



Plant Archives

Journal homepage: <http://www.plantarchives.org>

DOI Url : <https://doi.org/10.51470/PLANTARCHIVES.2024.v24.no.1.178>

CHALLENGES FACED BY START-UPS IN ACCESSING FINANCE

Galiveeti Sasidhar Reddy^{1*}, Vijay Nadiminti², D. Srinivasa Reddy³ and A. Meena⁴

¹School of Agribusiness Management, College of Agriculture, Professor Jayashankar Telangana State Agricultural University, Hyderabad - 500 030 Telangana, India.

²Ag. Hub, Professor Jayashankar Telangana State Agricultural University, Hyderabad - 500 030 Telangana, India.

³Commission for Agricultural Cost and Prices, College of Agriculture, Professor Jayashankar Telangana State Agricultural University, Hyderabad - 500 030 Telangana, India.

⁴Department of Statistics and Mathematics, College of Agriculture, Professor Jayashankar Telangana State Agricultural University, Hyderabad - 500 030 Telangana, India.

*Corresponding author E-mail : sasidharreddygaliveeti51@gmail.com

(Date of Receiving- 05-11-2023; Date of Acceptance-08-03-2024)

ABSTRACT

Amidst different threats in agriculture, there is a need to increase farmer's income and promote sustainable farming, as it serves as the livelihood source for more than two-third of the Indian population. To achieve the aforementioned, establishment of agri-start-up could promote value addition of agricultural products which could generate employment opportunities for the unemployed Indian youth and also improve the livelihood of the farming community by increasing their income. While, to establish a start-up the availability and access to finance remains the major challenge; hence, this study aims to examine the challenging phase in development of a start-up and the challenges encountered by the start-ups in accessing finance. As a fast-emerging start-up region, Telangana state was purposively selected for the study. In Telangana, 60 agri-startups were selected as primary respondents of the study. The data was gathered through telephonic and personal interview, subjected to statistical analysis. Based on the findings, it was observed that early transaction stage was the most challenging phase and finding the right investor was the first and foremost constraint experienced by the start-up in accessing finance. Hence, it was recommended that financial institutions should formulate policies and government institutions should made the people aware of various schemes available such as Startup India, for the establishment and promotion of start-ups.

Key words : Start-ups, Challenging phase of start-up, Early transaction stage, Finance, Investors.

Introduction

Being the primary activity of the Indian nation (Singh *et al.*, 2023), agriculture not only provides food to the Indian population. In addition, it directly or indirectly plays an important role in providing employment opportunities and improving the livelihood of the rural (Khan, 2021) and urban people. Despite the economic crisis during COVID-19, agriculture sector displayed a positive growth of 3.4 per cent and aids in economic recovery (Economic Survey, 2020-21). Though, agriculture employs about two-third of the Indian population (Singh *et al.*, 2023); in order to promote total economic growth and national prosperity, agriculture sector need to be diversified. In the meantime, Government of India recognized the

potential of agri-start ups in implemented the Nation wise programme 'Start-up India' (Patel, 2019).

Start-up refers to companies which are in the initial stage of business. It might be founded by one or more entrepreneur with an aim to develop a product or service at high demand (Azam, 2021). As these companies are young and established with high costs and limited revenue, they attempt to attract investment from variety of sources such as family and friends, venture capitalists, crowd funding and loans. Though start-ups had high risk failure, it serve as an unique place that provide great opportunities to learn innovatively (Patel, 2019). Further, Mazumdar and Philroy (2011) argued that start-ups working on food and chemical free agri produce address the nutritional

security and health issues of the consumers.

As start-ups are young companies, they have to face challenges in accessing resources such as raw materials, finance, human power (Pasumarti and Patnaik, 2020), lack of knowledge about potential source of funds (Sharma *et al.*, Chatterjee, 2019), difficulty in access to finance, (Sharma *et al.*, 2019), delayed access to loans (Tejerina, 2006), accessing debt funds (Ambrose, 2018), providing collateral and higher interest rates (Vasilescu, 2014; Singh and Wasdani, 2016; Ambrose, 2018; Ghazali and Yasuoka, 2018; Qubbaja and Jaradat, 2018; Rajamani *et al.*, 2022), government regulations (Mensah *et al.*, 2015; Rajamani *et al.*, 2022), lack of knowledge about various schemes (Rajamani *et al.*, 2022), lack of advisory services, inadequacy of funding, inadequate payment period (Gichuki *et al.*, 2014; Qubbaja and Jaradat, 2018), high service fees (Gichuki *et al.*, 2014; Vasilescu, 2014; Singh and Wasdani, 2016), fluctuations in exchange rates, lack of availability of capital (Mensah *et al.*, 2015) and lack of management and default on previous loans (Ackah and Vuvor, 2011).

