



## Revitalizing Startups for a Resilient India

*This editorial is based on “[Startup India has fuelled entrepreneurial spirit](#)” which was published in *The Hindu Business Line* on 13/01/2025. The article highlights the transformative impact of India’s Startup India initiative in fostering a thriving entrepreneurial ecosystem, positioning startups as global leaders in sectors like fintech and healthtech. To sustain this momentum, addressing regulatory bottlenecks and boosting industry-academia collaboration is imperative.*

**For Prelims:** [India's Startup India initiative](#), [Department for Promotion of Industry and Internal Trade](#), [Agritech startups](#), [Renewable energy](#), [Deep Tech](#), [India’s MSME sector](#), [Income Tax Act, 1961](#), [World Bank](#), [Global Talent Index 2023](#), [ONDC \(Open Network for Digital Commerce\)](#), [Digital Personal Data Protection Act, 2023](#), [Pradhan Mantri Kaushal Vikas Yojana](#), [National Green Hydrogen Mission](#), [Faster Adoption and Manufacturing of Hybrid and Electric Vehicles](#), [Agriculture Infrastructure Fund](#).

**For Mains:** Role of Startups in India's Economic Growth, Key Issues Related to India’s Startup Ecosystem.

[India's Startup India initiative](#), launched in 2016, **has transformed the nation into a global innovation powerhouse**, fostering over 500 incubation centers and creating a robust ecosystem for **entrepreneurship**. The program has democratized innovation by breaking down bureaucratic barriers and enabling entrepreneurs from **Tier 2 and 3 cities** to compete on equal footing. From **fintech to healthtech**, Indian startups have emerged as global leaders. While India's startup ecosystem shows immense promise, **challenges in regulatory frameworks and the need for stronger industry-academia collaboration** must be addressed to maintain this growth trajectory and fully realize its potential in the global digital economy.

### What Role does Startups Play in India's Economic Growth?

- **Employment Generation:** Startups have emerged as significant contributors to job creation, offering employment opportunities across diverse sectors such as **IT, fintech, and e-commerce**.
  - As of 31st December 2023, the [Department for Promotion of Industry and Internal Trade \(DPIIT\)](#) recognized a total of **1,17,254 startups**.
    - These startups have generated over **12.42 lakh direct jobs**, making a substantial contribution to the economy.
  - Startups also foster indirect employment through **ancillary services like logistics, marketing, and vendor management**, boosting the overall employment ecosystem.
- **Driving Innovation and Technology Adoption:** Startups are at the forefront of technological innovation, **leveraging AI, blockchain, and IoT to address real-world challenges**.
  - For instance, **Ather Energy** is revolutionizing India’s EV sector with its cutting-edge electric scooters, while **Drones by Garuda Aerospace** are transforming agricultural

productivity.

