology-enabled startups. Shetty (2017) reports that India sees approximately 19,000 new startups annually, primarily in the consumer technology and financial services sectors. This surge has prompted an increased reliance on venture capital as a critical source of funding, highlighting the evolving dynamics of the entrepreneurial ecosystem.

In a complementary study, Vajrapu & Kothwar (2018) examine the technological needs of these new generation startups. They emphasize that startups are distinct entities compared to established firms, suggesting that traditional managerial practices may not be directly applicable. This differentiation underscores the necessity for tailored strategies to minimize risks during development.

Shaikh (2019) provides a broader perspective on the global startup ecosystem, particularly focusing on India's potential. With a vast population and widespread access to mobile technology and the internet, India is solidifying its status as a significant startup economy. The government's "Start-Up India" initiative has played a pivotal role in this growth, fostering a conducive environment for entrepreneurship. According to the World Bank's Ease of Doing Business Report (2018), Andhra Pradesh, Telangana, and Haryana rank as the top states, while Bangalore, Delhi-

NCR, and Mumbai lead among cities, reflecting regional hubs of innovation.

Saxena & Adhana (2019) analyze India's improvement in the Ease of Doing Business index, highlighting a jump to 77th place in 2019 from 142nd in 2015. Significant reforms, including the introduction of a Goods and Services Tax (GST) and improvements in obtaining construction permits, have been instrumental in this progress. These advancements place India among the top 25 globally for indicators such as access to electricity and credit.

Habeebuddin & Sakriya (2018) further explore the advantages and challenges startups face. While the "Start-Up India, Stand Up India" program has accelerated entrepreneurial growth, issues such as fragmented markets and insufficient infrastructure persist. Natarajan & Raza (2017) recommend structural reforms and policy enhancements to elevate India's standing among SAARC nations in terms of business facilitation.

Korreck (2019) identifies key growth drivers for Indian startups while also addressing the hurdles within the ecosystem, particularly for technology-driven firms. Interviews with industry experts revealed that despite these challenges, a robust support system is emerging to transform innovative ideas into viable businesses. The study suggests that effective government arrangements and funding mechanisms are critical for nurturing promising startups.

Chandiok (2016) highlights the impact of IIT graduates in founding billion-dollar startups like Ola and Flipkart, showcasing India's talent pool. The "Start-Up India" initiative has been crucial in fostering a surge of unicorns, attracting significant investment even before companies formally launch. Sarangi (2015) notes that success requires more than just a great idea; it demands resources, strong leadership, and risk management.

Bhasin (2020) stresses the importance of a conducive business environment, citing India's steady improvement in global rankings as a testament to government reforms aimed at supporting micro, small, and medium enterprises (MSMEs). Initiatives such as simplifying building permits and enhancing insolvency laws have contributed to this positive shift.

Gaur (2017) discusses ongoing reforms and potential improvements in the business environment, emphasizing the need for a strong policy framework and streamlined processes. Asher (2020) points to recent initiatives designed to facilitate business operations, including easier banking access and enhanced payment systems, which collectively aim to reduce registration times.

Despite progress, Garg (2018) notes that some reforms have not been fully realized in practice, revealing gaps in implementation that hinder overall effectiveness. Aggarwal & Manyal (2017) highlight the Modi government's initiatives, including Jan Dhan Yojna and Digital India, aimed at bolstering GDP, reducing poverty, and improving infrastructure, thereby fostering a business-friendly climate.

Sharma, Raj, and Gandhi (2019) identify common challenges leading to startup failures, including capital access, inadequate technology infrastructure, and regulatory hurdles. Despite the government's efforts to streamline processes, significant areas still require improvement.

Shukla & Pande (2019) argue for self-reliant growth as essential for national development, assessing the "Start-Up India" initiative through a SWOT analysis. They conclude that addressing systemic loopholes and implementing further regulations could unlock substantial growth potential for Indian businesses.

Kalyanasundaram (2018) examines factors contributing to startup failures, contrasting unsuccessful ventures with thriving ones. Key determinants include the time taken to reach minimum viable product, revenue realization timelines, and the founders' skills and expertise. The study suggests that a founder's background, attitude towards mentorship, and financial independence significantly influence a startup's trajectory.

In summary, while India's startup ecosystem is vibrant and rapidly evolving, challenges remain. The government has

laid a strong foundation through various initiatives and reforms, but sustained efforts are necessary to address existing gaps and foster an environment conducive to enduring entrepreneurial success. With the right support and strategic focus, India has the potential to emerge as a global leader in innovation and entrepreneurship.

## RESEARCH OBJECTIVES

The broad objective of this paper is an attempt to study the Ease of Doing Business in Startups in India. In light of the broad objective, the specific objectives of the present study are as follows:

1. To evaluate the ease of doing business for Start-Ups in India.
2. To analyze the state wise ease of doing business rankings.
3. To analyze the condition of Start-Ups in India: A Case Study.

## DATA AND RESEARCH METHODOLOGY

This section outlines the research methodology used to address the objectives of this paper, focusing on the ease of doing business and the performance of startups in India. Both primary and secondary research methods were employed.

Extensive secondary research involved analyzing various sources, including research papers, journals, websites, and databases. Key resources included the World Bank, Start-Up India, and the Make in India initiative, ensuring thorough examination and proper attribution.

Statistical methods, such as regression and correlation analysis, were applied to the secondary data, along with technical analysis. For primary research, personal interviews were conducted, utilizing a Likert Scale (1-5) to quantify responses related to key variables. Startups in different stages of development in Mumbai were randomly selected, and descriptive statistics were used for data analysis.

