



Startups and the Indian Economy: A Paradigm Shift in Progress

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Abstract : Analyze the current state of the Indian Startup ecosystem and its contribution to the country

The study employs a comprehensive secondary research approach. It involves a meticulous examination of extant literature, including industry reports, government publications and relevant databases. The emphasis is on identifying established trends, patterns, and projections related to startup growth and its influence on the Indian economy.

The analysis is expected to expose the remarkable expansion of the Indian startup ecosystem in the recent years, fueled by a confluence of factors such as increased venture capital investments, conducive government policies, and expanding technological infrastructure. Key growth areas for startups are anticipated to be Fintech, Health Tech. Nevertheless, potential impediments are likely to be highlighted as well, including the scarcity of seed funding, bureaucratic complexities, and infrastructural limitations. This research contributes to the existing knowledge base by synthesizing disparate secondary sources to provide a holistic assessment of the Indian startup landscape and its economic ramifications. The critical evaluation of challenges and opportunities will offer actionable insights for policymakers, investors, and entrepreneurs seeking to maximize the benefits of this dynamic sector.

INTRODUCTION

India, a land of vibrant culture and rich history, is now emerging as a hotbed for a new generation of innovative and passionate entrepreneurs. The nation's rapidly growing economy, coupled with a youthful population and a burgeoning middle class, is feeling an unprecedented boom in the startup industry.

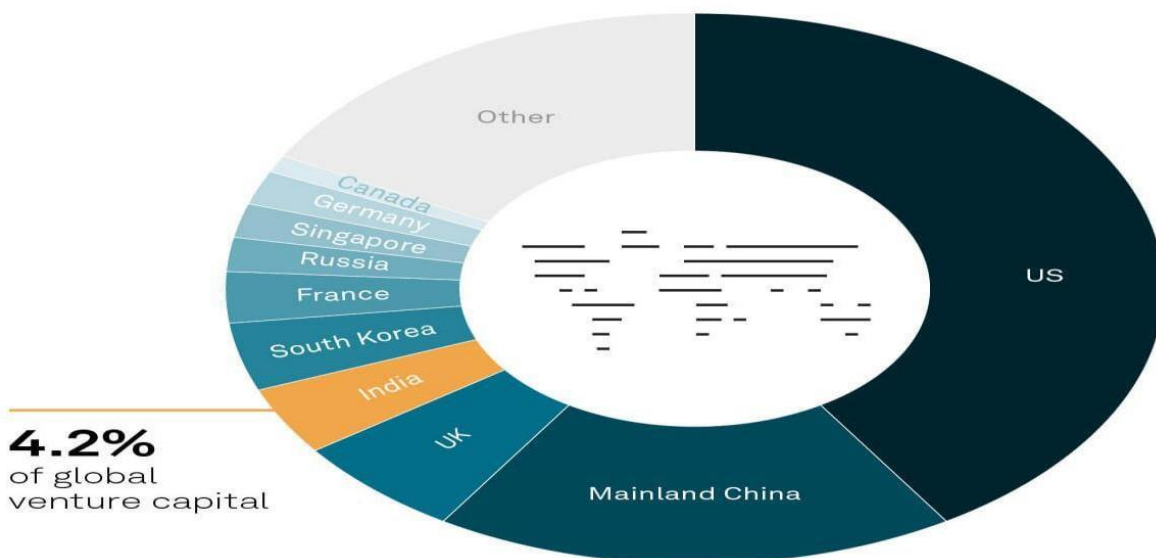
The Government of India launched Startup India as its premier programme to foster the startup culture and create a robust and inclusive environment for innovation and entrepreneurship in India. On August 15, 2015, the Hon. Prime Minister of India, Sh. Narendra Modi unveiled the Startup programme. The Startup India Initiative, announced on January 16, 2016, has introduced several programmes to encourage business owners, create a thriving startup environment, and make India a nation of job creators rather than job seekers. A specialized Startup India Team oversees these initiatives and answers to the Department for Industrial Policy and Promotion (DPIIT). The startup culture of India has taken the business world by storm. With startups getting multilevel and multi-dimensional support, the Indian Startup Ecosystem has grown rampantly and rapidly. By definition, startups are centres of novel innovations. They are enterprises that work on commercialization, growth, and creation of new services, products, or mechanisms driven by new technology and intellectual property. Startups are hyper-focused on generating impactful solutions for society and the economy. Hence, they are vehicles of the socioeconomic growth of a nation. With every startup, starts growth. In the annals of 2023, the startup realm underwent a seismic shift, experiencing a staggering decline in funding from a robust \$25 billion in 2022 to a disheartening \$10 billion. India has the third largest global startup ecosystem preceded by USA and China with 57 thousand active startups including 150 unicorns, each valued 1 billion dollars or more and 103 soon corns valued more than 200 million dollars. The total valuation of these startups is more than 450 billion dollars with 5068 startups getting funding amount of 131 billion dollars between 2014 to June 2022.