- **India's R&D spending** remains low but **startups are filling this gap by innovating in areas like agritech, edtech, and health-tech.**
- **Boosting Exports and Global Outreach:** Startups have significantly boosted India's export capabilities by scaling their businesses to international markets.
  - **Fintech companies like Razorpay and Paytm** are now exporting payment solutions globally, while **SaaS (Software-as-a-Service) firms like Zoho and Freshworks** dominate international markets. India's SaaS sector alone is expected to reach **\$100 billion in revenue by 2030**, up from **\$13 billion in 2023 (NITI Aayog)**. This global presence enhances India's brand value and contributes to foreign exchange earnings, supporting the nation's balance of payments.
- **Supporting Financial Inclusion:** Startups in fintech are expanding financial inclusion by offering affordable and accessible digital financial services to underserved populations.
  - **Companies like PhonePe, BharatPe, and Paytm** have brought digital payments to rural areas, with **UPI transactions in December 2024 hit a record 16.73 billion**,
  - Startups in **micro-lending and neobanking** are empowering MSMEs and individuals with access to credit.
    - India boasts one of the **world's fastest-growing fintech markets**, with a current size of **USD 584 billion and a projected jump to USD 1.5 trillion by 2025.**, driving inclusive economic growth.
- **Strengthening the Rural Economy:** Startups are bridging rural-urban divides by leveraging technology to empower rural communities.
  - **Agritech startups like DeHaat and Cropin** are providing real-time solutions for farmers, enhancing productivity and incomes.
  - The Indian ag tech industry is expected to experience significant growth in the coming years, with revenue predicted to reach \$204 billion by 2025.
  - Additionally, **solar startups like Vikram Solar** are addressing energy needs, reducing reliance on costly diesel pumps, and supporting sustainable rural livelihoods. This **decentralization of innovation is fostering equitable economic growth.**
- **Promoting Women Empowerment:** Startups are empowering women entrepreneurs, offering opportunities to participate actively in the economy.
  - **Ventures like Mann Deshi Foundation** are fostering female-led ventures through mentorship and funding.
  - Today, **18% of startups in India are led by women**, contributing significantly to the economy.
  - Initiatives like the **NSRCEL's Women Startup Program at IIM Bangalore, a CSR initiative by Kotak** and financial incentives under **Startup India** are creating a more inclusive ecosystem.
- **Fostering Green and Sustainable Growth:** Startups in the **renewable energy** and sustainability sectors are pivotal in combating climate change.
  - **ReNew Power and Ecozen Solutions** are spearheading solar and renewable energy adoption, while **Cero Recycling** focuses on **recycling end-of-life vehicles (ELVs)**
  - India's renewable energy startups are aligned with the target of **500 GW of renewable capacity by 2030**, with the green energy market expected to grow at **15% CAGR (MNRE)**.
    - These startups contribute not just to economic growth but also to environmental preservation.
- **Attracting Foreign Investments:** The Indian startup ecosystem has become a magnet for foreign direct investment (FDI),
  - Global investors are drawn to India's massive market, robust digital infrastructure, and thriving entrepreneurship.
  - Investment in the **Deep Tech (R&D-oriented) sector** has been growing consistently over the years, with a **total funding of \$6.73 billion**.
  - Startups like **Ola Electric** and **Lenskart** have raised billions in funding, bolstering economic growth and innovation.
- **Supporting MSMEs and Ancillary Industries:** Startups act as enablers for MSMEs by offering digital tools, credit, and market access.
  - **India's MSME sector**, which contributes **30% to GDP** and employs over **150 million people**, benefits from these tech-driven solutions.

- This synergy between startups and MSMEs strengthens supply chains and improves the overall competitiveness of India's economy.

