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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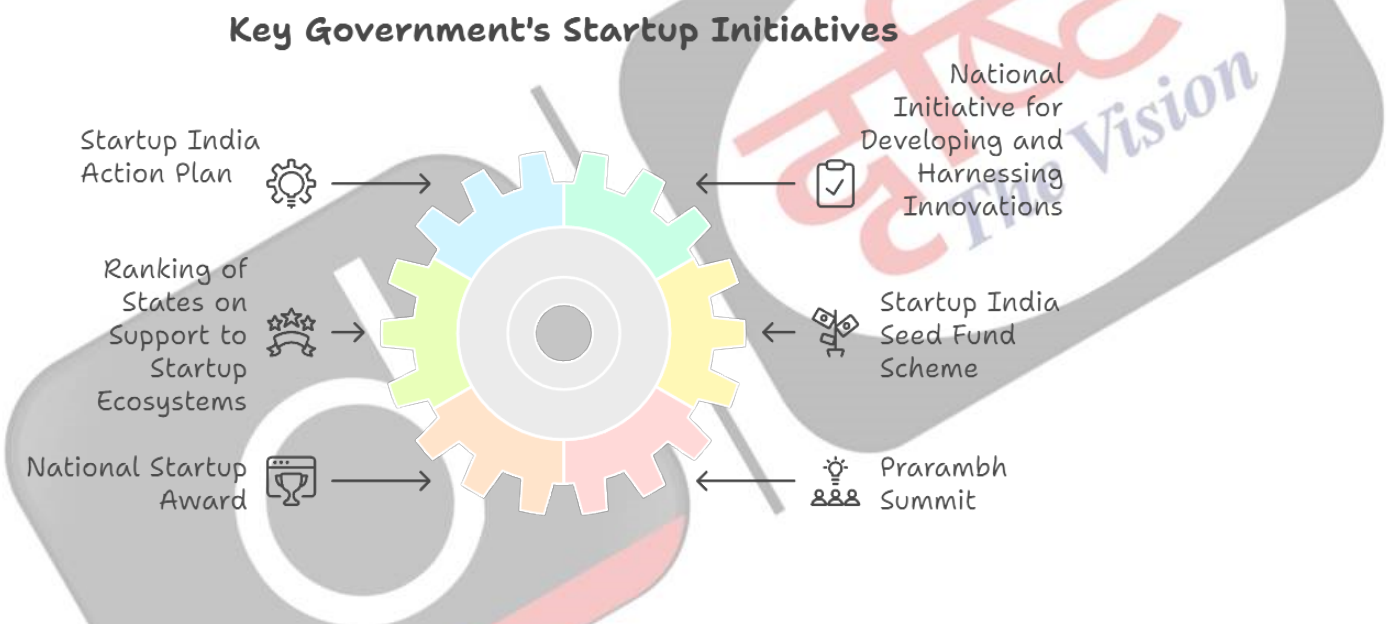

What Measures can be Adopted to Enhance India’s Startup Ecosystem?

- **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)