When compared to the world startup giants, the CAGR of Indian startup funding is much higher i.e. 49% which is 33% in USA and 12% in China. Ten most funded and highly valued Indian startups are Flipkart, Byju's, OLA, OYO, Renew Power, Swiggy, Zomato, Paytm, Dream Sports and PhonePe. The 2025 projections visualise India as world's second largest startup ecosystem after the USA with 1 lakh active startups, 250 unicorns, 3.25 million employment opportunities and 150 -200-billion-dollar investment between 2021-2025.

This research paper is focused on elaborating the stages of growth of startups, a conducive startup ecosystem, role of startups in the progress of Indian economy, government initiatives to promote startups and their future prospects of growth.

India in Top 4 Startup Markets

Share of 2022 global startup funding



Data compiled May 10, 2023.
Source: S&P Global Market Intelligence.
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LITERATURE REVIEW

There are few studies conducted to analyse the role of startups in the economic development of India at the national and international level. Some of the representative literatures related to experiences in various countries is as follows:

Nishith Desai (2016) “A Start-up in order to become successful organisation faces numerous issues that are supposed to be dealt with smart moves and with a lot of thought and order”.

Badra (2017) In the initial years as due to great zeal and tendency towards excellency, new businesses generally tend to showcase the talent and creativity which in turn require great and regular amount of finance.

Spark Viridian (2017)- As put down by NASSCOM, by the end of the year 2020, some 11,500 start-ups would be employing nearly 2.5 lakh people, compared to 75,000 occupants presently. In one of ASSOCHAM’S report, it is stated that in the coming years these startups will produce more rich figures and tycoons will be primarily driven by innovation.

Mishra (2018) existing empirical entrepreneurship literature primarily demonstrates a positive relationship between entrepreneurship and economic expansion. Arihant Jain, (2017) “Start-ups Restoring the Indian economy”.

Rani (2017) India is a country where people are famous for their work, skills and innovation. Arihant Jain, (2018) “A Study On Impact of Start-ups On The Indian Economy”.

Meenakshi bindal (2018)- “Role of Start-ups on Indian Economy”. Bhuwan Gupta, (2018) – “Role of Start-ups on Indian Economy”- internal journal of engineering and management research.

Hans Westlund (2011) “Economic Entrepreneurship, Start-ups and Their effects on Local Development.

Sagar Lotan Chaudhari (2021) “Start-ups in India plays a major role in it. India ranks third in the global start-up ecosystem.

Objectives of the study

1. To comprehend the Startup India initiative of the Indian government
2. To identify new initiatives implemented under the Startup India programme.
3. To examine the effect of the Startup India Program on national GDP
4. To research how the Startup Indian Program has affected FDI inflows to India.
5. To research how the Startup Indian Program has affected employment in India.

Research Methodology

The majority of the data used in this study is secondary data. Research articles published in journals, official websites, and other reliable sources have all been used to gather the data for this study.

