

A STUDY ON FINANCIAL OPPORTUNITIES AND CHALLENGES FACING STARTUPS DURING COVID-19

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ABSTRACT

Although relatively tiny, new businesses have a significant effect on the overall economy. They contribute to economic expansion through increasing employment, which in turn boosts job creation. Startups can also contribute to economic vitality by encouraging innovation and fostering competitive markets. Entrepreneurs that are new to the market can inject much-needed energy and enthusiasm into the marketplace by offering new products and services. Since 2014, firms have raised \$50 billion through more than 3,700 deals. Over two hundred and fifty top-tier accelerator/incubator programmes, five hundred established financial backers, and two thousand enthusiastic individuals make up the investment community. Over 500 companies have been bought out because of the ecosystem, and it has already resulted in over 750,000 additional jobs. Cities like Bengaluru, Mumbai, and Delhi-National Capital Region (NCR) have emerged as global powerhouses and are now home to half of all active startups. The global spread of the coronavirus epidemic has had a substantial effect on firms everywhere, but it has been especially hard on new enterprises. Effects of the coronavirus epidemic are felt by all economic actors in India and around the world, not just those in a select few industries. information that was obtained in a roundabout way from several sources including the internet, periodicals, newspapers, etc. This study, written in light of COVID-19, examines the benefits and challenges that exist for startups funding in India.

Keywords: Covid-19, Startup, Entrepreneur

INTRODUCTION

A new business that is just getting started is referred to as a "startup" When one or more business owners see a gap in the market for a novel good or service they can provide, they launch a startup. Due of their characteristic high launch costs and low initial earnings, these businesses frequently look for investment from a variety of sources, including venture capitalists. Startups are businesses that create and market just one good or service, often known as early-stage businesses or startup ventures. These businesses frequently lack a strong basis upon which to build and the resources needed to expand into more lucrative niches. Most businesses are funded by the founders themselves. A startup frequently looks for financing from friends, family, and even strangers when it needs additional funding. Because Silicon Valley is a hotbed for start-up companies, venture capitalists swarm there, yet the region is also famously difficult to prosper in. New businesses use seed capital to finance tasks like market research and business plan development. A well-written business plan can help clarify the company's purpose, establish its direction, and lay the foundation for effective administration and advertising. Market research is essential for estimating prospective sales.

REVIEW OF LITERATURE

Christopher A. Pissarides explored the role that startup costs play in terms of job performance in his article from 2001. This essay is rather theoretical in nature. According to the research, structural factors should be looked for inside each nation's institutional framework in order to understand why the labour markets in different nations behave differently. Bentolhoda's Omid Sharifi The various financial challenges that Startups in India face are described in the research done by Karbalaei Hosain (2015) and published in their paper. It also exemplifies the

difficulties faced by start-up companies in their initial stages. The most notable findings are that, as a result of a considerable advance in technology, investors have increased the bar for the amount of preparation entrepreneurs are expected to complete before even presenting their companies.

Dr. Meenakshi Bindal, Dr. Bhuwan Gupta, and Sweetie Dubey, panellists from 2018, stressed the significance of new firms to the Indian economy. This article focuses on spreading awareness of newly founded enterprises, sometimes known as startups, in light of recent regulatory changes made by the government. The government of India must help start-ups promote themselves not just in India but also in the rest of the world in order to provide Indian start-ups a significant boost and enable them to offer greater employment possibilities for the nation's youth. Additionally, the government must create legislation that supports startups.

In their 2019 article, V. Ambika and K. Rajeswari R. Saranya highlighted the contribution startups have made to the expansion of the Indian economy. The government cannot produce jobs on its own in a nation like India when there aren't many of them. Private persons have a duty to help themselves given the favourable climate for business that the government has established. Author and economist Adam Smith was a figure from the 18th century. The idea of the "Invisible Hand," which holds that people behaving in their own best interests will result in greater overall good for society, was covered by Adam Smith in his book Wealth of Nations.

Dr. Gopaldas Pawan Kumar (2018) investigated the issues, difficulties, and opportunities that Indian start-ups face. A number of the problems and challenges that an Indian startup must deal with are highlighted in the paper, along with some of the promise that the nation may bring to the current environment. Start-ups face a wide range of challenges, including those related to finances, human resources, beginning and tenaciously continuing development, and other issues. The country, which has a sizable population, offers a lot of opportunities in a variety of start-up industries, such as food, information technology, retail, hygiene, and solar.