The following variables were examined:

1. **Starting a Business:** This measures the procedures, time, cost, and minimum capital required for small to medium-sized firms to start and operate in India, including pre-registration and funding.
2. **Obtaining Construction Permits:** This assesses the procedures, time, and costs associated with legal formalities for building warehouses, along with safety and quality control measures.
3. **Getting Electricity:** This evaluates the time, procedures, and costs for obtaining a permanent electricity connection, focusing on tariff transparency and reliability of supply.
4. **Registering Property:** A standardized case of purchasing a plot of land is analyzed, measuring the steps, time, and costs involved in property registration, along with land administration quality.
5. **Getting Credit:** This variable examines the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws, focusing on legal rights and credit information accessibility.
6. **Paying Taxes:** This assesses the total taxes and contributions a firm must pay annually, including compliance time and post-filing procedures.
7. **Labour Market Regulations:** This measures the flexibility in employment regulations and job quality aspects.
8. **Trading Across Borders:** This evaluates the time and costs associated with exporting and importing goods.
9. **Enforcing Contracts:** This measures the time and cost to resolve commercial disputes and assesses the judicial process's quality.
10. **Resolving Insolvency:** This examines the time, cost, and outcomes of insolvency proceedings, including recovery rates for creditors.
11. **Protecting Minority Investors:** This measures minority shareholders' rights in corporate governance and transactions.

Overall, this methodology aims to provide a comprehensive understanding of factors influencing startup performance and the ease of doing business in India.

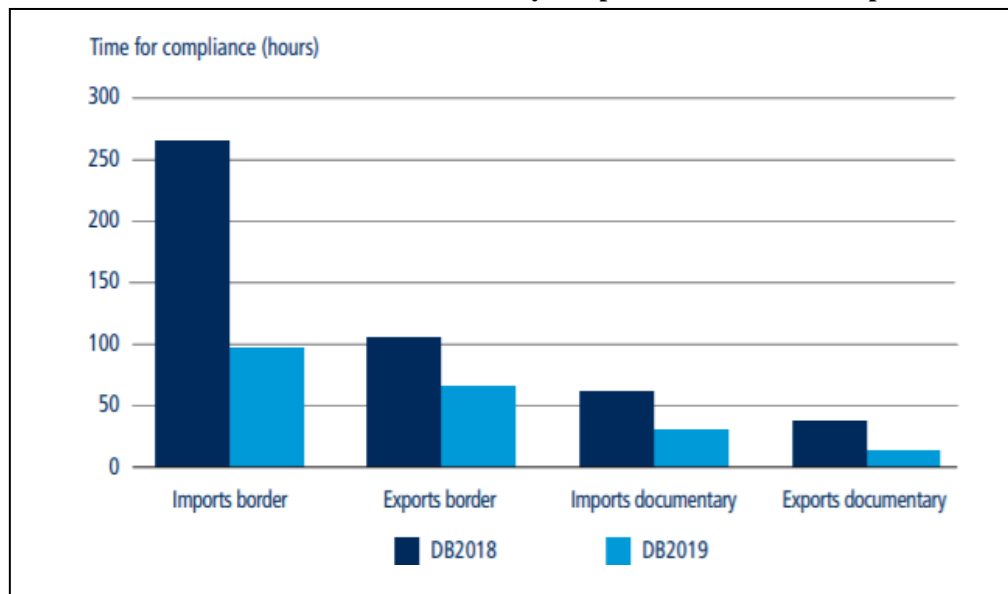
## RESULTS, ANALYSIS AND INTERPRETATION

This section addresses the stated objectives of the research paper and tries to analyze and interpret from the context of the Ease of Doing Business. This section is divided into three segments: First, Ease of doing business for Start-Ups in India; Second, state wise ease of doing business rankings; Third, analysis of the condition of Start-Ups in India: A Case Study.

### Ease Of Doing Business In Start-Ups In India

The Ease of Doing Business index, developed by Simeon Djankov of the World Bank, evaluates how conducive a regulatory environment is for firms, emphasizing simpler regulations and strong property rights. In the Doing Business Report 2020, India ranks 63rd, improving from 77th in 2019 and 130th in 2016, marking its position among the top 10 improving nations for three consecutive years. This progress is attributed to initiatives like "Make in India," which aims to enhance competitiveness and attract foreign investment, particularly in manufacturing. The government set a goal to reach the top 50 by 2020, and while it hasn't achieved that yet, it is optimistic about future advancements. Efforts to streamline cross-border trade through reduced compliance requirements and investments in port infrastructure have further supported this positive trend.

**Figure [2]: India decreased border and documentary compliance time for both exports and imports.**



Source: Doing Business Database.

**Table [1]: The 10 economies improving the most across three or more areas measured by Doing Business in 2018/19**

TABLE O.2 The 10 economies improving the most across three or more areas measured by <i>Doing Business</i> in 2018/19												
Economy	Rank	Change in DB score	Reforms making it easier to do business									
			Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Saudi Arabia	62	7.7	✓	✓	✓		✓	✓		✓	✓	✓
Jordan	75	7.6					✓		✓			✓
Togo	97	7.0	✓	✓	✓	✓	✓					
Bahrain	43	5.9		✓	✓	✓	✓	✓	✓	✓	✓	✓
Tajikistan	106	5.7	✓					✓		✓		
Pakistan	108	5.6	✓	✓	✓	✓			✓	✓		
Kuwait	83	4.7	✓	✓	✓	✓	✓	✓		✓		
China	31	4.0	✓	✓	✓			✓	✓	✓	✓	✓
India	63	3.5	✓	✓						✓		✓
Nigeria	131	3.4	✓	✓	✓	✓				✓	✓	

Source: Doing Business Report, 2019.

India has significantly improved its ease of doing business by integrating various processes, reducing costs, and enhancing regulations. Key reforms have facilitated business entry, property transfers, electricity reliability, and labor market regulations, among others.