Here's a breakdown of how you can leverage secondary data for your research:

Data Sources:

- **Research Reports and Publications:** Leading business publications like Economic Times, Mint, and The Hindu Business Line often publish articles analyzing the impact of Startup India on FDI.
- Research entities like World Bank, International Monetary Fund (IMF), and think tanks like Brookings Institution might release reports on India's startup ecosystem and its role in FDI.
- **Industry Associations and Reports:** Organizations like NASSCOM (National Association of Software and Service Companies) and FICCI (Federation of Indian Chambers of Commerce and Industry) might offer reports on the Indian startup landscape and its effect on attracting foreign capital.

Data Analysis Methods:

Since you're using secondary data, the analysis approach might involve techniques like:

- **Comparative Analysis:** Compare FDI data from before and after the launch of Startup India to identify potential correlations.
- **Trend Analysis:** Analyze trends in FDI inflows across sectors favoured by Startup India initiatives.
- **Case Studies:** Examine individual successful startups that received foreign investment and assess how Startup India might have played a role.

Challenges and Considerations:

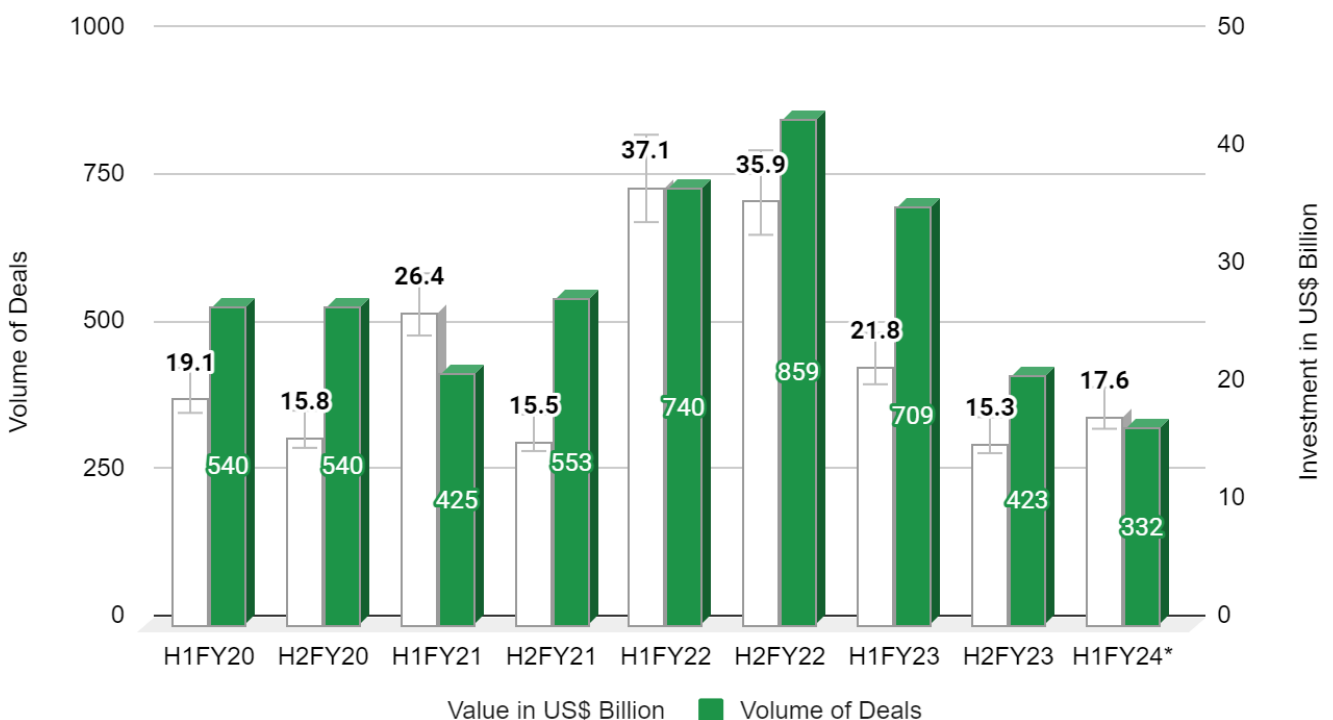
- **Data Quality:** Verify the credibility and source of data before using it. Consider the methodology used to collect data by different sources.
- **Data Availability:** Specific data points might not be readily available. You might need to combine data from various sources or analyze trends over a longer period.