## What are the Key Issues Related to India's Startup Ecosystem?

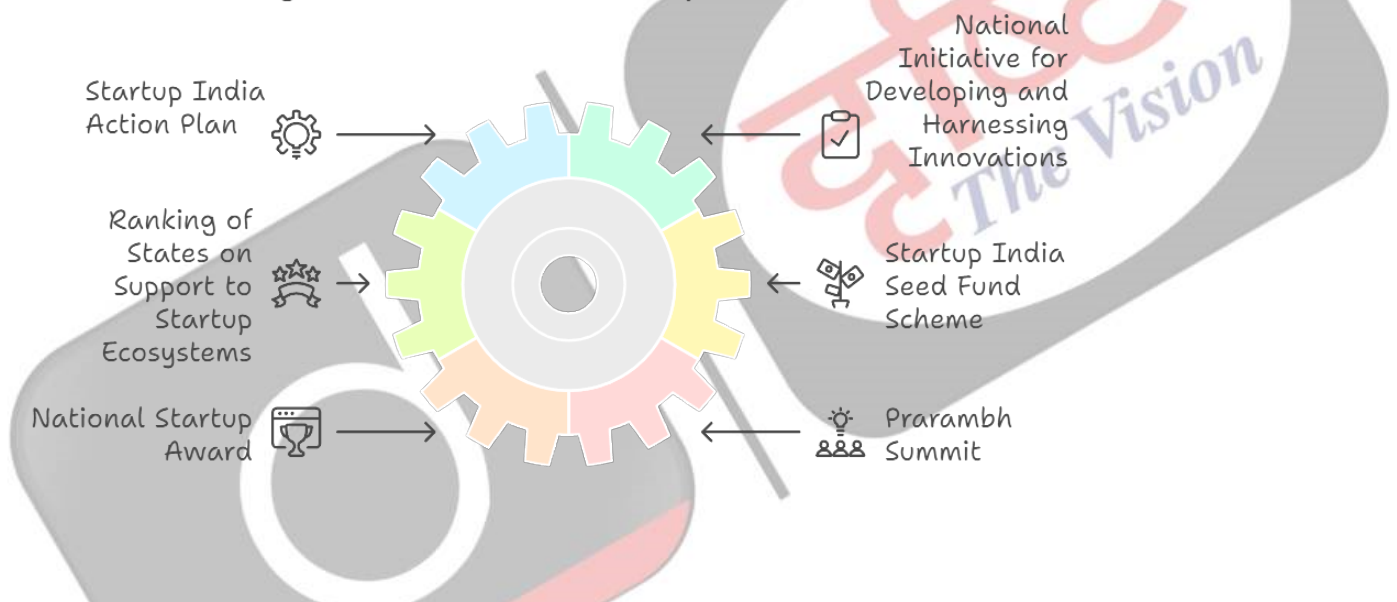
- **Funding Constraints for Early-Stage Startups:** Many early-stage startups struggle to access adequate funding due to limited angel investors and venture capital interest.
  - In 2023, **around 35,000 Indian startups shut down** as a result of the funding winter, with fundraising for Indian startups dropping by nearly **73%**.
  - The absence of **robust seed funding mechanisms** and dependency on foreign investors leads to gaps in nurturing innovative ideas at their inception stages.
- **Regulatory and Compliance Burden:** Despite reforms under the **Startup India initiative**, startups face complex regulatory requirements, especially concerning taxation and company registration.
  - For instance, **angel tax issues (Section 56(2)(viib), [Income Tax Act, 1961](#))** still create uncertainty for foreign investments, discouraging early-stage funding.
  - Additionally, a **World Bank report** highlights that it takes an average of **18 days to start a business in India**, while for OECD high-income countries, **it normally takes 5 procedures and 9 days** indicating the scope for simplifying compliance procedures further.
- **Lack of Skilled Talent and Brain Drain:** Startups face challenges in finding skilled talent, especially in emerging technologies like **AI, blockchain, and IoT**, while top Indian talent often migrates abroad.
  - India ranks **103rd in the [Global Talent Index 2023](#)**, making it the least desirable country among the BRICS. China leads the group at 40, followed by Russia (52), South Africa (68), and Brazil (69).
  - Additionally, over **16 lakh Indians have renounced their Indian citizenship since 2011**, with many moving to innovation hubs like the U.S.
    - This talent gap significantly impacts the growth trajectory of Indian startups in knowledge-intensive sectors.
- **Limited Infrastructure in Tier-2 and Tier-3 Cities:** Although startups are emerging from smaller towns, the lack of robust infrastructure—**such as access to high-speed internet, logistics, and incubation centres**—limits their scalability.
  - For example, around half of the people in rural India are non-active internet users, **affecting digital-first startups**.
  - While programs like the **Digital India initiative** are improving connectivity, startups in rural areas still face significant barriers in leveraging technology and infrastructure effectively.
- **Gender Inequality in Entrepreneurship:** Despite some progress, women entrepreneurs remain underrepresented in India's startup ecosystem due to societal barriers, funding biases, and limited mentorship opportunities.
  - Women-led startups account for **18% of India's total startups**, but receive less than **3% of total venture capital funding**.
  - Initiatives like the **Women Entrepreneurship Platform (WEP)** under NITI Aayog have made efforts to address these gaps, but **structural challenges persist in empowering female entrepreneurs**.
- **High Mortality Rate of Startups:** A significant percentage of startups fail within the first five years due to poor business models, lack of market research, and operational inefficiencies.
  - In India, approximately **90% of startups fail, often within their initial years**. This high failure rate is largely due to factors such as inadequate market research, poor product-market fit, financial mismanagement, team conflicts and an inability to establish a trustworthy brand.
  - High-profile failures like **Zilingo (a Singapore-India cross-border startup)** highlight the need for better mentorship, financial planning, and long-term sustainability strategies in the ecosystem.
- **Weak Industry-Academia Collaboration:** India lacks strong synergies between academia and startups, which is critical for innovation-driven entrepreneurship.
  - Unlike countries like the U.S., where institutions like **Stanford drive startups like Google**, Indian universities contribute minimally to the ecosystem, **limiting access to**