The results of a research paper by Omid Sharifi and Bentolhoda Karbalaei Hossain from 2015 show that new enterprises in India face a lot of challenging financial challenges. It also exemplifies the difficulties faced by start-up companies in their initial stages. The most notable findings are that, as a result of a considerable advance in technology, investors have increased the bar for the amount of preparation entrepreneurs are expected to complete before even presenting their companies.

Mr. Abhrajit Sarkar Startup India: A New Model for Aspiring Young Business Owners in India A conceptual study was done on the subject of how a company needs support and motivation from many different angles during the starting and growth phases until it is established on firm ground. It is impossible to overestimate the significance of technology-based startup companies in India. The drawback of this study is that it is a thorough conceptual examination of startup India based on secondary data. The usefulness of this study is constrained by this constraint. Additional research on the business possibilities and advantages of establishing a new firm for entrepreneurs can be conducted by using primary data and a number of other statistical approaches.

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

With the combined objectives of turning a profit and obtaining a share of the local market, new firms are started. The main driver of small businesses' growth is the expansion of their teams, supplies, manufacturing, and distribution channels on a national and worldwide level, yet tiny businesses can also expand into enormous organisations.

The startup industry in India is currently facing challenges that have never been experienced before due to the COVID-19 pandemic. In order to help newly founded firms, the Indian government has teamed up with a variety of additional partners. They are using cutting-edge strategies created by businesses in an effort to eliminate the pandemic.

Incubators are using webinars to offer strategic mentoring to startup companies as we help them move their operations online. In addition to shedding light on the opportunities that are currently available, this study intends to throw light on the actions made by the government to address the problems that startups are currently facing.

RESEARCH METHODOLOGY

The strategy for acquiring data on start-ups that took place during the pandemic for this study was an exploratory

research methodology. For its data, this study mainly relies on secondary sources. These figures are gathered from a range of sources, including articles from newspapers, journals, and websites.

INVESTMENTS IN NEW BUSINESSES

Japan's representative in this situation, SoftBank, has invested \$2 billion in new Indian businesses. The Japanese corporation put a \$10 billion estimate on the total value of all of its endeavours. Google has chosen to hold a startup competition as a result of receiving the most votes. The top three new enterprises will be invited to participate in the ensuing Google Launch pad Week, and the overall winner will be eligible to win a sum equal to \$100,000 in Google cloud credits. Pradhan One of the analogous activities is the Mantri Mudra Yojana, which is also one of these activities, to renegotiate the small-scale units' pertinent chances for start-ups in times of crisis.

The COVID-19 crisis resulted in a substantial economic upheaval, but by taking action now to assist new business development and current start-ups, it may be feasible to mitigate the long-term effects on employment and creativity. This would reduce the detrimental impacts mentioned in the section prior. Restructuring phases are usually increased during recessions, which could ultimately result in a more robust and resilient economy.

In actuality, despite the fact that the number of new business registrations typically declines during recessions, many successful imaginative start-ups or firms emerged during these times. This may be seen in the establishment of businesses like Dropbox, Uber, Airbnb, WhatsApp, Groupon, and Pinterest, all of which occurred during or immediately following the global financial crisis. The People's Republic of China experienced a SARS outbreak in 2003, therefore Alibaba's Taobao is another illustration.

This shows that at times of crisis, there are fresh chances for entrepreneurship as well as challenges. When these opportunities present themselves, new firms can help people get above the constraints imposed by difficult economic or health conditions as well as accommodate to shifting preferences and needs. The examples in the list below are relevant to the time period covered by COVID-19.

