4. Transforming Business Environment -ECONOMY

Recent policy reforms centred on trust - based governance have significantly improved India's business environment, reflected in a 27% rise in active registered companies, from 1.55 lakh in 2020–21 to 1.98 lakh in 2025–26

1. Startup Ecosystem Development

1. Startup India Initiative

1. The Startup India initiative, launched by the Government of India, aims to promote innovation, entrepreneurship, and the creation of new enterprises across sectors.
2. Under this initiative, startups can obtain official recognition from the Department for Promotion of Industry and Internal Trade (DPIIT).
3. Recognition provides several regulatory and financial incentives that help reduce barriers for new businesses.

Key benefits include -

1. **Tax incentives -**Eligible startups can avail income tax exemption for a specified period under the Income Tax Act.
2. **Simplified compliance procedures -**Startups are allowed self - certification under certain labour and environmental laws, reducing regulatory burdens.
3. **Fast - track Intellectual Property Rights (IPR) processing -**The initiative provides expedited patent examination and reduced fees for trademark and patent applications.
4. **Access to government procurement -**Recognised startups can participate in government tenders without prior experience or turnover requirements.

2. Impact on Innovation and Entrepreneurship

1. The initiative has contributed to the rapid expansion of India's startup ecosystem.
2. India has emerged as one of the world's largest startup hubs, with thousands of technology - driven firms operating across sectors such as fintech, health - tech, ed - tech, and artificial intelligence.
3. Startup India has also encouraged venture capital investments and global partnerships in emerging sectors.

2. Credit Guarantee and Financial Support Mechanisms

1. Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE)

1. The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) facilitate credit guarantees for loans extended to Micro and Small Enterprises (MSEs).
2. The scheme enables financial institutions to provide collateral - free loans of up to ₹10 crore to eligible enterprises.
3. By reducing the risk faced by banks, the scheme encourages lending to smaller firms that typically lack collateral assets.

2. Credit Guarantee Scheme for Startups (CGSS)

1. The Credit Guarantee Scheme for Startups provides financial support to startups by offering guarantees to lenders.
2. The revised framework has enhanced the guarantee coverage, increasing the maximum credit guarantee limit from ₹10 crore to ₹20 crore per eligible borrower.
3. This reform aims to ensure that innovative startups can access capital without excessive financial barriers.

3. Credit Guarantee Scheme for Exporters (CGSE)

1. The Credit Guarantee Scheme for Exporters provides additional collateral - free credit support to export - oriented MSMEs.
2. The scheme enables credit support of up to ₹20,000 crore to both direct and indirect exporter MSMEs.

3. It aims to strengthen India's export sector by improving liquidity for small and medium exporters.

4. Credit Assessment Model (CAM) for MSME Lending

1. Public Sector Banks introduced the **Credit Assessment Model (CAM)** in 2025 to streamline MSME lending.
2. The model uses **digitally verified financial data**, including GST returns and bank transaction records, to automate loan appraisal and risk assessment.
3. CAM reduces the time required for credit approval and minimises subjective decision - making in loan evaluation.

3. Insurance Sector Reforms

1. Sabka Bima, Sabki Raksha (Amendment of Insurance Laws) Act, 2025

1. This legislation introduced major reforms aimed at improving efficiency and attracting greater investment into India's insurance sector.
2. The reforms are intended to increase insurance penetration and strengthen the financial stability of insurance markets.

Key provisions include -

Increase in Foreign Direct Investment (FDI) Limit -The FDI limit in the insurance sector has been increased to **100%**, enabling greater participation of foreign investors and improving capital availability.

One - Time Registration for Insurance Intermediaries -The reform introduces a single registration process for insurance intermediaries, reducing bureaucratic hurdles and simplifying operations.

Higher Threshold for Share Transfer Approvals -The share transfer approval threshold has been raised from **1% to 5%**, thereby reducing regulatory compliance burdens for insurers.

Reduction in Net Owned Fund Requirements -The Net Owned Fund requirement for foreign reinsurers has been reduced from ₹5,000 crore to ₹1,000 crore, encouraging greater global participation in the reinsurance market.