#### Key Factors Affecting Ease of Doing Business:

- Firm Entry:** The reform of the 'License Raj' simplified registration, leading to an increase in small firms and productivity in previously regulated sectors, contributing to better firm performance and increased executive remuneration.
- Property Transfer:** Strengthening land property rights has encouraged long-term investments. Secure property rights reduce the fear of expropriation, promoting a shift towards more substantial investments.
- Reliability of Electricity:** Frequent power outages hinder startup productivity and incur additional costs for backup solutions. Historical data indicates that electricity shortages have significantly impacted revenues, underscoring the need for a reliable power supply.
- Labor Market Reforms:** Restrictive labor regulations raise operational costs and affect employment rates. Reforms in this area could enhance productivity and access to credit, fostering economic growth.
- Trade Regulation and Costs:** This involves streamlining official procedures for cross-border trading, thereby improving efficiency and reducing delays.
- Court Efficiency:** Efficient judicial processes are crucial for economic development. Improved contract enforcement and reduced tariffs can significantly enhance productivity.
- Creditors' Rights:** Strengthening legal protections for creditors can boost lending by allowing banks to lend more using existing collateral. This enhances the efficiency of credit markets.
- Credit Information:** Robust credit information systems help lenders assess risks more effectively, addressing issues of asymmetric information.
- Shareholders' Rights:** Strongly enforced shareholders' rights facilitate access to financing, encouraging firms to invest in research and development, ultimately contributing to economic growth.
- Foreign Direct Investment (FDI):** There is a strong correlation between FDI and ease of doing business. Regulatory

reforms can enhance both foreign and domestic investment activity.

### Economic Freedom

Economic freedom, defined as individual control over labor and property, is critical for business growth. India's score on this index is low at 56.5, ranking 120th globally. Improving fiscal health through tax reforms and better banking regulations is essential for enhancing economic freedom.

### Recent Improvements

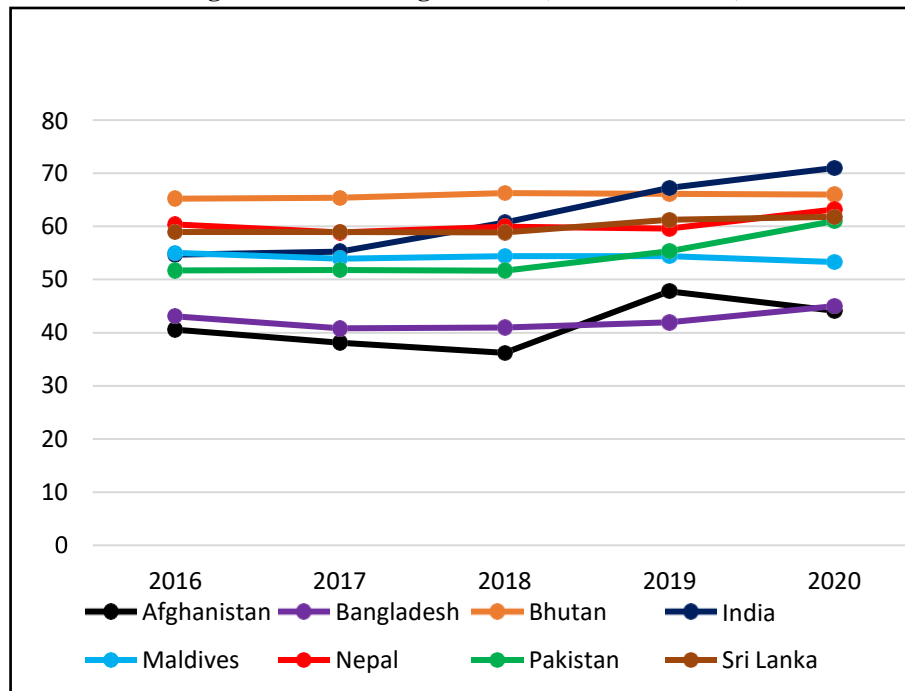
India's ranking in the ease of doing business has improved significantly due to various reforms:

1. **Insolvency and Bankruptcy Code:** This reform has streamlined processes for creditors, reducing the time for recovering dues and increasing recovery rates from 27% to 72%.
2. **Changes in the Companies Act:** Amendments have reduced compliance burdens for startups, allowing them to operate more efficiently. Notably, one-person companies are now exempt from certain financial statement requirements.
3. **Starting a Business:** The number of procedures to start a business has been reduced from 14 to 5 through the introduction of a single online form (SPICe), significantly simplifying the process.
4. **Construction Permits:** Obtaining permits now takes only 60 days, down from over 160, and costs have been reduced to 4% of warehouse value.
5. **Trading across Borders:** Measures have been implemented to simplify customs processes and document requirements, which have decreased waiting times and boosted investment in special economic zones (SEZs).
6. **Tax Benefits:** Initiatives like the Goods and Services Tax (GST) have streamlined taxation for small firms. Startups benefit from exemptions on income and capital gains tax for seven years, along with reduced patent registration fees.
7. **Corporate Tax Rates:** India's corporate tax rate has been lowered to 22%, making it one of the lowest in Asia and enhancing its attractiveness for foreign investors.

**Table [2]: Doing Business Score: SAARC nations, 2016-2020**

	2016	2017	2018	2019	2020
<b>Afghanistan</b>	40.58	38.10	36.19	47.77	44.10
<b>Bangladesh</b>	43.10	40.84	40.99	41.97	45.00
<b>Bhutan</b>	65.21	65.37	66.27	66.08	66.00
<b>India</b>	54.68	55.27	60.76	67.23	71.00
<b>Maldives</b>	55.04	53.94	54.42	54.43	53.30
<b>Nepal</b>	60.41	58.88	59.95	59.63	63.20
<b>Pakistan</b>	51.69	51.77	51.65	55.31	61.00
<b>Sri Lanka</b>	58.96	58.79	58.86	61.22	61.80

*Source:* Ease of Doing Business Reports of years 2016-2020.

**Fig [3]: Ease of Doing Business (SAARC Nations)**

Source: Ease of Doing Business Reports of years 2016-2020.

The South Asian Association of Regional Cooperation (SAARC) is the regional intergovernmental organization of states in South Asia. The members of SAARC are, Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, India and Sri Lanka. As the countries are a part of the same geographical region, it makes it relevant for comparison of the ease of doing business in the respective nations.