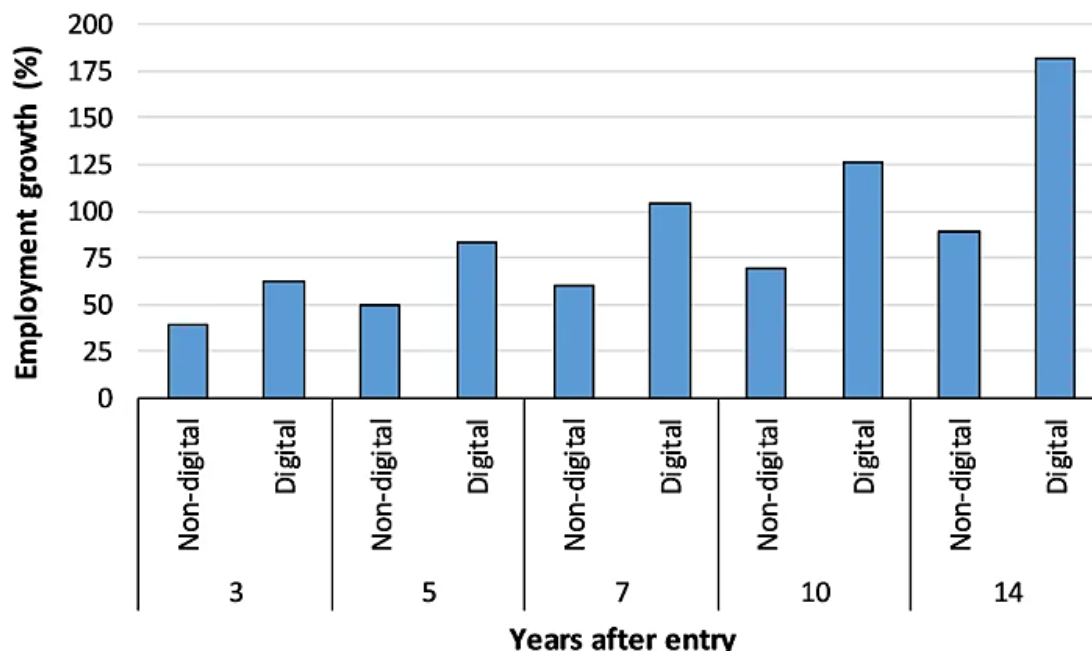
First, start-ups that debut (or upscale) novel innovations that can be beneficial in the near future have potential. This might entail advancements in telemedicine, remote personal care, medical devices, home delivery, food preparation, teleworking, online learning, and contact tracing, for instance. The government has taken a number of actions aimed at short-term fulfilment of these goals. For instance, the European Commission urged early-stage businesses to apply for accelerated funding through the EIC Accelerator programme if they have created solutions for the COVID-19 outbreak's testing, monitoring, or any other aspect. On the other hand, these are more likely to eventually concentrate on dealing with specific activities for which there is a pressing demand or need.

Second, and perhaps more importantly, the COVID-19 pandemic may lead to significant shifts in societal norms, consumer habits, or desires. These changes could give start-up businesses the chance to seize important economic opportunities if they can anticipate them. For instance, the demand for services like remote work, e-commerce, education, and health may change in the medium term. Additionally, cities and international value chains may change.

Therefore, policymakers should think about initiatives to increase awareness of these opportunities, especially in sectors that seem to be more resilient to COVID-19, like digitally intensive industries, which are also typically characterised by higher post-entry employment growth (Figure 1) and contribute disproportionately to job creation. This is especially crucial in sectors with a high level of digital activity, which seem to be more resistant to COVID-19.

In addition to providing the essential conditions and incentives for creative start-ups and potential entrepreneurs, these policy interventions should aim to boost the potential and capabilities of future entrepreneurs. By lowering obstacles to entrepreneurship, such as administrative burdens, offering incentives for start-ups and entrepreneurs, ensuring that funding is available, and enhancing entrepreneurial potential and training, it is possible to limit the negative effects that a lack of new firms could have on employment and innovation. This would hasten the healing process.

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



Source : Organisation for Economic Co-operation and Development

CHALLENGES BY START-UPS DURING COVID-19

One of the most vulnerable industries now impacted by the pandemic's affects is the start-up sector, which is particularly vulnerable to its consequences. It is difficult for the start-up businesses to continue operating in the face of the pandemic, especially those that are still in the early stages of their development. This is especially true for startups with limited funding, a core team, and financial support. Numerous challenges are frequently presented to new organisations. These are listed below:

“Liquidity issues”

Investors are currently unwilling to take risks, which results in a lack of available capital for new businesses. As a result of this, it is absolutely necessary for new businesses to have a comprehensive financial strategy and to only invest in the core. It's possible that having an efficient plan for the company's finances is the single most important factor in a startup's ability to be successful over the long run.

“Lack of labour and raw materials”

A number of factors, including supply chain instability and the return of workers to their home countries, are making it difficult for startups to maintain continuous manufacturing. Due to a severe shortage of workers, aggressive talent poaching has emerged as a major challenge for new businesses. Therefore, it is essential for startups to assess their current people resources and devise strategies to maximise such assets.

