

## STARTUP ECOSYSTEM IN INDIA

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**Abstract:** With a growth of 15% in the number of startups in the year 2018, India managed to become the 3<sup>rd</sup> largest startup ecosystem in the world. Being one of the largest markets in the world with great diversity, India has a lot more to contribute to innovation through the medium of startups. The current study is an attempt to understand the reasons for this tremendous growth in the number of startups, the challenges faced by these startups and initiatives taken by Government to contribute to the country's startup ecosystem.

**Keywords:** Startup, Startup ecosystem. innovation

### **Introduction:**

India is now the 3<sup>rd</sup> largest startup ecosystem, a position previously held by UK. According to government reports around 50000 startups were founded in 2018 itself. As per the definition provided by Indian Govt, startup is an entity, headquartered in India, which was established around 10 years ago and has an annual turnover of less than Rs 100 crore. According to economic survey 2021-22, 61400 startups were recognized by Department for Promotion of Industry and Internal Trade (DPIIT), of which 14000 were recognized in the fiscal year 2021-22 alone. The data implies that India has seen a remarkable growth in terms of startups. When a startup reaches valuation of \$ 1 billion, it achieves the status of **unicorn**. As of September,2022, 108 startups managed to gain the status of unicorn. But this number will continue to grow. As per our Union Minister of States to Entrepreneurship, Skill Development, Electronics and Technology, the unicorn count will increase by 10x count in the next 2-3 years and it will cross 1000 mark.

Startups may be smaller in size but they are contributing to the economy in many ways. A startup originates with an idea to solve a problem, not dealt with by others. The process of finding the solution, leads to fresh innovations and services. It not only creates new ideas, but contribute to the GDP and creates job opportunities. Startups have also emerged as a hub of outsourcing in the recent times, thereby earning valuable foreign exchange for the country. Sectors like Fintech, Edtech and Healthtech have all come up with such innovative products/ services that serve people from remotest areas of the country also. **Considering the growth of startups in the recent years in the country and its contribution to the society, the present study is an attempt to find out the growth drivers of startup in the country, challenges faced by the startups and the support services provided by Government to the startups in India.**

### **Objectives of the study**

1. To find out the growth drivers of startups in India.
2. To find out the challenges faced by startups in India.

3. To find out support services provided by Government to the startups in India.

### **Research Methodology**

The current research is exploratory and descriptive in nature. Secondary data has been used for the purpose of the study. The data has been collected from various journal, online article, and Government websites .

### **Growth drivers of startups in India:**

As per Economic survey, in 555 districts there was at least one startup indicating dramatic rise in the number of startups in India. The growth drivers of startups in India are outlined below-

#### 1) Technological evolution

Technology has made life easier in so many ways. Technology has also changed the way business is conducted today. There was a time when entrepreneurs had to depend on middlemen to sell their products in the market. But now, technology has enabled the entrepreneurs to sell their products directly to consumers. There is no need for companies to have physical structure to directly connect with the customers. Market access barrier has been brought down to a great extent due to India's enhanced digital infrastructure (Korreck, 2019). Government initiatives like "Digital India" which was launched in order to improve online infrastructure and increase the internet connectivity in the country, is contributing to India's digital ecosystem.

#### 2) **Increased government support towards entrepreneurship**

Indian government led by Narendra Modi has taken series of steps in recent years to promote entrepreneurship culture in India. The flagship program of Government "startup India initiative" has an important role to play in the rapid growth of startups in India. The flagship program was launched to build strong eco system and nurture innovations and startups in the country. Under the initiative government unveiled an action plan in the year 2016. With that action plan government aimed at accelerating innovations in the sectors like technology, agriculture, manufacturing, education, social sector etc. Under that action plan government took steps to simplify regulatory regime for startups. Startup is allowed to self-certify compliance (through startup mobile app) with 9 labour and 3 environmental laws. Government has established start up India hub to guide and mentor the entrepreneurs in their startup journey. Schemes like Startup Intellectual Property Protection facilitates filing of patents. The scheme is inclined to assist startups to protect and commercialize their innovations by providing them access to high quality IP resources and services. Apart from that Government launched various schemes for providing funding support to the startups. The Fund of Funds for Startups (FFS) Scheme was introduced to resolve the funding needs of startups and was instituted with a corpus of Rs 10000 crore. The scheme is monitored and operated by DPIIT and the Small Industries Development Bank of India (SIDBI) respectively. Another scheme with similar agenda is Startup India Seed Fund Scheme (SISFS) which focuses entirely on enabling easy access to capital at the early stages. The scheme provides monetary assistance across a range of functions such as proof of concept, development of prototypes, product trials, etc.