Growth Metrics

The Indian startup scene's rate of growth is nothing short of remarkable. The overall number of startups has significantly increased, as evidenced by annual trends that show a steadily rising trend. The story is further enhanced by the geographical dispersion of these businesses, which demonstrates the diversity of entrepreneurial pursuits across the vast expanse of the country. The growth metrics not only signify a burgeoning ecosystem but also underscore the resilience and adaptability of Indian entrepreneurs.

- India now has a record number of startups, indicating a strong annual growth trend.
- Dispersed entrepreneurship is evident nationwide, with notable regional distribution indicating this.
- Straits Research projects that the Digital Transformation Market Size will reach \$2.1 trillion by 2030, growing at a compound annual growth rate of 23.72%.
- The Department for Promotion of Industry and Internal Trade (DPIIT) reported that as of November 2022, there were 84,012 recognized startups in India

PE and VC Investments in India Between FY20 and FY24



Sector-specific Analysis

An examination of the Indian startup ecosystem at the sector level is necessary for a thorough grasp of it. Organizing startups according to industry helps identify new markets that are driving innovation. It also emphasizes how established sectors are still expanding at the same time. Beyond the numbers, this section explores the underlying trends and patterns that influence the environment of each industry, offering a thorough picture of the diverse fabric of Indian startups.

- New industries that are becoming hotbeds of innovation include fintech and healthtech.
- Established sectors, like e-commerce and technology, continue to experience sustained growth, contributing significantly to the ecosystem.
- According to a Sky Quest analysis, by 2028, global e-commerce sales are expected to reach \$58.74 trillion.
- Compound annual growth rate (CAGR) for the global healthcare services market was 6.3%, up from \$7,499.75 billion in 2022.

Financial Institutions & FinTech:

Despite the challenges posed by the funding winter, financial startups showcased adaptability by leveraging technology to enhance services. Even with a 37% decrease in funding from \$4.8Bn in 2022 to \$3Bn in 2023, fintech remained a sought-after sector driven by lending tech, catering to the evolving needs of consumers and businesses alike. Standout performers in this sector included neo-banking entities strategically collaborating with traditional banks, delivering personalised services to the younger demographic. B2B lending also emerged as a crucial solution for small and medium businesses facing a credit crunch. Additionally, the fintech-infra sector is a promising domain that warrants attention.

#Healthcare:

The pandemic underscored healthcare's critical importance, sustaining investor interest in startups, including telemedicine, health-tech, and pharmaceuticals. Nevertheless, with the health-tech sector recording a ~55% drop in funding in 2023, it is undergoing a necessary correction post the exuberance of 2020-2022 which was driven by heightened investment allocation due to the COVID-19 pandemic. However, resilient healthcare and health-tech companies with robust business models and weathered funding winter are expected to emerge in 2024. A noticeable shift towards prudent practices in venture capital investment is on the horizon in this evolving sector.

Impact on Employment

Beyond innovation, the Indian economy benefits greatly from the startup ecosystem, which is also crucial to job creation. Measuring the jobs that startups create and assessing their economic impact could help us build a more comprehensive picture of their impact on society. This segment presents startups as key players in India's economic development by highlighting their mutually beneficial relationship with the larger economy.