However, we can observe that countries like Bhutan, Nepal, Bangladesh and Sri Lanka have had a constant or an insignificant level of improvement in terms of ease of doing business over the five years. Maldives is the only country in the union whose ease of doing business has effectively declined over the past five year, which might be due to its rising focus on income from tourism.

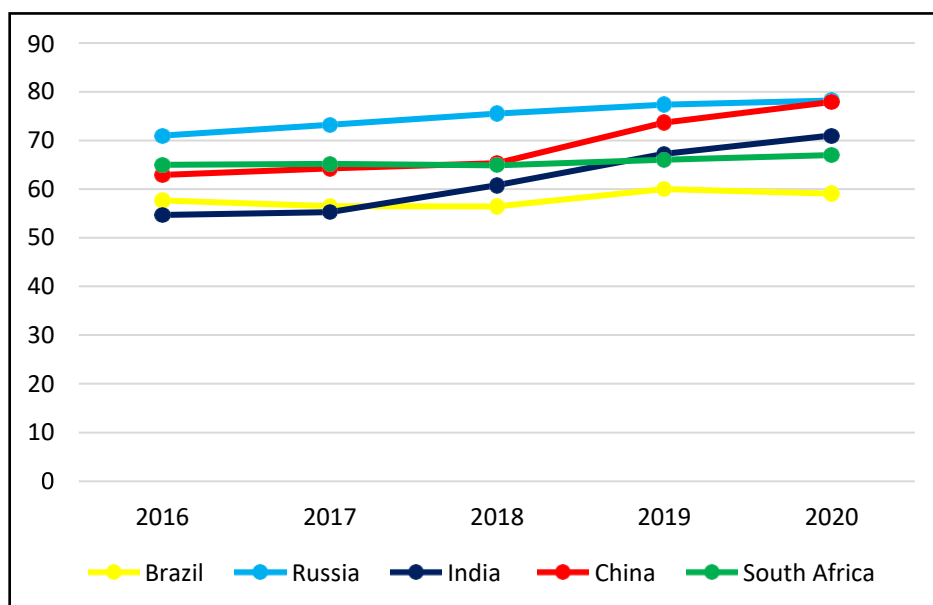
Other nations including Afghanistan, Pakistan and India have improved their ease of doing business score over the years, as they might have reduced the level of compliances for one to start a venture in their country.

**Table [3]: Doing Business Score: BRICS nations, 2016-2020**

	2016	2017	2018	2019	2020
<b>Brazil</b>	57.67	56.53	56.45	60.01	59.10
<b>Russia</b>	70.99	73.19	75.50	77.37	78.20
<b>India</b>	54.68	55.27	60.76	67.23	71.00
<b>China</b>	62.93	64.28	65.29	73.64	77.90
<b>South Africa</b>	64.89	65.20	64.89	66.03	67.00

Source: Ease of Doing Business Reports of years 2016-2020.



**Fig [4]: Ease Of Doing Business Score (BRICS Countries)**

Source: Ease of Doing Business Reports of years 2016-2020

The BRICS group, comprising Brazil, Russia, India, China, and South Africa, includes countries at a similar stage of economic development. Notably, both China and India have made significant strides in improving their ease of doing business scores. China advanced from a score of 62.93 in 2016 to 77.9 in 2020, rising from rank 84 to 31. India, too, improved dramatically, increasing its score from 54.68 at rank 130 to 71 at rank 63 in five years, focusing on investment-led growth and addressing unemployment.

Despite these advancements, India faces challenges in key areas:

1. **Registering Property:** India ranks 166th, with an average registration time of 69 days compared to one day in New Zealand, hindered by high stamp duties.
2. **Paying Taxes:** Indian businesses make 13 tax-related payments annually, significantly more than the 3 in Hong Kong, necessitating further tax reforms.
3. **Getting Electricity:** Efficiency in state power utilities needs improvement for better service.
4. **Enforcing Contracts:** Legal disputes take three times longer to resolve than in high-income countries, highlighting the need for judicial reforms.

To further enhance its ranking, India should attract more global investment and savings.

#### STATE WISE SUCCESS RATE AND PERFORMANCE OF START-UPS IN INDIA

Start-ups play a crucial role in India's economy by generating employment and contributing to GDP growth through exports and value addition. To foster a conducive environment for start-ups, Prime Minister Narendra Modi launched the 'Start-Up India' initiative in 2016. Since its inception, 15,113 start-ups have been recognized, with 55% from Tier 1 cities and 27% from Tier 2 cities. The initiative has led to the establishment of state incubators and co-working hubs, increasing the number of states with official start-up policies from 4 to 24. The government's Fund of Funds for Startups has also invested Rs. 1,625.74 crore in 247 start-ups, with Karnataka receiving the largest share.

