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EXECUTIVE SUMMARY

Executive Summary: Recommendations and Policy Directives

Recommendation 3.1 - Target of 1-2% of GDP of the G20 nations towards funding the G20 startup ecosystem



Policy Directive 3.1.1: Facilitate the flow of public and private capital into the startup ecosystem by promoting various mechanisms such as Fund-of-Funds (FOF) Corporate Venture Funds (CVC) and University endowment funds

Policy Directive 3.1.2: Make debt and venture debt products accessible to startups

Policy Directive 3.1.3: Allocate funds and grants specifically for sectors that require patient capital.

Recommendation 3.2 - Provide incentives and other supportive measures to promote the growth of startup ecosystems, encompassing tax, regulatory, and policy aspects

Policy Directive 3.2.1: Provide a favorable policy environment for startups by providing reasonable tax incentives and other support mechanisms

Recommendation 3.3 - Enable measures to ease the cross-border flow of capital across G20 nations

Policy Directive 3.3.1: Develop common minimum G20 Startup Accounting Standards, Governance Standards, and Startup Due Diligence Standards (G20 SAS, G20 GS & G20 SDDS) to facilitate ease of doing cross-border investments

Policy Directive 3.3.2: Facilitate startups' access to public capital markets across G20 nations by enabling cross-border listings

Recommendation 3.4 - Enable the creation of a Common Engagement Platform among G20 nations to promote collaboration

Policy Directive 3.4.1: Create an organization/platform with rotational leadership to promote active collaboration among the startup ecosystems, share best practices, access innovative and successful ideas, and enable funding options

Introduction

Startups have proven to be the catalyst for global economic growth and development. As per Global Startup Ecosystem Report (GSER) 2022, the value creation of the global startup economy remains at nearly US\$6.4 trillion which is more than the GDP of some G7 economies. As per various reports, in the past 5 years, startup funding has increased from US\$259 billion in 2017 to a peak of US\$681 billion in 2021 and reached US\$445 billion in 2022¹

¹ <https://news.crunchbase.com/venture/global-vc-funding-slide-q4-2022/>



growing at a CAGR Of 11% during this period. Startups have been successful in fostering innovation, creating community, and creating the engines of future economic growth along with creating jobs. Startups have been at the forefront of accelerating the commercial adoption of advanced technologies, opening new markets, boosting the production of goods & services, and solve critical environmental problems, and attaining sustainable development goals.

As per World Economic Forum (WEF) estimates, 70% of new value created in the economy over the next decade will be based on digitally enabled platform business models² where startups will play an active role. Also, as per World Bank estimates, 600 million jobs will be needed by 2030³ to absorb the growing global workforce. Startups will have a significant role to play in economic development and job creation in the next decade and more than US\$1 trillion per year in funding would be required to enable the startups to accelerate this growth.

Realizing the importance of startups, governments around the world are actively promoting the startup ecosystem. Developing a new startup ecosystem requires a multi-pronged approach involving various stakeholders such as the government, investors, academia, and industry players. Successful ecosystems have the following characteristics:

- Entrepreneurial talent – creating a vibrant startup ecosystem requires an enterprising workforce with entrepreneurship skills that includes leadership, technical and business management skills as well as creative thinking skills
- Access to capital – startups require capital at various stages of the venture lifecycle to grow and scale. In the initial stages of ecosystem development, support from governments, industry players, and financial institutions is important to initiate the flow of risk capital to fund startups. As the ecosystem matures, it's also important to attract global venture capital funds with favorable policies, which can bring capital and enable market access and linkages at a global scale
- Research & innovation – a focused investment in academic research as well as research in government institutions to promote and incubate entrepreneurs
- Regulatory and policy measures – business-friendly environment with tax incentives and fiscal support in various measures
- Infrastructure: A vibrant startup ecosystem requires access to key infrastructure elements such as high-speed and stable internet connectivity, office space and co-working spaces, transportation, and urban mobility
- Talent development – development of a skilled workforce by supporting training programs, sponsoring internships, and offering scholarships.
- Market access – facilitating access to domestic and foreign markets by providing export promotion services, through trade missions, and promoting international partnerships.

² <https://www.weforum.org/centres-and-platforms/shaping-the-future-of-digital-economy-and-new-value-creation>

³ <https://www.worldbank.org/en/topic/sme/finance#:~:text=According%20to%20our%20estimates%2C%20600,7%20out%20of%2010%20jobs.>



While some G20 countries have mature ecosystems with active participation from investors, academia, and industry players, emerging economies from the G20 nations could benefit from the learnings of the mature ecosystems and leverage the national practices for promoting startups in their respective countries.



RECOMMENDATION 3.1



Recommendation 3.1: Target 1-2% of GDP of the G20 nations towards funding the G20 startup ecosystem

Policy Directives	
Policy Directive 3.1.1	Facilitate the flow of public and private capital into the startup ecosystem by promoting various mechanisms such as Fund-of-Funds (FOF) Corporate Venture Funds (CVC) and University endowment funds
Policy Directive 3.1.2	Make debt and venture debt products accessible to startups
Policy Directive 3.1.3	Allocate funds and grants specifically for sectors that require patient capital

SDG Goals Impacted



Recommendation 3.1 contributes to achieving UN SDGs: **8: Decent work and economic growth 11: Sustainable cities and communities 13: Climate Action**

Context

The G20 members represent around 85% of the global GDP, over 75% of the global trade, and about two-thirds of the world population⁴. The total GDP of G20 nations in 2022 is estimated at ~US\$95 trillion. The GDP is likely to grow in the coming years and within this decade, the GDP is expected to exceed US\$100 trillion.

The Taskforce suggests that each G20 nation target start-up funding at a level of 1% - 2% of their GDP, which can be arranged from the public as well as private sources of capital. Public funding can come from government initiatives and programs that provide grants, loans, and other forms of financial support to start-ups, and private funding could be from professional startup investment funds like venture capital funds, strategic corporate investments as well as from increasing allocation to startup asset class by institutions like insurance funds, pension funds, university endowment funds, who invest through venture capital funds.

