



Startup Surge: Fueling India's Growth

This editorial is based on [“Making India a start-up nation”](#) which was published in The Hindu on 12/09/2024. The article highlights India's rapidly growing startup ecosystem and emphasizes the need for a synergistic integration of education, entrepreneurship, and employment to achieve exponential growth and the vision of a developed India by 2047.

For Prelims: [India's Startup ecosystem](#), [Department for Promotion of Industry and Internal Trade](#), [Digital India](#), [Unified Payments Interface](#), [Startup India](#), [Stand Up India](#), [Alternative Investment Funds](#), [National Education Policy 2020](#), [Vikram-S](#), [Digital Personal Data Protection Act, 2024](#).

For Mains: Current Status of India's Startup Sector, Roadblocks to the Growth of Indian Startups.

India now boasts the **world's [third-largest startup ecosystem](#)**, with over **140,000 registered startups and a unicorn emerging every 20 days**. This growth has been supported by top-tier higher education institutions, government capital expenditure, and widespread internet penetration. However, to sustain this momentum and achieve the vision of a developed India by 2047, there's a need to integrate **education, [entrepreneurship](#), and employment** more effectively.

The potential for growth is significant, especially when comparing India's startup ecosystem to those of the **US and UK**. **If 5% of Indian graduates opted for entrepreneurship**, matching global trends, it could lead to the creation of **50,000 new startups annually**, potentially generating millions of jobs. To achieve this, India needs to **rethink its higher education metrics**, emphasizing entrepreneurship alongside traditional placement rates. By transitioning from a linear approach to a synergistic paradigm integrating education, entrepreneurship, and employment, India can aim for **exponential economic growth during its Amrit Kaal period**.

What is the Current Status of India's Startup Sector?

- **Ecosystem Size and Growth:** India boasts a robust startup ecosystem, **ranking third globally with over 1.4 lakh registered startups** under the [Department for Promotion of Industry and Internal Trade \(DPIIT\)](#).
 - This dynamic ecosystem is characterized by its rapid growth, consistently adding more startups per day than any other country.
 - Furthermore, the **emergence of one unicorn every 20 days over the past seven to eight years** highlights the immense potential and entrepreneurial spirit within the Indian startup landscape.
- **Job Creation:** The Indian startup ecosystem has been a significant driver of job creation, with DPIIT-recognized startups generating more than 15.5 lakh direct job opportunities.
 - In 2023 alone, **these startups created an impressive 3.9 lakh jobs**, representing a remarkable 46.6% year-on-year increase and a substantial **217.3% growth over the**

past five years.

- This trend underscores the startups' pivotal role in providing employment opportunities and contributing to the country's economic development.
- **Economic Contribution:** The impact of startups extends beyond job creation, as they have made a substantial contribution to the Indian economy.
 - In FY23, startups and their corporate counterparts **injected a significant USD 140 billion**, representing nearly 4% of India's GDP. This substantial contribution highlights the startups' role as key drivers of economic growth and innovation.

How India's Startup Sector is Booming?