4. Insolvency and Bankruptcy Code (IBC), 2016

1. Strengthening Insolvency Resolution

1. The Insolvency and Bankruptcy Code (IBC), 2016 represents one of the most significant structural reforms in India's financial sector.
2. It established a unified legal framework for resolving insolvency cases involving companies, partnerships, and individuals.

Key features include -

1. **Time - bound insolvency resolution process**, typically within 330 days.
2. **Insolvency professionals** responsible for managing the resolution process.
3. **Committee of Creditors (CoC)** empowered to decide the fate of distressed firms.

2. Impact on Credit Markets

1. The IBC has improved recovery rates for creditors and strengthened the discipline of corporate borrowers.
2. It has also helped reduce the problem of Non - Performing Assets (NPAs) in the banking system.
3. By enabling faster resolution of distressed companies, the code enhances investor confidence and promotes responsible corporate governance.

5. GST 2.0 Reforms

1. Simplification of Tax Structure

1. The GST reforms introduced in 2025, often referred to as GST 2.0, aim to simplify the tax structure and reduce compliance costs for businesses.

2. These reforms focus on improving the efficiency of tax administration and promoting greater formalisation of the economy.

2. Expansion of the Taxpayer Base

1. The GST taxpayer base has expanded significantly, increasing from 60 lakh in 2017 to more than 1.6 crore by January 2026.
2. This growth reflects improved compliance and broader participation of businesses in the formal economy.

6. Rationalisation of Penalties and Prosecution

1. Integrated Assessment and Penalty Orders

1. The reform integrates tax assessment and penalty orders into a single process.
2. During appeals, no interest is charged on penalties, reducing financial burden on taxpayers.

2. Reduction in Pre - Deposit Requirements - The pre - deposit requirement for filing appeals has been reduced from 20% to 10% of the core tax demand, improving ease of litigation for businesses.

3. Updated Returns After Reassessment -Taxpayers are allowed to submit updated returns even after reassessment, subject to payment of an additional 10% tax.

4. Immunity from Penalties and Prosecution -Immunity provisions have been expanded from cases of underreporting to misreporting of income, provided the taxpayer pays the full tax and interest.

5. Decriminalisation of Minor Offences

1. Certain minor tax offences have been decriminalised.
2. Examples include -
    - Non - production of books of accounts
    - TDS issues involving payments in kind
3. Such offences will now attract monetary fines rather than criminal prosecution.

7. Challenges in India's Business Environment

1. Skill Gaps in the Workforce

1. Despite rapid economic growth, India faces a shortage of industry - relevant skills, particularly in advanced manufacturing, digital technologies, and research - driven sectors.
2. This limits productivity and slows the adoption of emerging technologies such as artificial intelligence and automation.

2. Global Economic Uncertainty

1. External shocks such as geopolitical tensions, supply chain disruptions, and global financial volatility can affect investment flows and business expansion.
2. Trade protectionism and fluctuations in commodity prices also influence India's economic performance.

3. Limited Access to Finance for MSMEs

1. Many micro and small enterprises still struggle to obtain timely and affordable credit, even though various credit guarantee schemes exist.
2. Informal businesses often lack credit histories and collateral, which reduces their eligibility for bank loans.

4. Infrastructure Bottlenecks

- Inadequate logistics networks, transport infrastructure, and digital connectivity in certain regions increase operational costs for businesses.
- Poor infrastructure also affects supply chain efficiency and reduces India's global competitiveness.

Way Forward

1. Strengthening Regulatory Coordination

1. Improved coordination between central, state, and local governments is essential to ensure effective implementation of business reforms.

2. Harmonised regulatory frameworks can reduce bureaucratic delays and enhance policy predictability.

2. Expanding Digital Governance Platforms

1. Digital governance platforms can streamline regulatory processes, improve transparency, and reduce administrative costs for businesses.
2. Technologies such as data integration and automated compliance systems can enhance ease of doing business.

3. Aligning Skill Development with Industry Needs

1. Skill development programmes must be aligned with emerging industry requirements such as advanced manufacturing, artificial intelligence, and green technologies.
2. Stronger collaboration between educational institutions and industries can ensure a workforce capable of supporting innovation and sustainable economic growth.

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