⁴ <https://www.india.gov.in/spotlight/group-twenty-g20>

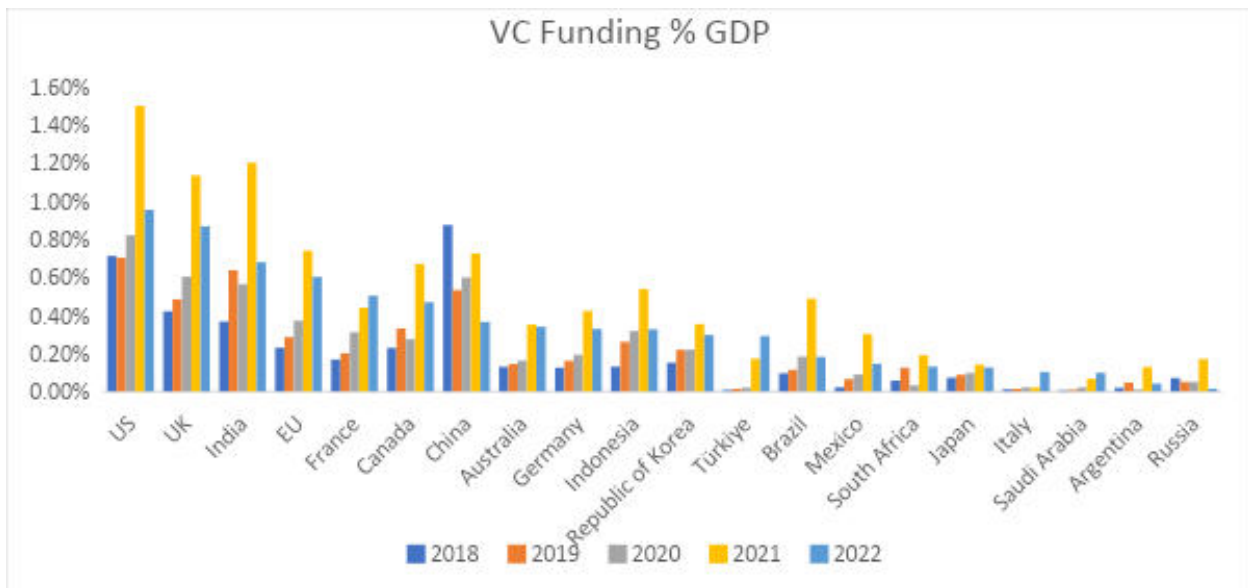


By working together to develop supportive policies and initiatives to enable the flow of public and private capital into the startup ecosystem and monitoring progress towards their goal, the G20 nations can create a more vibrant and robust start-up ecosystem that drives global economic growth and sustainable development.

The chart^{5,6} below represents total start-up funding as a percentage of the total GDP of the countries over the last 5 years.

As represented in the chart below,

- The US has led the global startup funding in most of the years, with startup funding at around U\$238 billion in 2022. In the past 5 years, startup funding in the US has ranged between 0.7% to 1.5% of the GDP
- China, on the other hand, had its peak in 2018 when the startup funding is estimated at 0.87% of the GDP.
- India, which in recent years has grown to be one of the largest startup ecosystems among the G20 nations, has seen an increasing flow of funds to the startup ecosystem in the last 5 years, which has ranged between 0.3% - 1.2% of the GDP. This period also coincided with the increasing digitization of businesses through a combination of measures and digital infrastructure elements such as the Unified Payment Interface (UPI), where startups have been at the forefront of driving the digital growth



Source: World Bank, PitchBook, Secondary research and Deloitte analysis; * Data sorted in descending order of VC financing as % of GDP for year 2022

⁵ KPMG Venture Pulse Q4, 2022; Pitchbook

⁶ <https://www.imf.org/external/datamapper/NGDPD@WEO/BRA/ARG/AUS/CAN/CHN/FRA/DEU/IND/ITA/JPN/KOR/MEX/ZAF/SAU/TUR/GBR/USA/IDN/RUS>
<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=CN>



Figure 1: Startup funding as a percentage of GDP

The data corresponding to the last 5 years indicate that some of the largest economies among the G20 nations have a significant quantum of funding flowing into the startup ecosystem, which is estimated to be 0.8% - 1.5% of the GDP. Increasing capital allocation to the startup ecosystem has the potential to make the economy future-ready, and secure jobs for the growing workforce. In India specifically, where the startup ecosystem was practically non-existent 20 years ago, the rise in startup funding and the creation of a vibrant ecosystem in the last 5-10 years has coincided with the rise in the digitization of the economy, and the rise of digital-first and mobile-first business models driving efficiencies across the value chains

Policy Directive 3.1.1: Facilitate the flow of public and private capital into the startup ecosystem by promoting various mechanisms such as Fund-of-Funds (FOF) Corporate Venture Funds (CVC) and University endowment funds

In the early stages of a startup ecosystem, domestic capital forms the primary source of funding for the startups. Domestic capital from government, industry, and academia sets the stage for building and scaling startups from priority sectors.

In the case of India, domestic funds such as ICICI Venture, Karnataka Information Technology Venture Capital Fund (KITVEN Fund), and Gujrat Venture Finance Limited (GVFL) pioneered venture funding and supported the growth of the ecosystem

- ICICI Venture was founded in 1988 as the Technology Development and Information Company of India Limited. It was through a joint venture between the ICICI Limited and Unit Trust of India. It later became a wholly-owned subsidiary of ICICI Limited in 1998. By the year 2000, their investments in early-stage companies had crossed 500 companies⁷
- Another example of domestic capital is Karnataka Information Technology Venture Capital Fund (KITVEN Fund). It is a State & Central Government financial institution backed Venture Capital Fund and has been operating in the State of Karnataka since 1999⁸
- In the case of Italy, the Italian Ministry of Economic Development launched 'Smart and Start Italia'-the main financing program dedicated to innovative startups at a national level, with a total budget of about €260 million. The program offers interest-free loans to innovative startups (already active or soon to be established) to cover up to 70% of investment plans and managing costs worth at least €100,000 and up to

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<https://www.iciciventure.com/about-us/brief-history-of-icici-venture#:~:text=ICICI%20Venture%20was%20founded%20in,Venture%20Funds%20Management%20Company%20Limited.>

⁸ <http://www.kitven.in/>



€1.5 million. The loan coverage rate rises to 80% if company members are mostly women or under 35 or include a researcher returning from abroad.