- The startups recognised by the Indian government have created more than 12 Lakh jobs, according to a report by the Ministry of Finance.
- In the report titled, 'The Indian Economy: A Review January 2024', which covered data till the end of October 2023, the Department of Economic Affairs said that the 1.14 lakh startups recognised by the government under the Startup India initiative created more than 12 lakh jobs as of October 2023.
- Touting the Centre's startup push, the report also mentioned that 2.1 Lakh loans were disbursed under the initiative till November last year. Of this, 84% loans were sanctioned to women entrepreneurs in the country.
- The report highlighted that the Centre has undertaken multiple regulatory reforms, including the decriminalisation of 3,600 compliances and improved the ease of doing business, to push the burgeoning homegrown startup ecosystem.
- On the state-backed Open Network for Digital Commerce (ONDC), it said that the platform clocked more than 63 Lakh transactions till November 2023.
- Startups emerge as significant job creators, contributing to employment growth across various sectors.
- Their economic impact is substantial, fostering a symbiotic relationship with the broader economy.

The total number of jobs created by domestic startups in the country was 2.69 lakh in 2022, up 35.8% from 1.98 lakh in the previous year.

Government Initiatives and Policies

Government support and policies play a critical role in fostering an environment that fosters the development of startups. An analysis of the most significant laws supporting startups and a quantitative impact assessment provide insightful information about how effective these programs are. This section examines the beneficial relationship between government assistance and the statistical success of startups in order to establish the foundation for future collaboration.

- Important initiatives to support startups, like "Startup India," have been instrumental in creating a favourable atmosphere.
- Quantitative impact assessments indicate the positive influence of government support on the startup ecosystem.
- The maximum amount that the government will grant for a project that lasts less than two years is Rs 2 crore.

Tax Exemptions

- IT exemptions for 3 years
- Capital gains exemption to people investing such capital gains in the Govt. recognized Fund of Funds
- Tax exemption on investments above Fair Market Value

Legal Support in Patent Filing

- Fast track of Startup Patent applications
- Panel of facilitators to assist in filing applications, govt. bears facilitation costs:423 facilitators for patent & design,596 for trademark applications
- 80% rebate in filing of patents:377 startups benefitted

Easy Compliance: Self-certification and compliance of 9 environments and labour laws through Startup India web portal/mobile app. Online self-certification for Labour.

Laws enabled through 'Shram Suvidha' portal

Relaxed Norms for Public Procurement: By easing the requirement of prior experience and prior turnover in tenders for application by startups.

Fund of Funds:

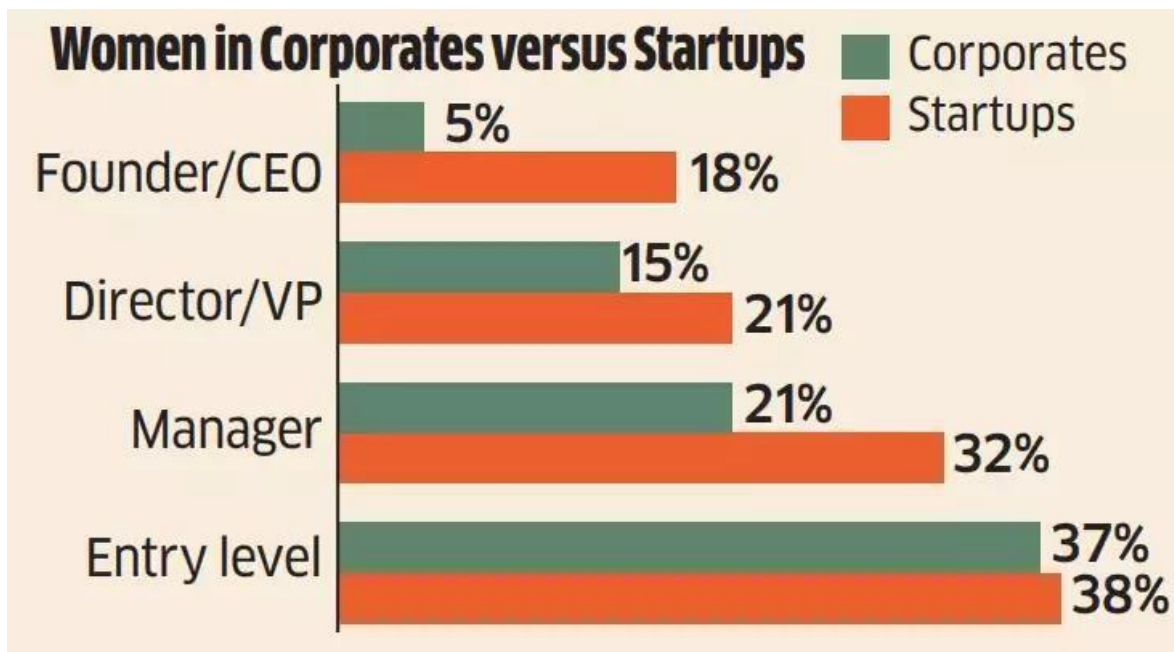
- ₹ 10,000 Cr. Fund of Funds to be provided by Mar 2025: Avg. ₹ 1,100 Cr. Per year
- Operating guidelines has changed to incorporate the following:
 - 2x of FFS to DIPP Startups
 - Allow funding of entity after ceasing to be startup (under DIPP)
- 600 Cr (+25Cr Interest) given by DIPP to SIDBI which further committed Rs 623 Cr to 17 VC. 56 Cr has been disbursed to 72 startups catalysing investments of Rs 245 Cr