Statement of the problem

Apart from ensuring food security, agriculture plays a vital role in improving the livelihood of its stakeholders through agri-based start-ups. Being a major occupation for more than two-fifth of the Indian population, agriculture and its allied activities play a vital role in social and economic development of Telangana. As a young state of India, it has the greatest potential for implementing large number of start-ups; while accessibility and availability of finance poses a great threat to establish start-up. Hence, this study aims to identify the challenging phase of a start-up and the challenges experienced by start-ups in accessing finance, which helps to recommend suitable policy formulations to establish and promote start-ups.

Materials and Methods

Sampling procedure

Telangana state of India was purposively selected for the study since it acts as the fast-developing start-up ecosystem in India by establishing more than 100 agricultural start-ups and focus on promoting agricultural start-ups with the help of six incubators. Among the agri-startups of Telangana, a sample of 60 agri-startups from different domains such as block chain, food technology, product innovation, process innovation, etc were selected purposively to provide a holistic view of start-up ecosystem of Telangana.

Method and tools for data collection

In order to assess the challenging phase of a start-up, the different stages in development of start-up formulated by Kumbhat and Sushil (2018) was employed. Based on past studies and expert's opinion, a list of nine challenges faced by startup in accessing finance was identified. The data on challenges experienced by the agri-startups were gathered from the selected start-ups through telephonic as well as personal interview with the help of interview schedule shared through Google forms and subjected to statistical analysis.

Results and Discussion

Challenging phase of start-up

To identify the challenging phase of an agri-start-up, the different stages involved in its development as formulated by Kumbhat and Sushil (2018) was used. The different stages include idea stage, POC/prototype stage, product development stage, early transaction stage, growth, and transaction stage. Idea stage indicates the mere existence of idea of a start-up, prototype stage indicates the conversion of mere idea into a model product or service, product development stage indicates the validation and refinement of the developed product, early transaction stage refers to the promotion of product to earn initial revenue, growth and expansion stage refers that demand of the product has been increased and the start-up is able to sustain in its revenue.

Based on the above context, the start-up was requested to indicate their challenging phase in accessing finance and the findings are presented in Table 1 and Fig. 1.

From Table 1, it could be understood that, more than half of the start-ups experienced challenges to access

Table 1 : Distribution of start-ups based on the challenges experienced by them in accessing finance during different development phases.

(n = 60)

S. no.	Development phases	Responses	
		Frequency	Percentage
1	Idea stage	7	12
2	POC / prototype stage	10	17
3	Product Development stage	6	10
4	Early transaction stage	33	55
5	Growth and expansion stage	4	6
Total		60	100

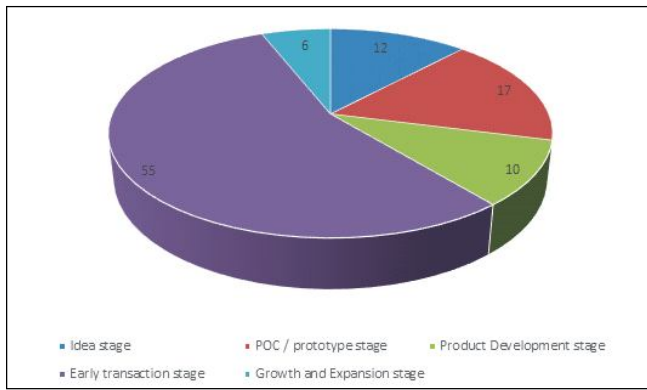


Fig. 1 : Most challenging phase for start-up to access finance.

finance during early transaction stage (55%) for the promotion of the product to earn their revenue. Similarly, 17 per cent of the enterprise faced challenges during prototype stage, 12 percent experienced during idea stage, 10 per cent experienced during product development stage and remaining 6 per cent experienced challenge during growth and expansion stage.