- Another example is where Türkiye Development Fund established a sub-fund, Technology and Innovation Fund with the Turkish Ministry of Industry and Technology as the main investor. Since its inception, the fund has already invested a significant amount of 125 million TL in three venture capital funds and four startups. In 2022, The Türkiye Wealth Fund (TWF) also announced a \$300 million tech fund in partnership with Abu Dhabi Development Holding Company (ADQ) to invest in and grow Türkiye's technology ecosystem.
- Türkiye's KOBİ Venture Capital Investment Trust Inc.⁹ was founded in 1999 in Ankara by The Union of Chambers and Commodity Exchanges of Türkiye (TOBB), Halk Bank, The Small and Medium Industry Development Organization (KOSGEB), The Turkish Confederation of Tradesmen and Craftsmen (TESK) and 16 Chambers of Industry and Trade to help innovative start-ups and SMEs

Government funding especially can be a critical source of support for startups in the early stages of a startup ecosystem, providing the resources and vision necessary to create successful companies and innovative products. Unlike private investors such as venture capital funds, the government can take a long-term view towards nation-building and target long-term returns on investment thereby supporting startups that may not be immediately profitable but can have significant social or economic benefits.

Fund-of-Funds, India example

In 2016, the Indian government announced a fund-of-fund mechanism to support startups and boost entrepreneurship in the country. This mechanism involves setting up a corpus of INR 10,000 crore (approximately US\$1.5 billion) to create a Fund of Funds for Startups (FFS), which in turn invests in other venture capital funds / Alternate Investment Funds¹⁰.

FFS does not invest in startups directly but provides capital to Alternate Investment Funds (AIFs) registered with the capital market regulator, the Securities and Exchange Board of India (SEBI). These AIFs in turn invest money in high-potential Indian startups. FFS is being managed by a government-backed financial institution called the Small Industries Development Bank of India (SIDBI), which has been given the mandate of managing the FFS through the selection of AIFs and overseeing the disbursement of committed capital. The fund has been formed in a way that creates a catalyzing effect for the entire ecosystem and funding is provided to startups across different life cycles¹¹

University endowment funds

⁹ <https://kobias.com.tr/en/>

¹⁰ <https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmlId=16>

¹¹ <https://www.startupindia.gov.in/content/sih/en/funding.html>



University Endowment funds typically have a large pool of capital, which can be channeled to venture investments through their investments in venture capital funds. In addition to the traditional asset classes, allocation to venture investments will help the endowments to diversify their investments and help in value creation. University endowment funds can take a long-term view to such investments, thereby supporting venture capital funds that invest in startups that can deliver significant impact.

The USA is potentially the largest and most mature market for university endowment funds and as per the 2022 NACUBO-TIAA Study of Endowments¹², around 678 colleges, universities, and education-related foundations in the USA have around US\$807 billion of endowment assets. Allocation to private equity and venture capital is one of the largest among US endowments, and at the end of 2022, endowments' allocations to private equity and venture capital (30%) exceeded those of public equities (28%)

Corporate Venture Capital (CVC)

Corporate venture capital (CVC) fund is a type of venture capital fund that is created and managed by a corporate enterprise, with the objective of investing in startups, especially in early-stage and growth-stage. The primary difference between a CVC and a typical venture capital fund is that investments from CVC are designed to align with the parent company's business or strategic interests, and one of the key priorities of a CVC fund is to provide the parent company with access to innovative technologies, products, and services that can help the enterprise stay relevant in their industry

From a startup perspective, CVCs can provide multiple benefits, such as access to managerial talent, corporate resources, go-to-market partnerships, and solution development support, in addition to capital.

Corporate venture capital funds can be a valuable source of funding and support for startups, as well as a way for larger companies to access innovation and emerging technologies. Governments can incentivize venture investments by large corporates by providing targeted incentives and tax breaks, which can bring significant enterprise support to startup ecosystem development.

As per estimates of CB Insights, global CVC-backed funding reached a record high of US\$173.8 billion in 2021 and reached US\$98.9 billion in 2022¹³.

Some of the active CVC funds include Coinbase Ventures, Google Ventures, Mitsubishi UFJ Capital, Salesforce Ventures, KB Investment, Mizuho Capital, SMBC Venture Capital, SBI Investment, Binance Labs, Intel Capital, etc.

Venture capital allocation from insurance funds and pension funds

¹² <https://www.nacubo.org/Research/2022/NACUBO-TIAA-Study-of-Endowments>

¹³ https://www.cbinsights.com/reports/CB-Insights_CVC-Report-2022.pdf?



Insurance and pension funds are an important source of long-term capital in a country and can potentially serve as an important source of startup funding. The most common way for a pension fund or insurance fund to include venture investment as an asset class is by investing in Venture Capital Funds that specialize in early-stage investments, which in turn may invest in startups. Venture capital allocation can help insurance funds and pension funds to diversify their investments and generate incremental value, which will help them generate long-term returns to support the obligations to policyholders or pension plan participants.

According to research by Thinking Ahead Institute, the top 300 pension funds in the world has a total of US\$23.6 trillion Assets Under Management (AUM) in 2022, having grown by 8.9% during the year, down from 11.5% growth the previous year¹⁴. In terms of asset allocation, equities form the major portion, with 53.5%. Fixed-income securities follow at 27.9% and Alternatives and Cash account for 18.6%

Institutional investors worldwide committed a record \$453 billion to private equity and venture capital funds in 2020¹⁵. Pension funds were the largest source of capital for these funds, accounting for 41% of total commitments.

In terms of specific examples of pension boards and insurance companies investing in venture funds, here are some notable ones:

- The Canada Pension Plan Investment Board (CPIB) has been increasing its investments in venture capital funds in recent years. In 2020, the fund committed \$500 million to a new venture capital fund managed by General Catalyst, which focuses on early-stage technology investments.
- The Japan Pension Fund Association (JPFA) has been investing in venture capital funds through its private equity program. In 2020, the fund committed ¥4.5 billion (\$41 million) to two venture capital funds managed by Global Brain, a Tokyo-based venture capital firm that specializes in early-stage investments in technology and healthcare.
- The California Public Employees' Retirement System (CalPERS) has been investing in venture capital funds for several decades. In 2020, the fund committed \$300 million to a new venture capital fund managed by Andreessen Horowitz, which focuses on investments in software and internet companies.