### 3) Availability of funds

The opportunities for raising funds have grown tremendously compared to previous times. There are various methods available for raising funds such as crowdfunding, incubation program, venture capitalist and angel investors. It has made fund raising easier for entrepreneurs. Crowdfunding is a collection of small amount of capital from large number of individuals to finance a new venture. There are crowdfunding websites which helps to meet investors and entrepreneurs. Incubation programs are run by many government institutions and private organizations where mentoring, networking opportunities and funding opportunities are provided for the startups. Venture capitalists are individuals or firms that provide professionally managed funds to startups along with their expertise and valuable insight into their business. Angel investors are individuals who invests in small businesses in exchange for equities or royalties. According to Global data research, Indian received \$ 16.9 billion funding from venture capitalist in the year 2021.

### 4) Size of Indian market

With a huge population India is one of the biggest markets in the world. India has recently surpassed China to become the most populated country in the world. As reported by Bloomberg, at the end of 2022, India's population stood at 1.417 billion. About 43 percent of India's population is under the age of 25. With an impressive growth rate, India is one of the fastest growing economies in the world. India's per capita income has more than doubled to 1.97 lakhs since 2014. Along with the size of the domestic market, diversity is one of the important characteristics of Indian market. Such diversity helps in promoting innovation and generation of new ideas.

### 5) Change in mentality of Indian people

There has been a shift in Indians' perceptions towards entrepreneurship. Gone are the days where parents used to prepare their children for white collar jobs. Earlier people were least interested in taking up entrepreneurship as a career. But in the past few years many young Indians with intrinsic motivation and driven by passion have come forward and have successfully built companies. Many of those, have also achieved "unicorn" status. Ola, Bharatpe, Byju's, urbancomapny are some examples of such startups.

### Challenges faced by startups in India

Challenges faced by startups in India are outlined below:

#### 1. Lack of qualified personnel

A good team is an important element for the success of startups. A team that is consist of dedicated people who aim to meet the goals of every task. According to a survey, 23% of the startups failed due to team failure. Hiring skilled people is a challenge for startups in India due to mainly three reasons- a) many qualified and talented personnel do not want to start their career from a startup, with the fear that it will fail b) Students lack practical knowledge required to perform a job specifically in the technological field c) many Indian professionals choose to go to abroad for job opportunities.

#### 2. Complex regulatory environment

Though rules and regulations governing businesses have eased a lot in recent times and India's rank in ease of doing business has improved, yet compared to other countries India's regulatory framework concerning business is considered to be complex. Despite the Government intervention to make the process of business incorporation less cumbersome, the process seems lengthy and costly. Apart from that startups have to follow a lot of rules and regulations. There are various kinds of laws relating to different aspects that a startup needs to adhere to. Tax reforms undertaken by Government by 2017 in the form of Goods Services Tax lacks clarity in terms of how it works.

### **3. Fund raising**

Fund raising is a serious challenge for startups. Although early staged capital can be raised through venture capital, crowdfunding and angel investors, fund raising in later stage is difficult. Because at the early stage it is the scalability of the idea that attracts investments. But at the later stage, investments depend on the performance.

### **4. Revenue generation**

Startups fail due to inability to generate revenue. As there is intense competition with new and new startups coming up every day, startup need to scale up their operations which in turn increases the expenses. At this stage start up look for external financing. Startups at this stage are forced to concentrate on fund raising than revenue generation. Often after receiving funds, startups loose track of their burn rate, which ultimately lead to their bankruptcy.

### **5) Demand generation**

Creating demand for the products in the Indian market and making customers pay for products is hard for startups. This is due to the presence of intense competition posed by large companies in the market and characteristics of Indian consumers. Indian consumers are highly price sensitive despite increase in the disposable income. They often look for affordable options in expense for quality.