This could be because of promotion of product needs higher initial investment but lack of knowledge on various schemes poses a challenge to start-up during early transaction stage. The findings were line with the studies of Sharma *et al.* (2019) and Chatterjee (2019).

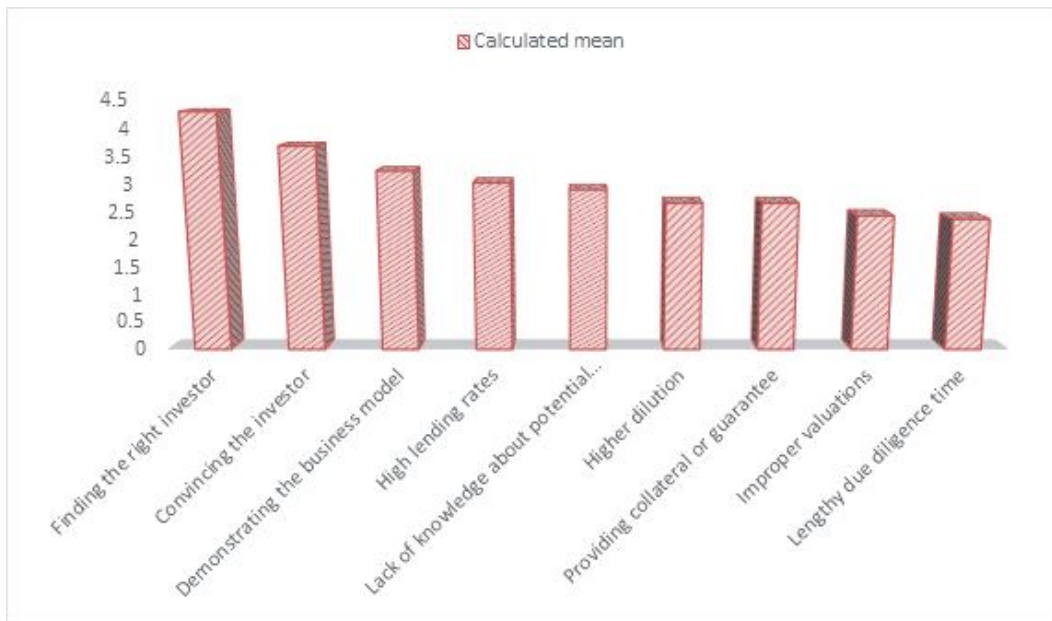


Fig. 2 : Challenges experienced by start-ups in accessing finance.

Table 2 : Distribution of challenges encountered by start-ups in accessing finance.

S. no.	Challenges	Calculated Mean	Rank
1	Finding the right investor	4.29	I
2	Convincing the investor	3.69	II
3	Demonstrating the business model	3.25	III
4	High lending rates	3.04	IV
5	Lack of knowledge about potential sources of funding	2.92	V
6	Higher dilution	2.68	VI
7	Providing collateral or guarantee	2.68	VII
8	Improper valuations	2.45	VIII
9	Lengthy due diligence time	2.39	IX

Challenges encountered by start-ups in accessing finance

The challenges encountered by the start-ups in accessing finance were identified based on expert’s advice and past studies. The identified challenges were subjected to start-ups to gather and analyze the data. The findings were presented in Table 2 and Fig. 2.

Table 2 indicates the challenges experienced by the start-ups in accessing finance based on calculated mean. It was revealed that finding the right investor (4.29) was the first and foremost constraint experienced by start-ups in accessing finance, followed by convincing the investor (3.69), demonstrating the business model (3.25), high lending rates (3.04), lack of knowledge about potential sources of funding (2.92), higher dilution (2.68), providing collateral or guarantee (2.68), improper valuations (2.45) and lengthy due diligence time (2.39) was the 2nd, 3rd, 4th, 5th, 6th, 7th, 8th and 9th important challenge experienced

by the start-ups in accessing finance, respectively.

Though, start-ups find difficulties in providing collateral or higher interest rates, finding the right investor remains as the major challenge as the investor didn't comply with the nature of working of the start-up or the investor finding difficulties in investing for promotion of the product. The findings were supported by the studies of Sharma *et al.* (2019) and Chatterjee (2019), who indicated that lack of knowledge about the potential sources of funding remains the major challenges to access finance for a start-up.