Policy Directive 3.1.2: Make debt and venture debt products accessible to startups

Startups require debt financing options for different requirements during their lifecycle. Products such as term loans and working capital loans are utilized by companies to fund capital assets and for operational requirements. Debt products can be made attractive for startups by bringing flexibility in the terms and rates and structuring them

¹⁴ <https://www.thinkingaheadinstitute.org/research-papers/the-worlds-largest-pension-funds-2022/>

¹⁵ <https://www.preqin.com/insights/2022-preqin-global-alternatives-reports>



in a way that aligns with the startup's stage and financial needs. Broadly, the following aspects can help in designing startup-friendly debt products

- Repayment terms: Startups in the initial stage of evolution could have irregular cash flows due to the nature of the operations. By providing flexible repayment terms including moratorium periods, the repayment mechanism can be aligned with the startup's business model and financial situation, which can make debt products more attractive.
- Lower interest rates: Providing startup-specific interest rates, that are lower than that of large enterprises, can make debt products more appealing to startups. Interest-free loans can also be structured for startups working in priority sectors as identified by the respective states
- Collateral-free loans and loan guarantees: Startups may not have significant assets to use as collateral for loans. Providing collateral-free loans can reduce the risk for startups and make debt products more attractive
- Quick approval and disbursement: Startups need funds quickly to capitalize on business opportunities. Providing quick approval and disbursement of funds can make debt products more attractive

The G20 nations should consider flexible approaches to lending for startups, and create financial institutions dedicated towards startup financing products.

Credit Guarantee Scheme for Startups (CGSS), India example¹⁶

The Indian government under the aegis of Startup India program announced a Credit Guarantee Scheme for Startups for providing credit guarantees to loans extended by financial institutions such as Scheduled Commercial Banks, Non-Banking Financial Companies and Securities and Exchange Board of India (SEBI) registered Alternative Investment Funds (AIFs). CGSS provides credit guarantees up to a specified limit against loans extended by financial institutions to startups. By providing a backstop against potential defaults, the scheme aims to encourage commercial lenders to service startups at favorable terms

Venture Debt

Venture debt is a new type of financing product that combines the features of debt and equity financing. Venture debt is typically used by startups and companies in the growth stage that are seeking additional sources of capital beyond equity financing. The terms of venture debt are typically more flexible than that of traditional debt, allowing startups to use the funds for a wide range of requirements, such as capital expenditures, working capital, or acquisitions. In exchange for the loan, the provider of venture debt receives interest payments and/or warrants to purchase equity in the startup. The interest rates could be higher than that of traditional debt for the flexibility and risks associated with early-stage lending.

¹⁶ <https://pib.gov.in/PressReleasePage.aspx?PRID=1865796>



As an example, the venture debt market in the USA has grown rapidly in the past decade. As per various estimates, the total value of venture debt deals grew from \$4.4 billion in 2010 to \$33 billion in 2021¹⁷

For startups, debt is an important source of funding for capital expenditures as well as operational expenses and working capital. Debt financing can help the startup to fund its operations and investments without diluting ownership or giving up equity in the company. Given the risks associated with early-stage lending, it's important for governments to create policies that make debt products accessible for startups, and also encourage lenders to target startup clients through mechanisms like "priority sector lending" programs.

Policy Directive 3.1.3: Allocate funds and grants specifically for sectors that require patient capital

Research grants and patient capital have proven to be valuable source of funding for startups working in emerging technologies and strategic technologies, which may not have immediate commercial relevance. Patient capital in deep tech sectors like clean tech, and biotech will also give a fillip to a sustainable economy amongst the G20 nations.

Some of the game-changing innovations of our times such as the internet, search engine, smartphones, additive manufacturing, Magnetic Resonance Imaging (MRI), etc. were supported by research grants in their initial stage of development.

Some of the successful programs from various countries include

- USA - National Science Foundation (NSF)
 - An independent agency of the US government with an annual budget of about U\$8.8 billion in 2022, the NSF funds approximately 24% of all federally funded academic fundamental research at US colleges and universities¹⁸
 - NSF research areas include Computer & Information Science & Engineering Sciences, Mathematical & Physical Sciences, Biological Sciences, STEM Education, Engineering, Geosciences, Social, Behavioral & Economic Sciences, Technology, Innovation, and Partnerships
 - A few domains where NSF funds include supercomputers, ground-based telescopes and observatories, U.S. research stations in the Arctic and Antarctic, the world's largest and highest-powered magnet lab, long-term ecological sites, engineering centers, and other infrastructure and state-of-the-art tools
- China - The National Natural Science Foundation of China (NSFC)¹⁹

¹⁷ <https://pitchbook.com/news/articles/venture-capital-lenders-loan-terms-startup-valuations>

¹⁸ https://nsf.gov/news/factsheets/Factsheet_By%20the%20Numbers_05_21_V02.pdf

https://nsf.gov/news/factsheets/2023_NSF_At_A_Glance_Interactive%20508c.pdf

¹⁹ https://www.nsf.gov.cn/english/site_1/about/6.html



- o NSFC was established in 1986, tasked with the administration of the National Natural Science Fund from the Central Government.
- o NSFC's main focus includes supporting basic research, fostering talented researchers, developing international cooperation, and promoting socioeconomic development
- o NSFC's annual budget has increased from 80 million RMB (US\$ 11 million) in 1986 to 31.11 billion RMB (US\$ 4.5 billion) in 2019. It has signed 93 Cooperative Agreements or MoUs with partners in 49 countries and regions.
- The United Kingdom – UK Research and Innovation (UKRI)²⁰
 - o UK Research and Innovation (UKRI) is a non-departmental public body sponsored by the Department for Science, Innovation, and Technology (DSIT) which was launched in April 2018
 - o UKRI works in partnership with universities, research organizations, corporates, and the government to foster research and development within the United Kingdom to deliver economic impact and create social and cultural impact
 - o The budget for UKRI is allocated as £7,908 million from 2022 to 2023 rising to £8,865 million from 2024 to 2025. A total of £25 billion will be invested by UKRI over three years till 2025 in world-class research and innovation across the UK²¹
 - o There are nine bodies in UKRI, comprising various domains and focus areas, that include - Arts and Humanities Research Council, Biotechnology and Biological Sciences Research Council, Engineering and Physical Sciences Research Council, Economic and Social Research Council, Medical Research Council, Natural Environment Research Council, Science and Technology Facilities Council, Innovate UK, and Research England
- Türkiye – TÜBİTAK, the Scientific and Technological Research Council of Türkiye, supports startups through its research grant programs. One prominent initiative is the "TÜBİTAK 1512-Startup R&D Funding Program." This program focuses on providing financial assistance to startups actively involved in research and development activities.