- **Digital Infrastructure Revolution:** The widespread adoption of digital technologies, spearheaded by initiatives like [Digital India](#), has created a fertile ground for startups.
 - The [Unified Payments Interface \(UPI\)](#) has been a game-changer, with transaction values surpassing **Rs 20 lakh crore in August 2024**.
 - This digital backbone, coupled with the world's lowest data costs (averaging **₹6.7 per GB in 2023**), has enabled startups to reach a vast customer base efficiently.
- **Supportive Government Policies** The Indian government's proactive stance through initiatives like [Startup India](#) and [Stand Up India](#) has been instrumental.
 - As on **30th June 2024**, Department for Promotion of Industry and Internal Trade has recognized **1,40,803 entities as startups** with tax benefits and easier compliance norms.
 - As on 31st December 2022, under the **Fund of Funds Scheme (FFS)** for startups, **Rs. 7,980 crore** has been committed to **99 Alternative Investment Funds (AIFs)**.
- **Burgeoning Talent Pool:** India's demographic dividend, with **65% of its population under 35**, provides a vast talent pool for startups.
 - The country produces over **1.5 million engineering graduates annually**, with a growing focus on emerging technologies.
 - The [National Education Policy 2020's](#) emphasis on vocational education and entrepreneurship is further enhancing this talent pipeline.
- **Maturing Funding Ecosystem:** Despite global economic uncertainties, India's startup funding ecosystem has shown resilience.
 - While **2023 saw a funding winter, 2024 has witnessed a resurgence**. Indian tech startups raised USD 4.1 billion in H1 2024, 4% higher than H2 2023, **remaining fourth-highest funded country globally**.
 - The rise of domestic venture capital firms and the entry of global investors have diversified funding sources.
- **Sector-Specific Opportunities:** Emerging sectors like **cleantech, spacetech, and deeptech** are driving the next wave of innovation.
 - The Indian spacetech sector, bolstered by the government's decision to open up the space sector to private players, saw investments of **USD 124.7 million in 2023 (for Space Start-Ups)**.
 - **Skyroot Aerospace's** successful launch of India's first privately developed rocket, [Vikram-S](#), in November 2022, marked a milestone in this sector.
- **Growing Domestic Market:** With a steady GDP growth rate, India will have 140 million **new middle-class households by 2030** according to the World Economic Forum, presenting a massive opportunity for startups.
 - The increasing disposable income and changing consumer behaviors are driving demand across sectors.
 - According to Grant Thornton, e-commerce in India is expected to be worth **USD 188 billion by 2025**.
- **Corporate-Startup Synergies:** Increased collaboration between established corporates and startups has created win-win situations.
 - Many large Indian conglomerates have **set up startup accelerators** or venture funds.
 - For instance, **Reliance Industries' JioGenNext has supported over 170 startups**.
 - The acquisition of **online pharmacy 1mg by Tata Digital in 2021**, illustrates the potential of such collaborations.

What are the Roadblocks to the Growth of Indian Startups ?

- **Regulatory Hurdles:** The complex and sometimes ambiguous regulatory environment poses significant challenges for startups.
 - For instance, the recent **debate over the categorization of app-based cab services like Ola and Uber under the Motor Vehicles Act** has created operational uncertainties.
 - The recent [Digital Personal Data Protection Act, 2024](#) while necessary, adds compliance burdens on startups.
- **Talent Retention Hurdle:** While India produces a large number of graduates, retaining top talent remains a challenge.
 - The startup sector **faces competition from established MNCs** and the lure of overseas opportunities.
 - A 2023 study by Randstad revealed that **60% of Indian tech professionals** are willing to relocate abroad for better career prospects.
 - High-profile exits, like that of **Paytm's Amit Nayyar in 2021**, highlight the talent retention issue.
- **Market Saturation and Hyper-Competition:** Certain sectors in the Indian startup ecosystem are becoming increasingly crowded, leading to intense competition and **reduced profit margins**.
 - The [edtech sector](#), once booming, faced a downturn post-pandemic, forcing players like BYJU's and Unacademy laying off employees.
 - This hyper-competition often leads to **unsustainable cash burn and market consolidation**.
- **Infrastructure Gaps and Uneven Funding:** While India has made significant strides in digital infrastructure, substantial gaps remain.
 - Even in urban areas, internet penetration stands at 71%, leaving a significant portion of the population unreached.
 - The **urban-rural digital divide is stark**, with rural internet density at 37% compared to 69% in urban areas.
 - This **disparity limits the addressable market** for many digital startups. For instance, agritech startup **DeHaat**, despite its success, faces challenges in scaling due to limited internet access among rural farmers.
 - Also, despite growth in funding it remains largely uneven for instance, India's more than **6000 women-led startups remain unfunded**.
- **Scaling Challenges:** Many Indian startups struggle to scale beyond their initial success. Issues range from **operational inefficiencies** to difficulties in expanding to new markets.
 - Despite this robust growth, data shows that about **90% of Indian start-ups** fail within the **first five years**, primarily due to scaling issues
- **Lack of Deep Tech Innovation:** While India excels in creating innovative business models, it lags in deep tech innovations.
 - R&D spending in India remains low at **0.7% of GDP in 2023**, compared to **3.5% in the US**.
 - This gap is evident in areas like **semiconductor design**, where India has few startups despite the government's **USD 10 billion** incentive scheme announced in 2021.
 - The lack of industry-academia collaboration further exacerbates this issue. Out of the approximately **40,000 higher education institutions in India**, less than 1% actively participate in **high-quality research**.
- **Exit Challenges:** The Indian startup ecosystem still struggles with providing viable exit options for investors.
 - There have been **46 IPOs in 2023**, raising a cumulative Rs 41095.36 crore. This marks a **30% decline from Rs 59301.7 crore** raised through **40 IPOs in 2022**
 - The lackluster performance of some listed startups has made both investors and founders cautious.