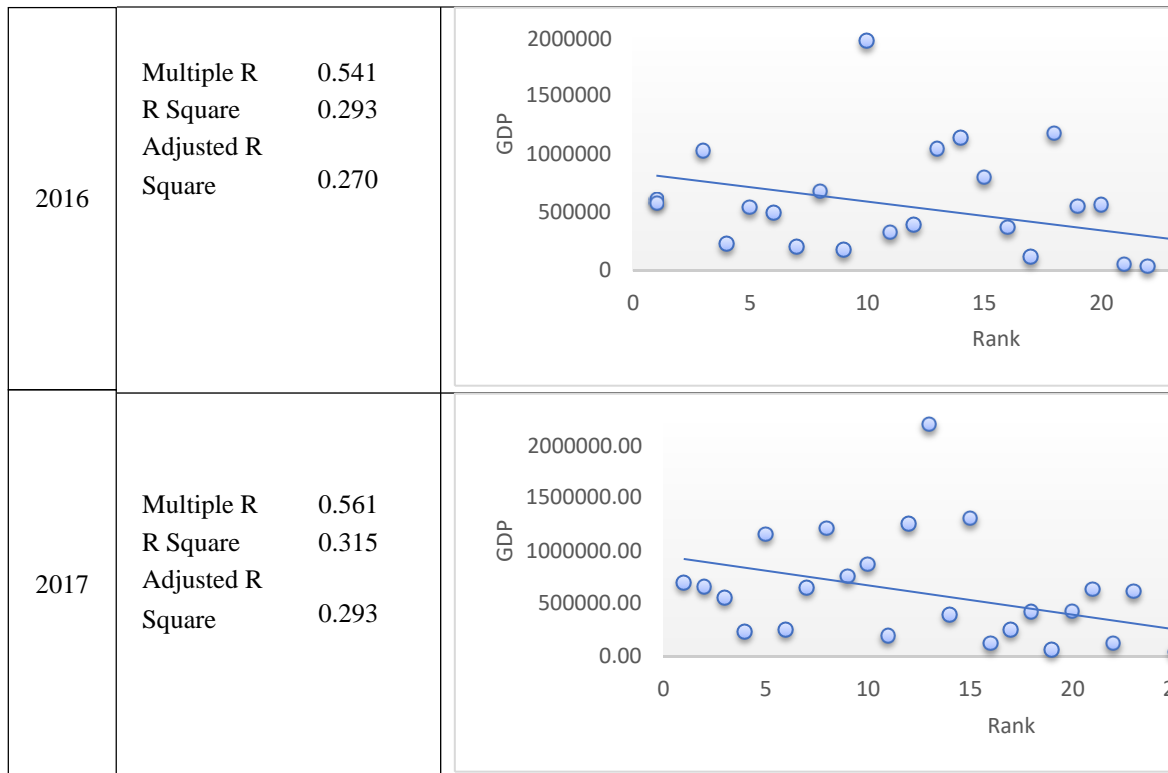
According to the Department of Industrial Policy and Promotion (DIPP) rankings, Gujarat was rated the ‘Best Performing State,’ with Karnataka, Rajasthan, Odisha, and Kerala recognized as ‘Top Performing States.’ Here’s a brief overview of a few states:

1. **Kerala:** Recognized as a ‘Top Performer’ in 2018, it has established the Kerala Startup Mission, which includes demo days for procurement and a dedicated fund for startups. By 2019, Kerala hosted 849 start-ups.
2. **Gujarat:** Acknowledged as the ‘Best Performer’ in 2018, it launched several policies like the IT-ITeS and Electronics Startup Policy, and is home to iCreate, one of the largest incubators in India. Gujarat had 985 startups in 2019.
3. **Andhra Pradesh:** Classified as a ‘Leader,’ it has established five incubators and 72 e-cells across the state, with a monitoring dashboard for startup initiatives. It had 323 recognized startups in 2019.
4. **Haryana:** As an ‘Aspiring Leader,’ it offers 50% rental subsidies for women entrepreneurs and has implemented automated mentor-startup connections. Haryana hosted 1,052 startups in 2019.
5. **Maharashtra:** Despite Mumbai's status as India's financial capital, it is classified as an ‘Emerging State’ due to insufficient incentives. Nonetheless, it has a comprehensive startup policy and increased its startup count from 2,587 in 2018 to 3,661 in 2019.
6. **Chandigarh:** Ranked as a ‘Beginner’ UT, it has introduced an Incubation and Co-Working Startup Scheme to provide affordable co-working spaces and advisory services. Chandigarh had only 78 startups in 2019.
7. **Telangana:** Offering various incentives like SGST reimbursements and marketing cost reimbursements, Telangana had 48 startups in 2018 and was ranked as a top performer in 2016.

The ease of doing business rankings and Gross State Domestic Product (GSDP) figures have been analyzed using a regression analysis, correlating state rankings with GSDP for the years 2014-15, 2015-16, and 2016-17. This analysis indicates a relationship between the business environment and economic performance, highlighting the importance of regulatory improvements in fostering start-up growth.

**Table 4: Regression and Correlation Output**

Year	Regression statistics	Correlation graph
2015	Multiple R     0.636 R Square        0.405 Adjusted R Square     0.3848	



Source: Based on Authors' Calculations

Multiple R values are the correlation coefficients, however the R square values give a more accurate representation of the dependence of one variable on the other, ease of doing business ranking on the GSDP in this case. Adjusted R square values are only to be considered if there are more than one independent variables which is not the case here and therefore adjusted R square will be ignored.

It is evident from the graphs above that as the ranking of the state in terms of ease of doing business decreases (higher the number, lower the ranking), the Gross domestic product from that state also decreases. However, the trend lines are flatter and the R square values are also not very high, showing that both these variables are not strongly correlated and the GSDP is not highly affected by the ease of doing business ranking of the state. The data points are also scattered and not close to the trend line; another evidence that even though they are correlated to a certain extent, the relationship between the variables is not very strong. A possible reason for this could be the already existing businesses in the states contributing to a higher chunk of the GSDP. Due to this, even if the ranking is moderate, the GSDP from the respective state would be higher for example Maharashtra in 2015, 2016 and 2017 (rank 8, 10 and 13 respectively). The ease of doing business might not be very good in Maharashtra might not be the best in India but due to other economic, demographic, geographic, market and political factors, the GSDP from this state is still the highest.

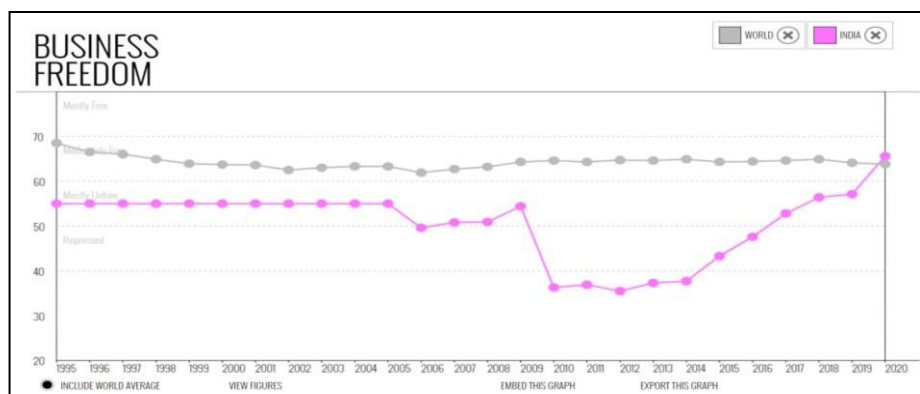
**Figure 5: India’s Rankings in the 2020 Index of Economic Freedom.**



Source: Heritage Foundation, 2020.