It is evident from these successful cases that grant, research funding and patient capital have been at the forefront of supporting innovative technologies in their initial stages of development. The G20 nations can leverage the best practices from the advanced economies in this area, and build a robust funding mechanism for supporting startups and innovation in their countries

Given the growing importance of global warming and its impact, it is important to align with the net zero emission goals. The Taskforce suggests setting up a US\$1 billion G20 Climate Fund, which can play a critical role in supporting climate innovation among G20 nations and accelerating the transition to a sustainable future. G20 Climate Fund

²⁰ <https://www.ukri.org/about-us/who-we-are/>
<https://www.ukri.org/publications/ukri-strategy-2022-to-2027/>

²¹ <https://www.ukri.org/news/ukris-three-year-budget-is-confirmed/>



can supplement the Global Green Climate Fund, which was established by 194 countries party to the UN Framework Convention on Climate Change in 2010²² and focus specifically on G20 nations



RECOMMENDATION 3.2

²² <https://www.unep.org/about-un-environment/funding-and-partnerships/green-climate-fund>



Recommendation 3.2: Provide incentives and other supportive measures to promote the growth of startup ecosystems, encompassing tax, regulatory, and policy aspects

Policy Directives	
Policy Directive 3.2.1	Provide a favorable policy environment for startups through tax incentives and other support mechanisms

SDG Goals Impacted



Recommendation 3.2 contributes to achieving UN SDGs: **9. Industry, Innovation, and Infrastructure**

Context

Tax, regulatory, and policy measures are essential for creating a supportive environment for startups, which can lead to innovation, economic growth, and job creation. By providing targeted tax, regulatory, and policy measures to promote the startup ecosystem, the G20 nations can improve entrepreneurship and create a favorable environment for startups to thrive. Startups often face high barriers to entry such as regulatory compliance costs, licensing requirements, and higher taxes, which prevent them to compete effectively with established players in their respective industries. By reducing these barriers, governments can create a more level playing field and promote innovation and competition. The support systems could be in the form of tax incentives and streamlined regulatory processes which can improve the overall funding ecosystem.

Policy Directive 3.2.1: Provide a favorable policy environment for startups through tax incentives and other support mechanisms

The Taskforce suggests that G20 nations should provide reasonable tax incentives and enablers to promote a conducive environment for startups to grow and scale. Tax incentives such as income tax exemptions for early-age startups will help them to reinvest their profits in the business, while reforms such as a simplified regulatory framework will reduce the compliance burden in the early stages. Also support for creating intellectual property will encourage startups to invest more in research & development which will help the countries create technology-led growth.



From an investor perspective, measures such as parity of taxation between investments in public equities and startups, along with targeted incentives and benefits around the taxation of capital gains to encourage investments in specific sectors can help ease the access to capital for the startup ecosystem.

Also, G20 nations can encourage to set up of a business district or Special Economic Zones (SEZ) under a simplified global regulatory framework (like the GIFT city in India, Dubai International Finance Centre, Turkish Technology development zones, etc.) in their respective nations that can act as a model for increased efficiency of business processes as well as enable cross border flow of investments. It could help startups and small businesses expand in each other's nations by providing a simplified regulatory framework to set up the business quickly and easily, in addition to other support such as access to funding and market access.

A few countries such as Italy, the USA, and Japan, also have frameworks to regulate Equity Crowdfunding mechanisms, which can be tapped by early-stage startups in funding their capital needs. For example, Italy became one of the first jurisdictions in 2012-2013 to introduce dedicated regulations for equity crowdfunding, through which Italian startups can raise capital by offering shares to the public through equity crowdfunding web portals with certain requirements (e.g., 5% of capital is held by professional investors). In the USA, a crowdfunding intermediary must register with the Securities and Exchange Commission (SEC) as a broker-dealer or as a funding portal. A startup can use such mechanisms for raising capital, subject to certain restrictions.

Successful ecosystems provide multiple incentives to enable startups. A few examples are provided below for reference.

India²³

India has a comprehensive legal framework and tax policy for startups, which includes several tax and regulatory incentives aimed at promoting entrepreneurship and innovation in the country. The Government of India, through various agencies such as the Ministry of Commerce and Industry, Invest India, and the Securities and Exchange Board of India (SEBI), has introduced multiple tax and non-tax Incentives to support the growth of startups in India.

Tax incentives

Startups:

- Income Tax exemptions: Under the aegis of the Startup India program, eligible startups can avail of a tax holiday on three consecutive financial years out of their first ten years of incorporation of their profits. This exemption is subject to conditions such as startups having revenue of less than INR100 crores

²³ <https://www.startupindia.gov.in/content/sih/en/startup-setu.html>
<https://dpiit.gov.in/sites/default/files/lu2614.pdf>
https://www.startupindia.gov.in/content/sih/en/startupgov/startup_recognition_page.html



- Additionally, early-stage startups which have a paid-up capital of under Rs. 25 crores and the share premium of the proposed issue of shares doesn't exceed Rs. 25 crores can avail of the 'Startup India: Tax Exemption under Section 56 of the Income Tax Act (Angel Tax)' tax exemption for Angel Tax exemption
- Research and Development (R&D) Tax Incentives: Startups engaged in R&D activities are eligible for tax incentives under certain provisions of the Income Tax Act. Under these provisions, startups can claim a deduction of 150% of their R&D expenditure

Investors:

- Individual investors are exempted from long-term capital gain tax where the net consideration from the transfer of a residential property is invested in the equity shares of eligible startups, subject to conditions²⁴

Regulatory and policy enablers

- Simplified Regulatory Framework: The Indian government has introduced a simplified regulatory framework for startups under the Companies Act, of 2013. Startups are allowed to issue convertible notes, equity shares with differential voting rights, and sweat equity shares, which will help them attract investors specializing in startup investments
- Funding Support: The Indian government has set up several funds to support startups, such as the Fund of Funds for Startups (FFS) and the Atal Innovation Mission (AIM). The FFS provides funding support to eligible venture capital funds, which in turn invest in startups. AIM provides funding support to startups through incubators and accelerators.
- Mentorship and Networking: The Indian government has launched several initiatives to provide mentorship and networking opportunities to startups, such as the Startup India Hub, which provides a platform for startups to connect with mentors, investors, and other stakeholders
- Intellectual Property (IP) Support: The Government launched Startups Intellectual Property Protection (SIPP) which facilitates startups to file applications for patents, designs, and trademarks through registered facilitators at appropriate IP offices by paying only the statutory fees. The Government bears the entire fees of the facilitators for any number of patents, trademarks, or designs, and startups only bear the cost of the statutory fees payable. Startups receive an 80% rebate in the filing of patents. They also get a 50% rebate in filing of trademark vis-a-vis other companies
- Demand support in terms of preference for govt. contracts through Government e-Marketplace (GeM) which is an online procurement platform for government ministries and departments, and the most