What Measures can be Adopted to Enhance the Startup Sector in India?

- **Streamlined Regulatory Sandbox:** Implement a comprehensive regulatory sandbox across sectors, **expanding on the success of RBI's fintech sandbox**.
 - This would allow startups to test innovative products in a controlled environment without full regulatory burden.
 - Extend this model to sectors like **healthtech, edtech, and cleantech**.

- **Targeted Skill Development Programs:** Launch sector-specific skill development initiatives in collaboration with industry leaders and academia.
 - Focus on emerging technologies like **AI, blockchain, and IoT**. The government's Skill India program can be leveraged and expanded for this purpose.
- **Decentralized Startup Hubs:** Develop **tier-2 and tier-3 cities as startup hubs** through targeted infrastructure and incentives.
 - This can be modeled on the success of Mohali's startup ecosystem, which saw a significant increase in startup registrations between 2021 and 2023.
 - Implement a **hub-and-spoke model** where each major city (hub) supports surrounding smaller cities (spokes).
- **Enhanced Tax Incentives:** Extend and expand tax benefits for startups beyond the **current three-year limit to five years** for all recognized startups.
 - Introduce additional tax breaks for **deep-tech startups and those addressing critical national priorities**.
 - For example, **Israel's tax benefits for tech companies**, which include a reduced corporate tax rate of **12%**, have significantly boosted their startup ecosystem.
 - There is a need to implement a similar model in India.
- **Robust IP Protection Framework:** Streamline the patent filing and approval process, reducing the average time.
 - Introduce **fast-track examination for startups in critical sectors**. Implement an IP awareness program targeting a large number of startups annually.
 - **Japan's accelerated examination system**, which reduced patent examination time to an average of 14 months, can serve as a model.
- **Government Procurement Boost:** Mandate a certain percentage of government procurement from startups, similar to the existing **25% procurement requirement from MSMEs**.
 - The US Federal Government's goal to award 23% of prime government contracts to small businesses can be a benchmark.
 - This could potentially open up a market worth billions for Indian startups.
- **Sector-Specific Incubation Centers:** Establish sector-specific incubation centers in collaboration with industry leaders.
 - Focus on areas like **spacetech, biotech, and cleantech**. For instance, the success of **T-Hub in Hyderabad** can be replicated with a sector-specific focus.
- **Startup-Academia Collaboration Platform:** Create a national platform to facilitate collaboration between startups and academic institutions.
 - This can be modeled on successful programs like the **UK's Knowledge Transfer Partnerships**.
 - Set a target to facilitate 1,000 such collaborations annually by 2025.
- **Enhanced Funding Access:** Expand the Fund of Funds for Startups (FFS) and create sector-specific funds.
 - Introduce a credit guarantee scheme for startup loans, similar to the **UK's Enterprise Finance Guarantee**.
- **Digital Infrastructure Push:** Accelerate the implementation of initiatives like BharatNet to ensure high-speed internet connectivity across all villages by 2025. This is crucial for startups to reach untapped markets.
 - The success of **Estonia's e-Residency program** in fostering a digital business environment can be a model.

Conclusion

India's startup ecosystem has shown immense potential, contributing significantly to economic growth and job creation. However, to sustain and accelerate this momentum, it is essential to **address regulatory hurdles, foster deeper collaboration between academia and industry**, and ensure equitable access to funding and infrastructure. By integrating education, entrepreneurship, and employment, **India can unlock its entrepreneurial potential and move closer to becoming a developed nation by 2047**.

Drishti Mains Question:

Given the burgeoning startup ecosystem in India, what are the key challenges and opportunities it

presents for the Indian economy? How can the government and policymakers leverage this ecosystem to achieve sustainable and inclusive growth?

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)

PDF Reference URL: <https://www.drishtiias.com/printpdf/startup-surge-fueling-india-s-growth>

