



Upscaling Start-ups in India

This editorial is based on [“Policy engine on, Keep going, startup India”](#) which was published in Economic Times on 21/11/2022. It talks about the Start-up Ecosystem in India and challenges related to it.

For Prelims: Startups in India, Unicorn, India Venture Capital Report 2021, Startup India Seed Fund Scheme (SISFS), National Startup Awards, National Initiative for Developing and Harnessing Innovations (NIDHI), Startup India Action Plan (SIAP), National Education Policy, 2020, Atmanirbhar Bharat.

For Mains: Current Status of the Startup Ecosystem in India, Major Challenges Related to Startups in India, Recent Government Initiatives Related to Startups.

India is often described as **“the poster child of emerging markets”** for its vast commercial potential for startups. [Startups in India](#) as in many other parts of the world, have received increased attention in recent years. Their **numbers are on the rise, and they are now being widely recognised as important engines for growth and jobs generation.**

However, due to lack of forward-looking policies and financial constraints, India's startup ecosystem faces a number of problems. Therefore, there is a need to push for **innovation and scale emerging technology** to generate impactful startup solutions, and thereby it can act as vehicles for India's **socio-economic development and transformation.**

What is the Current Status of the Start-up Ecosystem in India?

- In 2021, Indian start-ups raised **USD 23 billion** across 1,000+ deals, with 33 start-ups becoming **unicorns**. So far, the year **2022 has added 13 more start-ups to the unicorn club.**
 - The start-up ecosystem in India **ranks third after that of the United States (US) and China.**
- According to the **India Venture Capital Report 2021** published by Bain and Company, the **number of cumulative start-ups has grown at a CAGR of 17% since 2012 and crossed 1,12,000.**

What are Government's Initiatives Related to Start-ups?

- **Start-up India Seed Fund Scheme (SISFS):** This scheme provides financial assistance to start-ups to help them **prove their concept, develop prototypes, test products, and enter the market.**
- **National Start-up Awards:** This program **recognizes and rewards outstanding start-ups** and ecosystem enablers contributing to economic dynamism by stimulating innovation and **stimulating competition.**
- **SCO Start-up Forum:** Established in October 2020 as a means of developing and improving start-up ecosystems in SCO member states, the **Shanghai Cooperation Organisation (SCO)** Startup

Forum is the first of its kind.

- **Prarambh:** The 'Prarambh' Summit aims to provide a platform to startups and young minds from around the world to come up with new ideas, innovation and invention.
- **National Initiative for Developing and Harnessing Innovations (NIDHI):** It is an end-to-end plan for start-ups to double the number of incubators and start-ups in the duration of five years.
- **Ranking of States on Support to Startup Ecosystems (RSSSE):** The Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry has been conducting the States' Start-up Ranking Exercise since 2018.

What are the Major Challenges Related to Start-ups in India?

- **Lack of Forward Thrust to Innovation:** India's education system lacks [vocational training and industry exposure](#) that keeps students deprived of pursuing innovation. As a result, this makes the **Indian higher education system** lag behind in terms of **research and development**.
 - This also leads to many **young bright minds leaving India for research and business abroad**, which comes at an immense cost to the country.
- **Lack of Recognition:** Since nearly **70% of the Indian population lives in rural areas** that are still deprived from [reliable internet access](#). Consequently, many village-based start-up **go unrecognised and are deprived of government funding initiatives**.
- **Bootstrapped Nature:** For running a start-up, a significant amount of working capital is required. Many start-ups in India, especially at early stages, are **bootstrapped, i.e., self-funded through the founders' own savings, since domestic financing is limited**.
 - **As a result, majority of start-ups in India fail within the first five years** and the most common reason is - **lack of formalised funding**.
- **Scalability Concern:** Small start-ups in India have limited understanding of customers and are confined **to only certain regions**, where they know the **local language and local people**.
 - Due to this **language barrier and lack of connected supply chains**, it makes it hard for startups to **scale their products to customers across the country**
- **Marginal Penetration in Space Sector:** Indian startups in fintech and e-commerce are doing exceptionally well, but space startups remain outliers.
 - Globally, the space economy is valued at **USD 440 billion, with India holding less than 2% of the market**.
 - The reason is the **lack of independent private participation** in the space sector.

What Should be the Way Forward?

- **School-Entrepreneurship Corridor:** The [National Education Policy, 2020](#) promotes student entrepreneurs by providing vocational education in partnership with industry and innovation at school level.
 - This can have a **favourable impact on the start-up ecosystem in India**, if **entrepreneurial skills are integrated with the education curriculum** under new education policy.
- **Fostering Entrepreneurism:** Besides policy-level decisions to encourage entrepreneurship, India's corporate sector must also **foster entrepreneurialism** and build synergies to **create sustainable and resource-efficient growth**.
 - **Companies in India can be encouraged to collaborate with startups** and support them with various **corporate-specific resources**. These engagements can be mutually beneficial.
- **Harnessing India's Demographic Dividend:** Given the scale of India and its resource constraints, **low-cost, high-impact solutions are required**. **Technology startups** must be incentivised especially in the field of [semiconductor](#), [space](#) and [artificial intelligence](#) to harness the potential of India's **demographic dividend** to the fullest.
 - Emerging Start-up can also be **incentivised to provide innovative measures** to reduce digital divide in India.
- **Social Acceptability of Start-ups:** By **collaborating with various unicorns of India**, the government needs to work towards **social acceptance of entrepreneurial careers** and channelize the youth in the right direction to choose a career with ease.
- **Made in India, Made for World:** Indian start-ups have the potential to not only look at Indian problems, but offer customised solutions for markets abroad. The **vision of [Atmanirbhar Bharat](#)**

will definitely be **boosted by this** as well as making **India an entrepreneurship hub around the world.**

Drishti Mains Question

How is the Start-up ecosystem in India responding to recent government initiatives?

UPSC Previous Year Question (PYQ)

Q. What does venture capital mean? (2014)

- (a) A short-term capital provided to industries
- (b) A long-term start-up capital provided to new entrepreneurs
- (c) Funds provided to industries at times of incurring losses
- (d) Funds provided for replacement and renovation of industries

Ans: (b)

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