²⁴ <https://incometaxindia.gov.in/Acts/Finance%20Acts/2012/10212000000010384.htm>



widely used channel for public procurement in India. Eligible startups and other private companies can register on GeM as sellers and sell their products and services directly to government entities.²⁵

- Special region example: Establishment of GIFT City - Gujarat International Finance Tech-City (GIFT City) is India's first International Financial Services Centre which provides startups with world-class infrastructure, an advantage of Special Economic Zone (SEZ) status, and the follow-on tax exemptions and duty-free imports, a single window clearance and range of services like banking, fundraising, insurance, and asset management. It promotes ease of cross-border flow of money and services. Gift City has been developed in lines of international financial centers such as London, New York, and Singapore.²⁶

Japan²⁷

In Japan, there are several tax incentives available for startups to encourage their growth and development. Here are some of the main tax incentives:

Startups

- Corporate Income Tax Exemption: Under this incentive, newly established startups are eligible for a corporate income tax exemption for the first three years if they meet certain criteria
- Investment Tax Credit: Designed to encourage companies to invest in new equipment, facilities, and other assets, which can help them expand their operations and increase their competitiveness. Under this incentive, startups can reduce their corporate tax liability by up to 10% of the amount invested in qualifying assets, subject to conditions
- Reduced Tax Rates for Small Businesses: Small businesses with annual sales below a certain threshold are eligible for a reduced corporate tax rate. The specific threshold and rate may vary depending on the size of the business and other factors, subject to conditions
- R&D Tax Credit: In an effort to bolster incentives to facilitate increased investment activity. A tax incentive will also be introduced for corporations that leverage advanced degree holders and other highly skilled professionals in R&D activities.
- Stock Options Taxation: Under the plan, executives and employees at startups will be eligible for a tax preference if they exercise stock options within 15 years after the right is granted, longer than the current maximum period of 10 years. The longer tax preference period will benefit those working for startups

²⁵ https://www.startupindia.gov.in/content/sih/en/public_procurement.html

²⁶ <https://taxguru.in/sebi/tax-fiscal-economic-benefits-operating-gift-city-indias-ifsc.html>

²⁷ <https://www.oecd.org/sti/rd-tax-stats-japan.pdf>

<https://kpmg.com/xx/en/home/insights/2023/01/flash-alert-2023-012.html>

https://www.ey.com/en_jp/ey-japan-tax-library/tax-alerts/2022/tax-alerts-12-23

<https://www2.deloitte.com/jp/en/pages/tax/articles/fc/japan-inbound-tax-legal-march-2021-no71.html>

<https://www.j-startup.go.jp/en/about/>



focused on research and development, given the time needed to put their products or services into commercial use.

Investors

- The government of Japan is also considering tax incentives to help large companies invest in startups. A plan is being considered to allow large companies buying a majority stake in a startup to deduct 25% of their spending for the acquisition from taxable income.
- Open Innovation Tax Incentive: allows companies to deduct from their taxable income 25% of share purchase amounts in start-ups (for partnerships and other similar business arrangements), subject to conditions. The open innovation tax incentive is aimed at supporting companies that are accelerating cross-industry

Non-Tax Incentives for Startups: The J-Startup program

The J-Startup program is an initiative launched by the Japanese government in 2018 to support the growth and development of startups in Japan. The program aims to accelerate the growth of startups by providing access to resources such as funding, mentorship, and networking opportunities, as well as helping to promote Japan as a hub for innovation and entrepreneurship. Startups that are selected for the program receive a range of benefits and resources, including:

- Funding: Startups in the J-Startup program are eligible for funding from the Japanese government, as well as from private investors and venture capital firms. The program also provides access to government-backed loan programs, such as the Innovation Network Corporation of Japan (INCJ).
- Mentorship and Networking: Startups in the J-Startup program receive mentorship and guidance from experienced entrepreneurs and industry experts, as well as access to networking events and resources
- Global Expansion Support: Support and resources to help startups expand globally, including assistance with market research, business development, and international networking
- Other support: Access to research institutions and universities, and opportunities to collaborate with large corporations



USA²⁸

Select incentives provided for startups in the USA

Startup tax incentives

- The \$250,000 R&D federal tax credit: It is a tax incentive offered by the US government to encourage businesses to invest in research and development activities. Also known as the Research and Development Tax Credit, it provides businesses with a tax credit equal to a percentage of their qualified research expenses, which can include wages, supplies, and contract research expenses
- The Small Business Health Care Tax Credit: It is a tax credit offered by the federal government to help small businesses offset the cost of providing health insurance to their employees. This tax credit is available to small businesses that meet certain criteria and offer health insurance coverage to their employees. If a small business meets all of the eligibility criteria, it may be eligible for a tax credit of up to 50% of the premiums paid for employee health insurance coverage

Regulations for Startup Fundraising in the US

- In the US, there are several regulations governing startup fundraising, depending on the type of securities being offered and the amount of money being raised
- The Jumpstart Our Business Startups (JOBS) Act is a U.S. law that was signed into law by President Obama in 2012. The JOBS Act aims to make it easier for startups and small businesses to raise capital and go public by reducing regulatory requirements and expanding access to capital markets
- The JOBS Act includes several provisions, including:
 - o Crowdfunding: Title III of the JOBS Act allows startups and small businesses to raise up to \$5 million per year through crowdfunding. Under Title III, companies must use a registered crowdfunding portal and provide certain disclosures to investors
 - o Regulation A+: Title IV of the JOBS Act expands Regulation A, which is a streamlined securities registration process for small offerings of up to \$50 million. Regulation A+ allows companies to

²⁸ <https://www.oecd.org/sti/rd-tax-stats-united-states.pdf>
<https://www.irs.gov/affordable-care-act/employers/small-business-health-care-tax-credit-and-the-shop-marketplace>
<https://www.irs.gov/retirement-plans/retirement-plans-startup-costs-tax-credit>
<https://www.irs.gov/businesses/small-businesses-self-employed/work-opportunity-tax-credit>
<https://www.sbir.gov/about>
<https://www.eda.gov/funding/programs/build-to-scale?q=oe/buildtoscale/>
<https://www.sba.gov/local-assistance/resource-partners/small-business-development-centers-sbdc>
<https://www.sec.gov/education/smallbusiness/exemptofferings/regcrowdfunding>
<https://www.sec.gov/education/smallbusiness/exemptofferings/rule504>
<https://www.sec.gov/education/smallbusiness/exemptofferings/rule506b>
<https://www.sec.gov/education/smallbusiness/exemptofferings/rule506c>
<https://www.investor.gov/introduction-investing/investing-basics/glossary/regulation>
<https://www.sec.gov/education/smallbusiness/exemptofferings/rega>



raise up to \$50 million per year from both accredited and non-accredited investors, with reduced disclosure requirements compared to a traditional IPO

