



India & Startup

For Prelims: Startup, National Initiative for Developing and Harnessing Innovations, NIDHI, Startup India Action Plan, Startup India Seed Fund Scheme, National Startup Awards

For Mains: Startup Ecosystem and its Significance

Why in News?

Recently, the government of India has stated that **India ranks 3rd globally in [Start-Up ecosystem](#)** and also, in terms of **the number of Unicorns**.

What are Startups & Unicorns?

▪ Startup:

- The term startup refers to a **company in the first stages of operations**. Startups are founded by **one or more entrepreneurs** who want to develop a product or service for which they believe there is demand.
- These companies **generally start with high costs** and **limited revenue**, which is why they look for capital from a variety of sources such as venture capitalists.

▪ Unicorn:

- 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.

What is the State of Startups India?

▪ Status:

- India has become the **3rd largest start-up ecosystem** in the world after the US and China.
 - India is home to as many as **75,000 Startups**.
 - 49% of start-ups are from **tier-2 and tier-3 cities**.
- There are currently **105 unicorns**, out of which 44 were born in 2021 and 19 in 2022.
- Startups are also emerging in the fields like **IT**, [agriculture](#), [aviation](#), [education](#), [energy](#), [health](#) and [space sectors](#).

▪ Global Innovation Index:

- India has been ranked in its global ranking of [Global Innovation Index \(GII\)](#) from 81st in the year 2015 to **46th in 2021** among 130 economies of the world.
- India ranks 2nd among 34 **lower middle-income economies** and 1st among 10 **Central**

and Southern Asian economies in terms of GII.

▪ **Other Rankings:**

- Publications: Globally ranked 3rd (2021) from 6th in 2013 based on the National Science Foundation database.
- Patents: Globally ranked 9th (2021) in terms of **resident patent filing**.
- **Quality of Research Publications:** Globally ranked 9th (2021) from 13th in 2013.

What are the Growth Drivers & Challenges for Startups?

▪ **Growth Drivers:**

- **Government Support:** India has increased the **Gross Expenditure on R&D (GERD)** more than three times in the last few years.
 - India has over 5 lakh R&D personnel, the number that has shown a 40-50% increase in the last 8 years.
 - In the last 8 years, women's participation in extramural R&D has also doubled
- **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: The billions of dollars** being invested in startups represent the large bets on distant outcomes, and do not value generation by way of revenues.
 - 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:** Currently, the **global space economy** is worth USD 440 billion, with India **having less than 2% share in the sector**.
 - 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.

What are Government's Initiatives for Startups?

- **National Initiative for Developing and Harnessing Innovations (NIDHI)**
- **Startup India Action Plan (SIAP)**
- **Ranking of States on Support to Startup Ecosystems (RSSSE)**
- **Startup India Seed Fund Scheme (SISFS):** It aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market entry and commercialization.
- **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.
- **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 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](#).

UPSC Civil Services Examination, Previous Year Questions (PYQs)

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)

Explanation:

- Venture capital is a form of fund for a new or growing business. It usually comes from venture capital firms that specialize in building high risk financial portfolios.
- With venture capital, the venture capital firm gives funding to the startup company in exchange for equity in the startup.
- The people who invest this money are called venture capitalists (VCs). Venture capital investment is also referred as risk capital or patient risk capital, as it includes the risk of losing the money if the venture does not succeed and takes a medium to long term period for the investments to fructify.
- Therefore, option (b) is the correct answer.

Source: PIB

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