



## India's Startup Ecosystem

**For Prelims:** India's Startup Ecosystem, Startup India Seed Fund Scheme, Startup India Initiative, Industry 4.0, Digital India Initiative

**For Mains:** Startups - growth in India, challenges, schemes launched

### Why in News?

Recently, the number of **unicorns** in India reached the 100-mark.

- One unicorn means a startup of at least Rs 7,500 crore turnover. The total valuation of these unicorns is USD 330 billion, that is over Rs 25 lakh crore.
- The average annual growth rate of Indian unicorns is more than that of the U.S., the U.K. and many other countries.

### What is a Unicorn?

#### ▪ About:

- A unicorn is **any privately owned firm with a market capitalization of more than USD 1 billion.**
- It denotes **new entities dedicated to offering creative solutions** and new business models, among other things.
- There are several categories like [fintech](#), [Edtechs](#), B2B (Business-to-Business) companies, etc.

#### ▪ Features:

- **Disruptive innovation:** Mostly, all the unicorns have brought a disruption in the field they belong to, for example, Uber transformed commuting.
- **Technology-driven:** The business model is driven by the latest technological innovations and trends.
- **Consumer-focused:** Their goal is to simplify things for consumers and be a part of their day-to-day life.
- **Affordability:** Keeping things affordable is another key highlight of these startups.
- **Privately owned:** Most of the unicorns are privately owned which gets their valuation bigger when an established company invests in it.
- **Software-based:** A recent report suggests that 87% of the unicorns' products are software, 7% are hardware and the rest 6% are other products & services.

### What is the State of Startups and Unicorns in India?

#### ▪ Status:

- India has become the **3<sup>rd</sup> largest start-up ecosystem in the world** after the US and China.
- **44 Indian start-ups have achieved unicorn status in 2021** taking the overall tally of unicorns to 83, most of which are in the services sector.

- India has seen such rapid growth in unicorns due to several strategic as well as conditional reasons.
- **Growth Drivers:**
  - **Government Support:**
    - Government of India is understanding the value of working with disruptive innovators across the value chain and using their innovations to improve public service delivery.
    - Department of Animal Husbandary and Dairying has conducted a grand challenge in association with Startup India to award top startups in 5 categories 10 lakhs INR.
  - **Adoption of Digital Services:**
    - The pandemic accelerated the adoption of digital services by consumers helping start-ups and new-age ventures build tech-focused businesses for customers.
  - **Online Services and Work from Home Culture:**
    - Many Indians moved to online services exploring a host of services ranging from food delivery and Edu-tech to e-grocery.
    - The Work-from-home culture helped increase the number of start-ups' user base and expedited their business expansion plans and attracting investors.
  - **Digital Payments:**
    - The growth of [Digital Payments](#) is another aspect that aided the unicorn the most.
  - **Buyouts from Major Public Corporations:**
    - Many startups become unicorns as a result of buyouts from major public corporations that prefer to focus on acquisitions to grow their business rather than investing in internal growth.
- **Challenges:**
  - **Increasing Investments Do Not Ensure Success of a Startup:** Amid the Covid-19 crisis, when the central banks have released a global glut of liquidity, money is no more a difficult task to raise.
    - The billions of dollars being invested in startups represent the large bets on distant outcomes, and not value generation by way of revenues.
    - Plus, one cannot assume the high rate of survival of these startups with such investments, as it can be assured by profits.
  - **India, still a Marginal Player in the Space Sector:** While India's startups in the fintech and e-commerce sector are doing exceptionally well, the space startup sector remains an outlier
    - Currently, the global space economy is worth USD 440 billion, with India having less than 2% share in the sector.
      - This is despite the fact that India is a leading space-faring country with end-to-end capabilities to make satellites, develop augmented launch vehicles and deploy interplanetary missions.
    - The reason for the lack of independent private participation in space includes the absence of a framework to provide transparency and clarity in laws.
  - **Indian Investors Unwilling to Take Risks:** The big investors in India's startup sector are from overseas, Japan's SoftBank, China's Alibaba, and Sequoia from the US.
    - That's because India does not have a serious venture capital industry with an appetite for risk.
    - The country's established conglomerates have mostly stuck to traditional businesses.

## What are the Related Government Initiatives?

- **Startup Innovation Challenges:** It is a fantastic opportunity for any startup to leverage their networking and fund-raising efforts.
- **National Startup Awards:** It seeks to recognize and reward outstanding startups and ecosystem enablers that are contributing to economic dynamism by spurring innovation and injecting competition.
- **[Ranking of States on Support to Startup Ecosystems:](#)** It is an evolved evaluation tool aimed to strengthen the support of States and UTs to holistically build their startup ecosystems.
- **SCO Startup Forum:** The first-ever [Shanghai Cooperation Organisation \(SCO\)](#) Startup Forum

was launched in October 2020 to develop and improve startup ecosystems collectively.

- **Prarambh:** The 'Prarambh' Summit aims to provide a platform to the startups and young minds from around the world to come up with new ideas, innovation and invention.

## Way Forward

- The accelerated development of the start-up ecosystem needs significant funding and therefore the role of venture capital and [Angel Investors](#) are critical.
- Apart from policy-level decisions that promote entrepreneurship, **the onus is also on India's corporate sector to foster entrepreneurialism**, and create synergies to build impactful technology solutions, and sustainable and resource-efficient growth.
- With the recent events creating capital distrust in China, the world's attention is sharpening on the lucrative tech opportunities in India and the value that could be created. For this, India requires decisive policy measures in addition to the [Digital India Initiative](#).

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