Credit Guarantee Scheme for Start-Ups

- Corpus of ₹ 2,000 Cr across 3 years
- Collateral Free, Fund & Non-Fund Based Credit Support
- Loans of up to 5 Cr. per Startup to be covered
- Status: EFC Memo circulated on 22 March 2017 to 6 Dept's
- Impact: Credit guarantee to benefit 7,500+ Startups in 3 years

Women in Startups

- Diversity is the foundation of innovation, and the presence of women in the startup scene is a critical component of this diversity. There are still gaps in the data on women in leadership roles at startups, but there has also been progress in this area. Gender diversity initiatives within startups are critical to ensuring a fair and inclusive entrepreneurial ecosystem, and the data aids in evaluating the efficacy of these initiatives.
- Progress in women's representation in leadership roles is evident, though there's room for improvement.
- Initiatives promoting gender diversity are crucial for ensuring a balanced and inclusive entrepreneurial landscape.
- 10% of the approximately 6,000 startups in India in 2017 were founded by women. By 2022, the number had increased to 80,000, and 18% of startups were led by women. • India's startup ecosystem, the third-largest in the world in terms of the number ..
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- In India's booming startup ecosystem, female founders have also turned their entrepreneurship journeys into successful businesses. According to a report by WISER's Women's in India's Startup Ecosystem Report, women-led startups have risen to 18% in India in the past five years.
- India had roughly 6,000 startups 2017 of which 10% were led by female founders, and by 2022, it increased to 80,000 and the share of women-led startups risen to 18%.
- As per the report,105 startups became unicorns in 2022 from 13 in 2017. Out of this, women-led startups unicorns increased from 8% to 17%, the report added. A unicorn is a startup company with a value of over \$1 billion in the venture capital industry.
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To research how the Startup Indian Program has affected FDI inflows to India