### **Government support services available for startups in India**

Indian government has been at the forefront in supporting startups with its various flagship schemes supporting the establishment of a solid startup ecosystem in the country. The various schemes implemented by Government in this regard are outlined below:

#### **1. Startup India**

The flagship campaign to boost entrepreneurship in the country was first announced on August 15, 2015. The action plan regarding the scheme was launched in the year 2016. The action plan of this initiative is focussing on three areas:

1. Simplification and Handholding.
2. Funding Support and Incentives.
3. Industry-Academia Partnership and Incubation

Important features of the initiative are-

- 10,000 crore startup funding pool.
- Reduction in patent registration fees.
- Improved Bankruptcy Code, to ensure a 90-day exit window.
- Freedom from inspections for the first 3 years of operation.
- Freedom from Capital Gain Tax for first 3 years of operation.
- Freedom from tax for the first 3 years of operation.
- Self-certification compliance.
- New schemes to provide IPR protection to startup firms.

## 2. A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE)

It is an initiative taken by Government of India through Ministry of Micro, Small and Medium Enterprises (MSME). Incubation centres have been established across the country under the scheme. The scheme aims to promote entrepreneurship in the agro- industry sector. Necessary skills and assistance required during setting up of business is provided under this scheme. The scheme also facilitates available market linkages to the entrepreneurs.

### 3) Pradhan Mantri Mudra Yojana (PMMY)

It is a flagship scheme of Government of India. The scheme facilitates micro credit up to Rs. 10 lakhs to income generating micro enterprises engaged in the non -farm sector such as manufacturing, processing, trading or service. These Micro and small entities comprise of millions of proprietorship / partnership firms running as small manufacturing units, service sector units, shopkeepers, fruits / vegetable vendors, truck operators, food-service units, repair shops, machine operators, small industries, artisans, food processors and others, in rural and urban areas. The interest rates charged on loans provided under this scheme is very reasonable. The benefits under this scheme are divided into three categories-

- a) Shishu loan covering up to Rs 50000
- b) Kishore loan covering from Rs 50001-500000
- c) Tarun loan covering from Rs 500001-1000000

### 4) Stand Up India Scheme

It is a government initiative launched for SC/ST and/or women entrepreneurs. Under this scheme banks loans covering from 10 lakhs to 1 crore is given to at least one scheduled caste (SC) or Scheduled Tribe borrower and at least one woman per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur.

## 5) Support for International Patent Protection in Electronics and & Information Technology (SIP-EIT)

The scheme is implemented through Ministry of Electronics and Technology (MeiTY). Under this scheme technology startups and MSMEs are provided with financial support for

international patent filing. For availing the services, the applicant should be registered under MSME Act, 2006.

#### 6) Dairy Entrepreneurship Development Scheme

The department of Animal Husbandry, dairying and fisheries is implementing this scheme in association with National Bank for Agriculture and Rural Development (NABARD). The scheme is for generating employment opportunities in the dairy sector by providing back ended capital subsidy for bankable projects. It covers various activities such as milk production, procurement, preservation, transportation, and marketing of milk.

#### 7) NSIC Infrastructure Scheme - IT Incubator

In order to promote entrepreneurship specially encourage first generation entrepreneurs in the area of Information and Communication Technology (ICT), this scheme has been implemented. The scheme aims to promote innovative ideas and commercially viable projects in that particular area. Entrepreneurs harness the expertise of NSIC in extending hand holding of start-up companies to become successful small enterprises. The scheme also caters to networking between R&D and Industry beneficiaries to create successful commercial ventures.

#### 8) Market Assistance Scheme

The scheme is implemented by Ministry of Micro, Small and Medium Enterprises (MSME). The scheme aims to enhance marketing capabilities and competitiveness of the MSMEs. Under this scheme MSMEs are provided opportunities to showcase their competencies in international exhibitions and trade fairs. Maximum net budgetary support for participating in an international exhibition/trade fair would normally be restricted to an overall ceiling of Rs. 30 lakh per event (Rs. 40 lakhs for Latin American countries).

#### Conclusion

The exponential growth of startups in India has been inexplicable. Along with the rise of number of new startups, there has been a rise in the number of unicorn startups also. Though the rate of growth is impressive, there is a significant number of startups in India that have failed. Some failed due to inability to raise funds and some failed due to higher customer acquisition cost and creation demand for the product. Government has initiated various schemes to nurture a strong startup ecosystem in the country. It will take joint effort of both startups and government to overcome the challenges.

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