### cutting-edge research and innovation ecosystems.

- **Limited Market Access and Scalability:** Startups often struggle to scale their operations due to limited access to domestic and global markets.
  - For instance, **agritech startups like DeHaat** face challenges in connecting smallholder farmers to larger supply chains.
  - Despite the government's push for digital marketplaces like **ONDC (Open Network for Digital Commerce)**, **startups market penetration** remains low.
  - This bottleneck prevents innovative products from reaching broader audiences.
- **Rising Competition and Market Saturation:** The startup ecosystem, particularly in sectors like **e-commerce** and **fintech**, has become highly competitive and saturated.
  - Companies like **Flipkart, Paytm, and Amazon** dominate the market, leaving little room for new entrants.
  - This intense competition discourages innovation and limits entrepreneurial diversity.
- **Cybersecurity and Data Privacy Concerns:** Startups working with sensitive consumer data, especially in fintech and health-tech, face mounting challenges related to data privacy and cybersecurity.
  - In 2023 alone, India saw more than **79 million cyber attacks**, marking a 15 per cent rise compared to 2022, exposing startups to reputational and financial risks.
  - While the **Digital Personal Data Protection Act, 2023** aims to address these concerns, compliance with its provisions can be resource-intensive for smaller startups.

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### Key Government's Startup Initiatives



### What Measures can be Adopted to Enhance India's Startup Ecosystem?

- **Simplifying Regulatory Frameworks:** The government must streamline regulatory procedures, such as **company registration, tax filings, and compliance norms**, to reduce bureaucratic hurdles for startups.
  - Expanding initiatives like the **National Single Window System (NSWS)** to cover all states can provide a one-stop solution for clearances and approvals.
  - Removing ambiguities around taxation policies like the **angel tax** would encourage more domestic and foreign investments.
  - Strengthening grievance redressal mechanisms under schemes like **Startup India Seed Fund Scheme** can further ensure smooth operations for startups.
- **Strengthening Access to Early-Stage Funding:** To address funding gaps, the government should expand initiatives like the **Fund of Funds for Startups (FFS)** and introduce **co-investment models with private investors**.
  - A dedicated venture debt fund under **SIDBI** can be established to offer financial support to startups that face challenges in equity fundraising.
  - Promoting alternative financing methods, such as crowdfunding platforms, through



updated legal frameworks can also attract small investors.