- o Regulation D: Title II of the JOBS Act lifts the ban on general solicitation and advertising for private offerings made under Rule 506 of Regulation D. This allows companies to publicly advertise their private offerings, but only accredited investors are allowed to invest
- o Emerging Growth Companies: The JOBS Act created a new category of companies called Emerging Growth Companies (EGCs), which have less than \$1 billion in revenue and are less than five years old. EGCs are eligible for certain exemptions from securities regulations, such as reduced disclosure requirements and the ability to submit confidential IPO filings

Overall, the JOBS Act aims to make it easier for startups and small businesses to raise capital and go public by reducing regulatory requirements and expanding access to capital markets

Italy

To promote innovation and new-age technology, Italy provides tax incentives that are as below:

- Italy provides a tax credit on incremental R&D expenditure- 50% for in-house and R&D outsourced to universities, research centers, innovative startups & SMEs, and 25% for other expenditures (e.g. consulting, materials, etc)
- Any Italy-based firm can deduct from income tax 40% of costs sustained to train personnel in Industry 4.0 fields.
- 50% tax break on IP-related income (eligible IPR: patents, copyrighted software, know-how, industrial models)

Similar initiatives have been taken by other nations like the SIMPLER Nacional tax regime and The Law of Informatics by Brazil for its startup ecosystem, The Seed Enterprise Investment Scheme (SEIS) by the UK, The R&D Tax Incentive by Australia has been stepping in the same direction and have overall contributed to a thriving, supportive and conducive startup ecosystem in the countries.





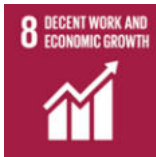
RECOMMENDATION 3.3



Recommendation 3.3: Enable measures to ease the cross-border flow of capital across G20 nations

Policy Directives	
Policy Directive 3.3.1	Develop common minimum G20 Startup Accounting Standards, Governance Standards, and Startup Due Diligence Standards (G20 SAS, G20 GS & G20 SDDS) to facilitate ease of doing cross-border investments
Policy Directive 3.3.2	Facilitate startups' access to capital markets across G20 nations by enabling cross-border listings

SDG Goals Impacted



Recommendation 3.3 contributes to achieving UN SDGs: **8. Decent work and economic growth, and 9. Industry, Innovation, and Infrastructure**

Context

For a startup ecosystem to mature, facilitating cross-border investments is an important measure. Cross-border investments provide startups with access to a wider pool of funding, as well as exposure to investors with specific expertise in supporting startups through their growth cycles. It can also startups to expand their operations beyond their local market through the networks and ecosystem support provided by the investors which can help them access a large market and generate higher revenues, and market share, and enhance their competitiveness. Such measures can also encourage the startups to be more innovative, by exposing startups to new technologies, business models, and market opportunities, and by fostering collaboration between startups and investors from different regions.

The Taskforce recommends that the G20 nations should facilitate cross border flow of capital among the member nations by creating a favorable regulatory and policy environment for private and public market investors to invest in startups from the G20 nations

Policy Directive 3.3.1: Develop common minimum G20 Startup Accounting Standards, Governance Standards, and Startup Due Diligence Standards (G20 SAS, G20 GS & G20 SDDS) to facilitate ease of doing cross-border investments



The G20 nations could aim to develop G20 startup accounting standards, governance standards, and due diligence standards, which can help streamline and harmonize investment transactions in early-stage companies. These can be modeled along the lines of International Financial Reporting Standards (IFRS)²⁹ and supplement the same while bringing in the necessary flexibility to address the changes required to account for the new and disruptive business models and revenue trajectory of emerging companies operating in innovative industries. As a step to begin with, we can look at certain provisions and modifications as general guidelines to the existing IFRS, which are more accommodating and conducive to a newly formed company/business or in case a company is categorized as a “Startup”. We can start with provisions to IFRS which are more relevant to start-ups.

IFRS was created to provide a common accounting language for businesses and organizations around the world, recognizing the changing nature of globalization and the need to facilitate global capital flow in terms of trade and investments. Before the development of IFRS, different countries adopted different accounting standards, which made it difficult for businesses and investors to compare financial statements and understand the financial performance of companies. IFRS Accounting Standards, by providing an internationally recognized set of accounting standards aims to bring transparency in reporting business performance around the world, in a common language.

However, startups with new and disruptive business models may engage in complex transactions, such as revenue-sharing agreements or partnerships with other companies with certain risk-reward mechanisms that may be difficult to account for under IFRS. The introduction of new business models can sometimes present unique accounting challenges, especially if they involve new types of revenue streams, expenses, or assets. In such cases, companies and their auditors may need to exercise professional judgment to apply the principles of IFRS appropriately.

While the principles-based approach of IFRS allows for flexibility in adapting to new business models and practices, it could be useful to develop a G20 Startup Accounting Standards (SAS) which can support the IFRS for new and disruptive business models by providing specific insights, intelligence, and best practices from successful startups working in that domain

Also, a G20 common governance standard can help provide a framework for start-ups and help them cater to the interests of the various stakeholders. Such standards will ensure that best practices of ethical and corporate governance standards are followed in the start-up ecosystem.

Similarly, due diligence is an important step that startups have to go through while raising funds from external investors. From an investor perspective, due diligence is the process of examining a startup’s financial, legal, tax, and commercial information to assess its overall viability and potential risks to the investment.

²⁹

<https://www.ifrs.org/use-around-the-world/why-global-accounting-standards/#:~:text=IFRS%20Accounting%20Standards%20bring%20transparency,to%20make%20informed%20economic%20decisions.>



Startups working in disruptive technologies and those in early stages may not have a strong track record of financial performance, commercial readiness, or well-established internal systems and processes. In these situations, the strength of the solution offerings, the attractiveness of the market opportunity, and the team profile can provide the necessary comfort to potential investors and help them to attract funds.

Common due diligence standards, in terms of preparing financial statements, business projections, and commercial models, and in organizing the legal documents, and standard background checks and references on key management personnel can help early-stage startups to present a more accurate and comprehensive view of their business to potential investors, thereby build trust and confidence in the startup to help secure the funds.