Conclusion

Start-up facilitates value addition of agricultural products which reduce wastage and post harvest loss, generate employment opportunities, improve livelihood of farmers by increasing their income; which in turn promote socio-economic development of the Nation. But, start-up needs more investment for its establishment and promotion. Based on this study, it can be concluded that, early transaction stage was the most challenging phase which requires higher investment for promotion of products to earn their revenue and finding the right investor was the most challenging constraint experienced by the start-ups in accessing finance. Hence, this study recommends the financial and non-financial institutions to provide adequate loans for the establishment and promotion of start-up with adequate repayment period at normal interest rates. Further, more awareness campaigns should be conducted to increase the awareness among public towards various government schemes for establishment of start-ups.

References

- Ackah, J. and Vuvor S. (2011). The challenges faced by Small & Medium Enterprises (SMEs) in obtaining credit in Ghana. *Masters' thesis* in Business Administration. Blekinge Institute of Technology, Sweden.
- Ambrose, J. (2018). Venture capital (VC): The all-important MSMEs financing strategy under neglect in Kenya. *Int. J. Business Soc. Sci.*, **3(21)**, 234240.
- Azam, A. (2021). Role of Startup India in Economic Development of India. *GIS J.*, **8(9)**, 876-880.
- Chatterjee, D. (2019). Start – up India: A step towards prosperity. *Int. J. Res. Analyt. Rev.*, **Special Issue**, 108 – 116.
- Economic Survey (2020-21). Ministry of Finance, GoI.
- Ghazali, N.H. and Yasuoka T. (2018). Awareness and perception analysis of small medium enterprise and start-up towards fintech instruments: Crowdfunding and Peer-to-Peer lending in Malaysia. *Int. J. Finance and Banking Res.*, **4(1)**, 13-24.
- Gichuki, J.A.W., Njeru A. and Tirimba O.I. (2014). Challenges facing micro and small enterprises in accessing credit facilities in Kangemi Harambee market in Nairobi city county, Kenya. *Int. J. Scientif. Res. Publ.*, **4(12)**, 125.
- Khan, M.A. (2021). Impact of Agriculture sector on Sustainable development of Indian Economy: An Analysis. *Agricultural Mechanization in Asia (AMA), Africa & Latin America*, **52(02)**, 10.
- Mazumdar, S.D. and Philroy J. (2011). *Food and Nutritional Security*. In: Food 360 International Conference on Agribusiness & Food processing, November 21-22, 2011, HICC, Hyderabad.
- Mensah, H.K., Azinga S.A. and Sodji J.A.M. (2015). Challenges faced by small and medium size enterprises in accessing credit facilities from financial institutions: An empirical assessment incorporating the perceptions of both borrowers and financiers. *Int. J. Econ., Commerce Manage.*, **3(11)**, 250-275.
- Pasumarti, S.S. and Patnaik A. (2020). Challenges in obtaining finance for SME startups. *High Technol. Lett.*, **26 (9)**, 972-979.
- Patel, R.S. (2019). Startup India–Opportunities and Challenges. *GAP Interdisciplinarity-Open Access Journal of Interdisciplinary Studies*, **2(1)**, 220-224.
- Qubbaja, A. and Jaradat N. (2018). Obstacles to accessing finance by small and medium enterprises: Case of Palestine. Al-Utroha. October 2018. 11-33.
- Rajamani, K., Akbar Jan N., Subramani A.K. and Nirmal Raj A. (2022). Access to finance: challenges faced by micro, small and medium enterprises in India. *Engg Econ.*, **33(1)**, 73-85.
- Sharma, S., Raj M. and Gandhi T. (2019). Challenges and issues faced by startup companies in India. *Proceedings of sixteenth AIMS International Conference on Management, SIMS, Pune, 3-5 January 2019*. Association of Indian Management Schools. Hyderabad. 109-113.
- Singh, C. and Wasdani P.K. (2016). Finance for micro, small and medium-sized enterprises in India: Sources and Challenges. *ADB working paper series* (ADB). 581.
- Singh, V., Faujdar K., Garg D.K. and Singh A. (2023). Importance of Agri-entrepreneurship in Indian economy: A Review. *Int. J. Enhanced Res. Sci., Technol. Engg.*, **12(6)**, 203-211.
- Vasilescu, L. (2014). Accessing finance for innovative EU SMEs: Key drivers and challenges. *Economic Review: J. Economics and Business*, **12(2)**, 35-47.