India’s economic freedom score is 56.5 giving it a world rank of 120 as of 2020. Its overall score has increased by 1.3 points, led by an increase in the business freedom score.

**Fig [6]: Business Freedom**



Source: Heritage Foundation, 2020

India’s positive reforms have made it easier to start a business, deal with construction permits, get electricity, obtain credit, pay taxes in Delhi and Mumbai, and trade across borders. Labour regulations are in flux and vary across the country. The government came under pressure in 2019 to reduce subsidies for fuel and agricultural commodities such as sugar, as well as general export subsidies.

**ANALYSIS OF THE CONDITION OF START-UPS IN INDIA: A CASE STUDY**

The Ease of Doing Business (EoDB) index, established by the World Bank Group, evaluates how conducive a country's regulatory environment is for starting and operating businesses. Higher rankings indicate simpler regulations and better property rights protection.

A survey was conducted using Simple Random Sampling on three start-ups from the IT, clothing, and pharmaceutical sectors. Respondents rated their experiences regarding the EoDB on a 5-point Likert scale.

**Company 1: Nischi Life Sciences***Years Operating: 5**Sector: Pharmaceuticals and Nutraceuticals*

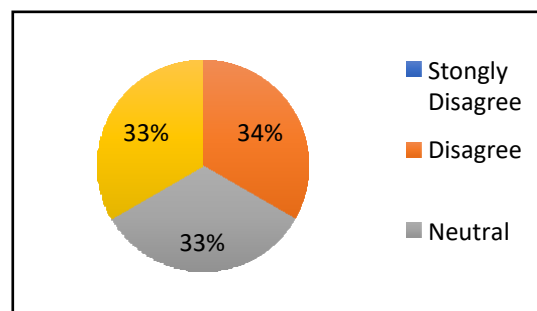
The respondent noted significant improvements in India's ease of doing business, highlighting government initiatives that streamlined processes like online approvals and minimal paperwork. Obtaining business approvals (e.g., director identification numbers, GST registration) has become easier compared to a decade ago, saving time and effort. The introduction of GST simplified tax payments, and recent measures further eased compliance. The respondent acknowledged improvements in acquiring electricity and construction permits, though some challenges remained in accessing credit due to biases favoring larger companies. They supported the 'Start-up India' initiative, which offers tax exemptions and funding support, bolstering entrepreneurship.

**Company 2: Sakshi Infotech Solutions LLP***Years Operating: 1**Sector: Software Development*

This company expressed neutrality regarding improvements in EoDB, citing structural bottlenecks that hinder effectiveness. Respondents noted cumbersome documentation and approvals that delayed business operations. While tax filing was relatively straightforward, environmental compliance presented challenges, incurring additional costs for external consultants. The company primarily relies on personal loans against promoter collateral for funding and indicated that over 50% of their challenges stem from corruption and bureaucratic inefficiency. They felt the government needed to enhance efforts to improve the business environment and noted that the NSIC Infrastructure Scheme had not been explored by them.

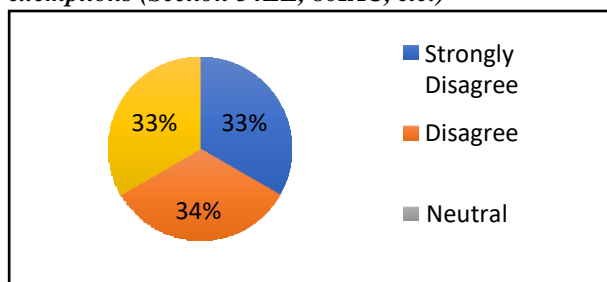
**Company 3: Pré-Ri***Years Operating: 5**Sector: Designer Clothing*

The respondent felt that the EoDB had improved significantly, citing easier approvals and better communication between government departments and businesses. Minimal paperwork and the introduction of GST were seen as positive changes, enhancing operational efficiency and sales. They reported that accessing credit has become simpler following amendments to the insolvency and bankruptcy laws. While tax filing is manageable, they advocated for further tax-saving measures. The company has not faced insolvency issues and relies on a broker for handling complex registration processes, acknowledging that these could be burdensome without such assistance. The respondent emphasized the need for the government to further simplify procedures and provide guidance to new entrepreneurs.

**SUMMARY OF THE RESPONSES***Obtaining Business approvals is easy.*

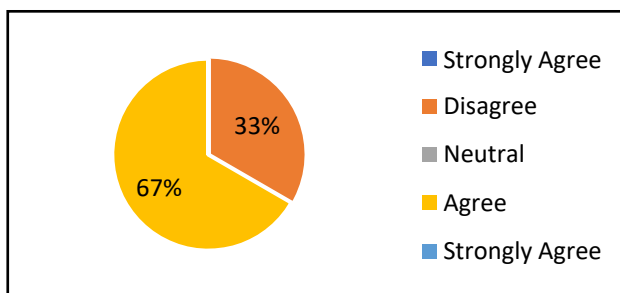
Registering the company online and obtaining business approvals although has been made easier, the process still needs to be streamlined.