It is in this context that the Taskforce proposes a G20 Startup Due Diligence Standards (SDDS) to harmonize the preparation and exchange of necessary information and help facilitate cross-border capital flow

Policy Directive 3.3.2: Facilitate startups' access to capital markets across G20 nations by enabling cross-border listings

The G20 nations can facilitate startups headquartered in their nations to access the capital markets of other member nations and list in other locations, which can help startups access a larger set of investors and a wider pool of institutional capital. From the startup perspective, listing in overseas markets can increase the company's brand visibility and reputation, which can help in building credibility among their end customers.

From an investor perspective, cross-border listings allow investors to access emerging ideas and business opportunities from startups among G20 nations and help them in diversifying their portfolios and generate higher returns.

Several countries around the world allow cross-border listings for companies to access capital markets in other countries. Some examples include

- United States: The US regulations allow foreign companies to list on its stock exchanges such as the New York Stock Exchange (NYSE) and NASDAQ, through the issuance of American Depositary Receipts (ADRs)
- United Kingdom: The UK has international exchanges, such as the London Stock Exchange (LSE) and the Alternative Investment Market (AIM), which allow foreign companies to list
- Japan: The Tokyo Stock Exchange (TSE) allows foreign companies to list on its exchange through the issuance of Depositary Receipts
- In addition, financial hubs like Hong Kong and Singapore also allow foreign companies to list on their stock exchanges such as the Hong Kong Stock Exchange (HKEX), and Singapore Exchange (SGX)



Examples from the USA

The USA has been one of the preferred destinations for companies to raise international funds, with NASDAQ and NYSE listing 1400+ cross-border companies³⁰. As of March 31, 2022, there were 261 Chinese companies listed on these U.S. exchanges with a total market capitalization of \$1.3 trillion.³¹ Cross Border IPO Listings in the US exchanges in 2022 were topped by China, with 12 IPOs, followed by Israel (8 IPOs), Canada (6 IPOs), and others (10 IPOs), taking the total of cross-border listing in US Exchange to 36³². It may be noted that one of the biggest IPOs in the USA in 2014 was that of e-commerce company Alibaba Group Holding Ltd, which went public raising ~\$22 billion in IPO proceeds.

NuBank, one of Latin America's well-known neobanks, went for a dual listing in New York and Sao Paulo in 2021 and was a decently successful listing.

While cross-border listing can provide startups and investors with multiple benefits, there are also additional regulatory and compliance requirements, such as disclosures and exchange-specific rules and regulations. These measures invariably increase the operational costs for companies adopting cross-border listing mechanisms.

Many G20 countries do not allow their startups to list on international exchanges and the Taskforce suggests bringing a change in the same

By streamlining the regulatory and compliance requirements, the G20 nations can facilitate cross-border capital flow for startups and investors, and help them address larger business opportunities

³⁰ <https://www.statista.com/statistics/1277750/largest-stock-exchange-operators-number-listed-companies-worldwide/>

³¹ https://www.uscc.gov/sites/default/files/2022-03/Chinese_Companies_on_US_Stock_Exchanges.pdf

³² EY global IPO trends 2022 Report





RECOMMENDATION 3.4



Recommendation 3.4: Enable the creation of a Common Engagement Platform among G20 nations to promote collaboration

Policy Directives	
Policy Directive 3.4.1	Create an organization/platform with rotational leadership to promote active collaboration among the startup ecosystems, share best practices, access innovative and successful ideas, and enable funding options

SDG Goals Impacted



Recommendation 3.4 contributes to achieving UN SDGs: **17. Partnerships for the goals.**

Policy Directive 3.4.1: Create an organization/platform with rotational leadership to promote active collaboration among the startup ecosystems, share best practices, access innovative and successful ideas, and enable funding options

The Taskforce recommends that the G20 nations should work to create a Common Engagement Platform to facilitate information exchange across resources, cross-border reforms, and funding opportunities in real-time across G20 countries. It is suggested that such knowledge-sharing platforms can help transmit best practices across G20 nations and access innovative and successful ideas from member nations, which will help grow and build startups at scale together.

It is recommended that G20 nations create bilateral/multilateral associations targeted to startups to build a common platform to exchange ideas. Such platforms will enable startups to find the best solutions for scaling and growth

Examples from India

- The Manthan platform is one such knowledge-sharing platform by the Government of India that promotes collaboration at scale between industry and the scientific research and development ecosystem to help meet India’s national targets and the United Nations’ Sustainable Development Goals (SDGs).
- It empowers various stakeholders to scale up the interactions with researchers/innovators and facilitate R&D/innovation, share challenges focused on emerging technologies and other scientific interventions



Startup India Hub:

Startup India is a flagship initiative under the Government of India that acts as a one-stop platform sharing all the resources including the Schemes and Policies, Funding opportunities, Incubation, and Industry-Academia partnerships along with networking and mentorship opportunities in detail, for startups as well as other ecosystem players.

- Startup India Hub is a virtual incubation platform for startup ecosystem stakeholders to connect and strives to be a vibrant and participatory platform that supports networking, mentorship, learning and development, and startup funding
- The platform acts as a large hub to connect the ecosystem with 300k+ queries addressed, 615K+ registered users, 95,000+ recognized startups, and 17 bilateral bridges
- The platform's goal is to catalyze the startup culture and build a strong and inclusive ecosystem in the country
- The hub uses smart tools such as Chatbots for addressing queries, Blockchain technology for verification of information, and digital integration of interfaces for smooth collation of data
- The hub also contains various capacity-building, learning programs, templates, and knowledge modules for startups
- Startup India also has Bilateral Bridges with other countries with the hub hosting a virtual landing platform to enable knowledge exchange and information dissemination

Example from Italy

- The Ministry of Economic Development maintains a portal for start-ups where a database of all registered innovative startups and SMEs, is published/ updated periodically. As of April 2023, there are 13,413 startups and innovative SMEs registered on this database.
- A quarterly and an annual Report on the Italian Startup Act is published to the parliament presenting the state of the art of regulations; demographics and growth dynamics of innovative companies; and evidence of the performance of support measures.³³ These endeavors ensure accountability and also help in informing future policy interventions³⁴

Such platforms and their impact on the entire startup ecosystem can motivate other G20 nations to create G20 virtual hubs which may act as a single source of information such as financing & investment capacity-building opportunities, to enable startups to access each other's networks, mentorship opportunities, and other best practices.

³³ Italian Trade Agency publication; Italian Startup Act

³⁴ Italian Trade Agency publication; Italian Startup Act