“Growth setbacks”

Many young businesses were getting ready to expand their operations shortly before the pandemic hit, but now they must abandon those plans because of the COVID-19 virus. This is not the time to focus on growth strategies; instead, young companies should go into survival mode and take precautions to ensure they survive the current economic downturn with as little harm as possible. The right attitude will allow you to take advantage of the improvements in circumstances that have resulted from the pandemic. The epidemic has brought about both challenges and opportunity.

“Time for innovation”

When the broader public needs a solution, a new business is often the best option. Therefore, that's how we ought to approach the situation. How do people currently feel, and what are some potential answers to these feelings? Every possible answer to these inquiries is also a novel and potentially profitable idea for a brand-new business.

While there may have been a decline in demand for certain luxury items, consumers will always have a need for the basics. The epidemic has also caused an unusual surge in demand for a variety of unique products. For instance, sales of hand sanitizers and other immunity boosters have skyrocketed. You must adopt this line of thinking if you want to survive this pandemic; many startups have done so in order to provide the necessary products. Those who are able to quickly and successfully adjust to new situations will have a significant advantage over those who are not.

“Opportunity to become a global supplier”

Due to the breakdown of old supply chains and rising scepticism about the quality of items created in China, a whole new market has opened up for start-up enterprises to serve. Indian startups can take advantage of this market expansion potential and attract customers from all around the world. This trend has picked more steam ever since the PM urged citizens to rely on themselves. The situation is obviously extremely dangerous, and it's possible that all of us will be harmed in some way. But if we are pragmatic, resourceful, adaptable, and optimistic, we can mitigate the pandemic's impact and prepare to grow when it passes.

“START-UPS- IMPACT ON ECONOMY-(IN THE CONTEXT OF COVID-19)/CHALLENGES”

All sectors of the Indian economy and the global economy would feel the effects of the corona virus epidemic. For instance, the number of investor meetings in the Indian ecosystem has decreased as a result of people's increasing social alienation and isolation. In a similar vein, the entire economy, from the white-collar to the blue-collar, feels the negative effects.

Venture Intelligence reports a 50% drop in new business investment funding in March of 2020. The data tracker for startups reports that a grand total of \$354 million was raised by 34 Indian startups in 2016. The \$714 million acquired over 46 trades in February has significantly decreased. The total amount invested in startups during the first three months of 2020 was \$1.74 billion (spread across 126 deals), down 22% from the same period in 2019. These numbers indicate a significant decrease in fundraising activity, which can be attributed to both the dismal economy and the ongoing lockdown taking place across the country.

It is predicted that the new, more restrictive FDI policy in India will have a detrimental effect on funding for new businesses. The government of India has recently altered their FDI policy in an effort to reduce "opportunistic takeovers/acquisitions of Indian companies" during the pandemic. Currently, the amended criteria allow investment in India from any country that shares a land border with India.

This is due to the fact that Chinese companies are major players in the Indian startup scene. Industry insiders estimate that 18 out of every 30 Indian unicorn startups are backed by Chinese investors and VCs. Companies like Tencent and Alibaba are among these backers. More money than all of India's other neighbours put together has been invested by China in Indian firms, which amounts to more than \$8 billion. Given that the Chinese government now mandates permission for all Chinese investors, it's probable that the longer funding rounds will take longer.

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

A change in the traditional patterns of first capitalization for new firms has been brought on by the COVID-19 dilemma. For venture capital firms, who are turning away from technology-focused enterprises, the start-ups in sectors like fast-moving consumer goods (FMCG), online grocery delivery, home entertainment, and similar ones are becoming more and more significant. In addition, start-ups working in the domains of education technology, financial technology, and cyber security are noticing an increase in consumer demand, which is luring investors. Additionally, the Indian government is giving start-up businesses a grant of \$130,000 to support the creation of an encrypted video conferencing solution that, when finished, will work with many different operating systems. There is no question that the pandemic has had an impact on the startup funding environment in India, but it has also opened up new opportunities for start-ups that can adapt to the current situation. The fact that certain businesses are already showing growth that defies the broader trend gives venture capitalists and angel investors cause for hope.

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

In order to give ideas the chance to address COVID-19 with an immediate impact, ACT developed a grant fund in the amount of INR 100 crore, which was sponsored by India's start-up community. We are seeking non-governmental organisations (NGOs) and creative businesspeople that have created scaleable solutions that need an initial seed grant to stop the disease from spreading further.