*It is very easy to file for a tax exemption and your company has saved a significant amount on account of these tax exemptions (Section 54EE, 80IAC, etc.)*



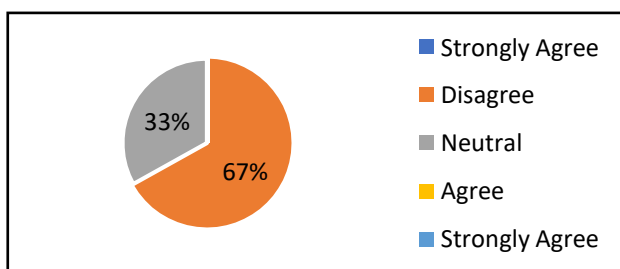
Tax filing is relatively easy but tax saving is what the government needs to work on. More concrete steps need to be taken to avoid tax and regulatory disputes that keep arising regularly and lead to negative perception about the business environment in India.

*The environmental regulations are easy to comply with.*



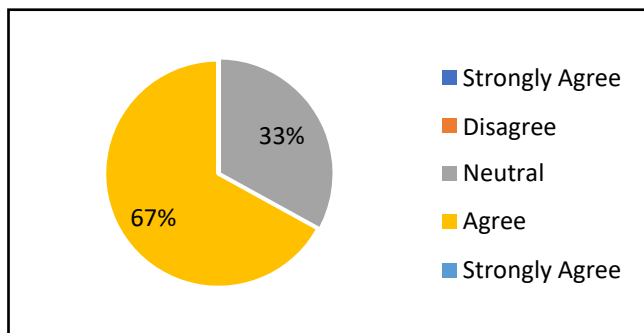
Most of the start-ups did not have a problem in complying with the environmental regulations.

*Dealing with insolvency is a relatively simple task that comes up frequently.*



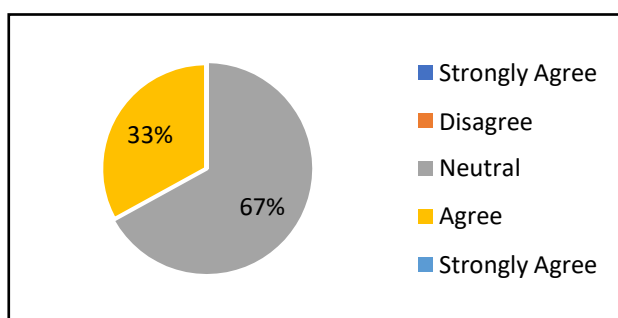
Most of the companies interviewed have not faced insolvency yet and hence are neutral towards it. The respondents disagreed when asked if insolvency came up frequently.

*Getting access to electricity was a simple task and involved no more hassle than ordinary.*



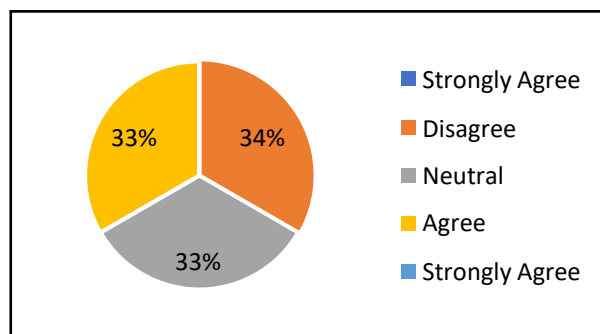
Getting electricity easily is no longer for start-ups and hence most of the respondents agreed that it required no more hassle than ordinary.

*The property registering process was smooth and uncomplicated.*



Most of the companies appointed a broker to get the property registered. They said that had they tried doing it on their own, it would have been a cumbersome process.

*The inspections done by the government are flexible.*



Most of the companies do not require or undergo inspection very often. The pharmaceuticals start-up agreed on inspection norms being flexible.

## POLICY RECOMMENDATIONS

India's fast growing entrepreneurial landscape has given rise to some very promising start-ups and entrepreneurs. They have the domain knowledge, the entrepreneurial zest, technical depth and the business vision needed to drive growth for their ventures. However, what they don't have is a supportive and enabling environment.

The government had announced the creation of a mega corpus of INR 10,000 crores to be deployed as a part of the Start-up India initiative. Unfortunately, due to a slow and complicated process, this amount has reached only a small number of start-ups. Banks also do not easily give any loans or working capital to start-ups without any collateral. This makes meeting day-to-day operational costs extremely difficult for start-ups, considering that a vast majority of them don't achieve profitability within the first five years.

The following are some suggestions that the government could implement in the near future which could act as incentives for start-ups in India-

**Creating Awareness:** Although the Indian government has come out with a lot of schemes for start-ups, but most of the entrepreneurs are either not aware of these different schemes or do not have a clear idea of how to avail them. The government needs to come up with ways of educating the entrepreneurs about the various schemes available and how they can make the most of it.

**Encourage Indians to fund India:** Globally, family offices invest up to 15 percent of their wealth in alternate assets; in India, this figure is around 1 percent or lower. Tax exemptions are provided for long-term capital gains of up to Rs 50 lakh arising out of the transfer of long-term capital assets if invested in a fund notified by the Central Government. The idea of these exemptions is to encourage individual investors and HUFs to invest in registered start-ups and approved funds. Additionally, the government should push banks and other financial institutions to give low interest loans to start-ups.

**Extend tax holiday:** At present, there is a 3-year tax holiday for eligible start-ups in a block of 7 years. However, merely registering on Start-up India does not guarantee income tax exemption and less than 2 percent of these start-ups have received income tax exemption from the Inter-ministerial Board of DIPPs. If India is hoping to create anation of job creators, a blanket tax holiday for a 7-year period (or 10 years as the case may be) for eligible start-ups should be seriously considered, irrespective of the revenue generated within the time block.

**Standardise and Simplify:** The definition of start-ups in some states vary from the others. There is a need to standardize the start-up definition to apply uniformly to all start-ups. So that there is greater alignment while administering the various schemes announced by the government. A separate chapter of the Companies Act must be set up solely for start-ups and compliances should be eased with regard to GST (filing of returns only annually), formation and liquidation, valuations etc.