- Strengthening credit guarantee schemes like the [Credit Guarantee Scheme for Startups \(CGSS\)](#) will enable startups to access collateral-free loans.
- **Boosting Women Entrepreneurship:** Tailored financial incentives and mentorship programs can empower more women to enter the startup ecosystem.
  - Expanding the scope of **Women Entrepreneurship Platform (WEP)** under NITI Aayog to include **sector-specific training and market linkages** can foster inclusivity.
  - Launching dedicated funds for [women-led startups](#) under **Startup India** can address gender-based funding biases.
  - Integrating support for women entrepreneurs into state-level initiatives like **Mission Shakti in Odisha** would ensure regional outreach.
- **Enhancing Industry-Academia Collaboration:** Establishing stronger links between startups and academic institutions can foster research-driven entrepreneurship.
  - Expanding initiatives like the [National Initiative for Developing and Harnessing Innovations \(NIDHI\)](#) can promote incubation programs in universities and R&D centres.
  - Encouraging **IITs, IIMs, and other premier institutions** to establish industry-focused innovation labs can bridge the gap between academic research and market demands.
  - Aligning academia with government schemes like [Atal Innovation Mission \(AIM\)](#) can further drive knowledge-based startups.
- **Promoting Startups in Tier-2 and Tier-3 Cities:** To decentralize the startup ecosystem, the government must focus on building digital and physical infrastructure in smaller towns.
  - Expanding programs like the [Digital India Initiative](#) and ensuring high-speed internet connectivity through [BharatNet](#) will empower startups in rural areas.
  - Tailored mentorship programs and workshops in partnership with local industries can tap into the entrepreneurial potential of these regions.
- **Facilitating Market Access and Scalability:** Providing startups access to domestic and global markets is crucial for their scalability.
  - Strengthening platforms like **ONDC (Open Network for Digital Commerce)** can integrate small startups into broader supply chains and e-commerce networks.
  - Establishing **startup export hubs** under the **Champion Services Sector Scheme (CSSS)** can help startups tap into international markets.
  - Government procurement policies should mandate a certain percentage of contracts for startups, as done through the [Government e-Marketplace \(GeM\)](#) portal.
- **Improving Skilling and Talent Development:** Startups require a workforce skilled in emerging technologies like AI, blockchain, and IoT. Programs under the **Skill India Mission**, such as the [Pradhan Mantri Kaushal Vikas Yojana \(PMKVY 4.0\)](#), should include modules designed specifically for startup demands.
  - Encouraging private-sector collaboration to offer internships and apprenticeships with startups can align skill sets with industry needs.
  - Setting up dedicated "**Startup Skilling Centres**" in partnership with platforms like **Startup India Learning Program** can prepare the next generation of entrepreneurs.
- **Encouraging Sustainable and Green Startups:** Promoting green entrepreneurship can address climate goals while boosting innovation.
  - Expanding subsidies and incentives for clean energy startups under the [National Green Hydrogen Mission](#) and [Faster Adoption and Manufacturing of Hybrid and Electric Vehicles \(FAME\)](#) can accelerate their adoption.
  - **Dedicated green startup zones** under **Make in India 2.0** can provide incubation support for companies focusing on renewable energy, waste management, and sustainable agriculture.
- **Building Cybersecurity and Data Privacy Frameworks:** Startups dealing with sensitive user data in fintech, health-tech, and edtech need robust cybersecurity frameworks.
  - Implementing stricter standards under the **Digital Personal Data Protection Act, 2023** can protect startups from reputational and financial risks.
  - Providing subsidized cybersecurity tools and training programs through the **India Cyber Crime Coordination Centre (I4C)** can strengthen defenses for smaller startups.
  - **Government-backed platforms for knowledge sharing on cyber threats** can be an added layer of support.
- **Nurturing Global Competitiveness and Innovation:** To boost global competitiveness, startups must be incentivized to adopt frontier technologies.

- Strengthening programs like the [IndiaAI Mission](#) can ensure more startups work in fields like AI, quantum computing, and blockchain.
- Supporting international collaborations through schemes like the **India-Israel Industrial R&D and Technological Innovation Fund (I4F)** can integrate Indian startups into global value chains.
- Promoting cross-border startup summits and exchange programs under **Startup India** will help Indian startups learn from global best practices.
- **Expanding Support for Agritech Startups:** Given India's agrarian economy, agritech startups can revolutionize farming practices through innovations like precision farming and supply chain digitization.
  - Expanding programs under the [Agriculture Infrastructure Fund \(AIF\)](#) can provide low-cost funding for agritech innovations.
  - Initiatives like **PM-KUSUM** can be integrated with startups working on solar-powered irrigation solutions.
    - State-level programs, such as **Maharashtra's AgriTech Policy**, can serve as models to promote region-specific agritech innovations.
- **Strengthening Mentorship and Ecosystem Networking:** Mentorship plays a key role in guiding startups through funding, operations, and scaling challenges.
  - Expanding mentorship networks under programs like the **Startup India Hub** can provide startups with access to industry experts and investors.
  - Partnering with industry associations like **NASSCOM** to hold regional startup summits can create networking opportunities.

## Conclusion:

The Startup India initiative has significantly boosted India's entrepreneurial ecosystem, driving innovation and job creation while **positioning Indian startups as global leaders**, especially in sectors like **fintech and healthtech**. However, to maintain momentum, addressing challenges such as regulatory barriers, funding constraints, and enhancing industry-academia collaborations is essential. Strengthening these areas will ensure the sustainability of startups, contribute to inclusive growth, and support key **Sustainable Development Goals (SDGs) like decent work (SDG 8) and industry innovation (SDG 9)**, fostering long-term economic progress.

### **Drishti Mains Question:**

Startups in India are key drivers of growth and innovation. Highlight the challenges they face and suggest measures to enhance their ecosystem

## 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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