Endowment Fund for US-India Science and Technology (COVID-19 Ignition Grants)

Through the commercialization of technology developed through sustained collaborations between American and Indian researchers and businesspeople, the United States-India Science & Technology Endowment Fund (USISTEF) hopes to promote and support applied research and development that advances the public good. The current global crisis emphasises the value and relevance of USISTEF initiatives.

Omidyar Network India's Rapid Response Funding. Omidyar Network India has released a request for applications for rapid reaction funding to address the challenges posed by the Covid-19 crisis and its resulting socioeconomic repercussions. On this project, they will invest INR 7.5 crore (\$1 million). Fund for Covid-19 Bexley Advisors (BACoAF). The Bexley Advisors Covid-19 Action Fund was established as a means of providing access to capital for businesspeople seeking solutions to the worst issue that our nation has ever experienced. The Fund distributes entries each week that include participating VCs and investors. Entries are gathered continuously.

In response to the urgent necessity to attack the Corona Virus from all perspectives, the Small Industries Development Bank of India (SIDBI) has launched the SAFE (SIDBI Assistance to Facilitate Emergency Response against Corona Virus) scheme. It is a financial assistance programme for small and medium-sized enterprises (MSEs) who produce goods or offer services related to fending off the recently found coronavirus, which has been labelled as a pandemic.

In response to specific requests from the government or government agencies, SIDBI launched this programme with the goal of providing emergency working capital to micro, small, and medium-sized enterprises (MSMEs) that are producing goods and services directly related to the fight against the corona virus.

The Center for Augmenting WAR with COVID-19 Health Crisis was established by the National Science and Technology Entrepreneurship Development Board (NSTEDB), a division of the Department of Science and Technology (DST) (CAWACH). It is vital that initiatives to support research and development in this sector be strengthened in order to prevent any further harm to the economy given the effects that COVID-19 has had both internationally and in India. Technologies that offer comprehensive solutions are being supported by the Department of Science and Technology (DST) of the Indian government.

Despite being aware of the operational and financial challenges that start-up enterprises must overcome, SIDBI seeks to offer stability and financial support to these businesses through the Covid-19 Startup Aid Scheme (or "CSAS"). This initiative will help innovative new businesses that have proven their ability to adapt to the effects of COVID-19 on the economy and have made sure that their employees' safety and financial stability.

The Department for the Promotion of Industry and Internal Trade (DPIIT) has set up a control room during the lockdown period (March 25, 2020–April 14, 2020) to monitor the real-time status of transportation and delivery of goods, manufacturing, and delivery of essential commodities to the common man, as well as the challenges being faced by various stakeholders. It is urged for any producer, transporter, distributor, wholesaler, or online retailer to alert the Department if they are having problems with resource mobilisation or transportation and distribution of goods on the ground.

To discuss the issues raised by different stakeholders, the Department got in touch with the pertinent district and state governments, police authorities, and other pertinent organisations. The United Against COVID-19- Innovation Challenge was established by DPIIT to identify fresh and efficient methods of COVID-19 prevention. Over 750 applications have been filed, and they are all currently being examined. Applications for logistical solutions, testing solutions, critical care equipment, large-area sanitization, and many more solutions to the excess COVID issue are now being accepted.

“BUSINESS IMMUNITY PLATFORM BY INVEST INDIA: NATIONAL INVESTMENT PROMOTION AGENCY”

Invest India's Business Immunity Platform (BIP) is the go-to place to resolve any commercial disputes. It's available around the clock, its employees are all authorities in their fields, and it provides prompt responses to customer

questions. When it comes to helping India's MSMEs, Invest India has joined forces with the Small Industries Development Bank of India (SIDBI) (MSMEs). Through BIP, businesses and investors would have direct access to the investor facilitation desk of the Ministry of Food Processing Industries (MOFPI) at Invest India. This will guarantee the smooth operation of all businesses and trade groups involved in the food processing industry.

CONCLUSION

Even though India is going through a severe economic recession, the ecosystem for new businesses in the country is adjusting in order to make it through the crisis. (For e.g.): At the beginning of April 2020, the Action Covid-19 Team (ACT) Grants programme added 49 organisations to its roster of beneficiaries. These organisations included Indian start-up founders as well as investors. This grant of 100 crores was meant to help the government and other stakeholders speed up the development of novel ideas that would assist India in its fight against COVID-19. In light of the epidemic, it is our obligation as citizens of India to contribute to and foster opportunities for the growth of our economy and our labour force.

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