## CONCLUDING REMARKS

### Ease Of Doing Business For Start-Ups In India

In the recent years, the government of India has undertaken various initiatives (e.g 'Make in India', 'Start-Up India' etc) to help improve the 'ease of doing business' in India. The success of these initiatives can be seen in India's continuous improved rankings in the Doing Business report. India has considerably improved its rank from the 130<sup>th</sup> position in 2016 to the 63<sup>rd</sup> in 2020. It has been a part of the top 10 improving nations for the third time in a row which was only achieved by four other nations. This improvement in ranking is mainly due to increasing foreign investment, giving a boost to the manufacturing sector, reduction in the time and cost required for getting construction permits, reliable sources of electricity, reduced export subsidies and availability of credit.

A comparison between India and the SAARC and BRICS nations has been drawn. India's score has significantly improved over the years, and ranks higher than all the SAARC nations. All the countries of the BRICS union have shown an absolute increase in their score of ease of doing business, but China and India's rankings have taken the biggest leap. We can conclude that India has been able to match the growth levels of other developing countries while



also being the strongest performer among all the other South Asian countries.

### State-Wise Ease Of Doing Business Rankings

Since the 'Start-Up India' initiative was launched in 2016, about 15113 start-ups have been recognised under this program across the country out of which 55% of them are from Tier 1 cities and 27% are from Tier 2 cities. Several states have also built their own incubators, coworking hubs (such as WeWork, Worksquare, etc.) as a part of this initiative. According to the rankings released by DIPP (Department of Industrial Policy and Promotion), Gujarat was rated the 'Best-performing state', while Karnataka, Rajasthan, Odisha, and Kerala took the title of the 'Top-performing states.' From the data so collected, we can conclude that the southern states of Karnataka, Tamil Nadu and Kerala are the leaders in terms of creating an entrepreneur-friendly environment. Andhra Pradesh and Rajasthan also are not lagging far behind. Gujarat was ranked 'Best Performer' among all the Indian states in 2018 due to the launching of various schemes (IT-ITeS and Electronics Startup Policy, 2016; Gujarat Biotech Policy, 2016 etc) and events (Vibrant Gujarat). Maharashtra failed to impress (indicated by the moderate ranking and high levels of GSDP) as it was unable to provide enough incentive to start-ups when compared to the other states and has been classified as an 'Emerging State.' States like Manipur, Mizoram, Nagaland, Sikkim, Tripura and Chandigarh were ranked as 'Beginners' and hence have a long road of progress ahead.

### CONDITION OF START-UPS IN INDIA: A CASE STUDY

While there has been substantial progress, and India has been fairly successful in creating an environment conducive to the creation and growth of start-ups, it still lags in areas such as property registration, tax saving etc. Obtaining business approvals has been made easier but the start-ups still feel that the government can do away with some of these complex procedures or make them online. The major complaints received were related to tax saving. The Start-ups interviewed felt that more incentives in the form of tax benefits need to be given. Obtaining land is another parameter that requires improvement in every aspect. Some also felt that getting various approvals, documentation requirements involved multiple visits to government departments which consumed a significant amount of time. The parameters which have improved significantly include obtaining construction permits and availability of electricity. Electricity could be got faster and cheaper because of the government streamlining the process of getting a new commercial electricity connection and the cost associated with obtaining construction permits has reduced drastically and number of procedures and days in obtaining construction permits have also been reduced. All the start-ups interviewed above feel that India is progressing in its ease of doing business but there is still a lot of room for improvement.

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## APPENDIX 1: BUSINESS FREEDOM

	2015	2016	2017	2018	2019	2020
India	43.3	47.6	52.8	56.4	57.1	65.6
WORLD	64.3	64.4	64.6	64.9	64.1	63.8

**Table 1: Business Freedom**

Source: Heritage Foundation, 2020

## APPENDIX 2: QUESTIONNAIRE FOR CASE STUDY

Name:

About the Company:

Number of Years it has been Operating:

### Question 1

It is easy to obtain business approvals such as director identification number, digital signature certificates, reserving the company name online, getting the certificate of incorporation, obtaining PAN, TAN, registering for GST, office of inspector, shops and entertainment act, etc.

### Question 2

i) Your start-up DPIIT is recognised and is very helpful in giving the benefits it claims. ii) If has not been recognised- why?

### Question 3

It is very easy to file for a tax exemption and your company has saved a significant amount on account of these tax exemptions (Section 54EE, 80IAC, etc.)

### Question 4

i) The environmental regulations are easy to comply with.

ii) How did you manage to assure the compliance? Were there any challenges you faced?

### Question 5

i) Dealing with insolvency is a relatively simple task that comes up frequently.

ii) How do you resolve such an adverse position and manage the due payables during the period?

**Question 6**

Getting access to electricity was a simple task and involved no more hassle than ordinary.

**Question 7**

- i) The registration process was smooth and uncomplicated.
- ii) If you faced any problems with the registration process, what were they and how did you tackle them?

**Question 8**

Getting the approval certification from the DIPP Board and the necessary letters of recommendation is not a cumbersome process.

**Question 9**

- i) Obtaining credit and funding has become easier over the years.
- ii) What are your main sources of credit? How often do you seek credit/funding?

**Question 10**

Have the 'Make in India' and/or 'Start-Up India' schemes made any difference in the operations of the start-up? How?

**Question 11**

- i) The inspections done by the government are flexible.
- ii) How have the reforms made by such inspections been beneficial for the business?

**Question 12**

Are your offices and warehouses strategically placed to avail the best use of transportation and logistics available?

**Question 13**

IT Company –

- i) The NSIC Infrastructure Scheme under the Start-Up India initiative has been beneficial for the company.
- ii) If yes, how?

Non-IT Company - It was not difficult to reach the position you are currently in with regards to infrastructure required for the business (in the context of the rules, regulations and subsidies provided by the government).

**Question 14**

Do you think the government needs to undertake more measures to improve the ease of doing business? If yes, what are your suggestions?