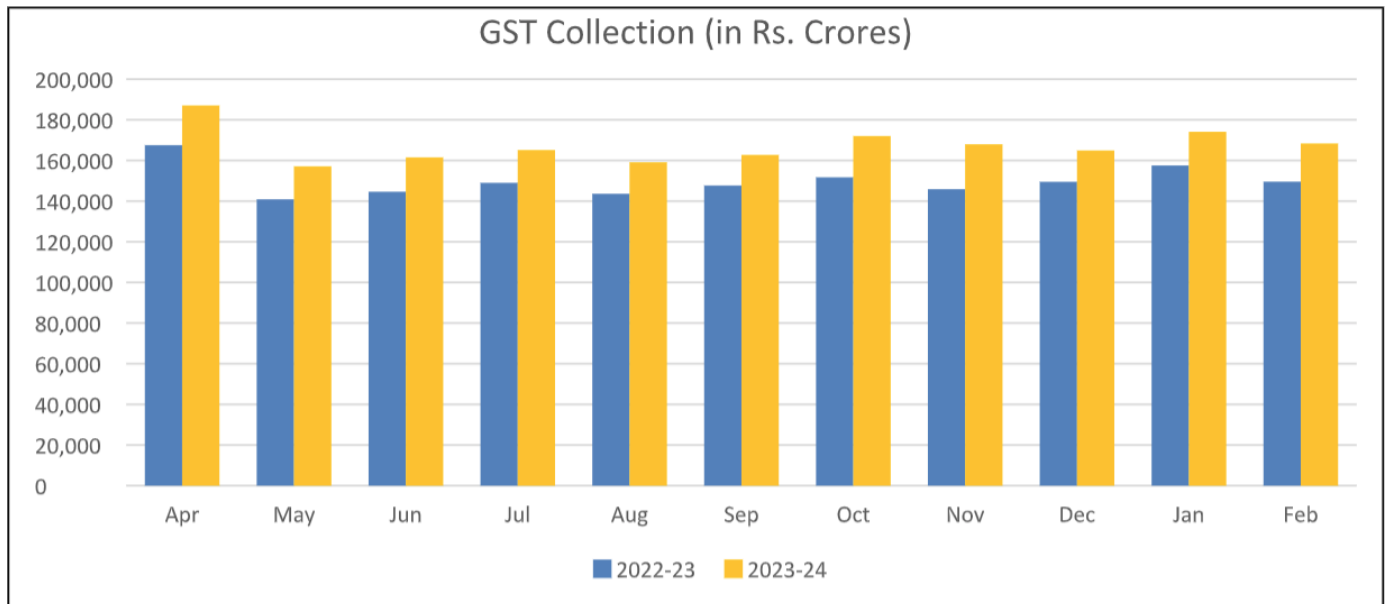
The goal of the Startup India initiative is to promote entrepreneurship and innovation in India. You can investigate a number of study techniques to evaluate its effect on FDI (foreign direct investment) inflows:

1. **Public Assets: Startup India Website:** Reports and data demonstrating the program's effect on FDI attraction may be found on Startup India's official website (<https://www.startupindia.gov.in/>). The Department of Industry and Internal Trade Promotion (DPIIT): The DPIIT, which is in charge of Startup India, may release data or reports about the program's performance, particularly how it affects foreign direct investment. Check out the pertinent details on their website (<https://www.dpiit.gov.in/>). Press Releases and Speeches: The program's effect on FDI may be covered in government press releases and speeches given by pertinent ministries such as Finance or Commerce & Industry.
2. **Scholarly and Investigative Works:** Utilise scholarly databases such as Google Scholar, JSTOR, or ScienceDirect for conducting internet searches. Enter keywords such as "Startup India," "FDI," and "India." Seek out studies conducted by Indian universities: It's possible that Indian universities and research centres have studied the program's outcomes.
3. **News articles and industry reports:** Government efforts and their effects on the business climate are typically analysed in studies issued by industry associations and consultancy firms. Seek studies from international consulting firms such as McKinsey & Company or Boston Consulting Group, or from organisations such as the Confederation of Indian Industry (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI). stories in financial news: The Economic Times, Mint, and Forbes India are a few examples of newspapers that may feature stories addressing the program's effect on FDI.
4. **Analysing Data: FDI data:** Information on FDI inflows into India can be found on the Reserve Bank of India (RBI) website (<https://rbi.org.in/>). Potential correlations can be found by comparing patterns in FDI statistics from January 2016 to January 2016, the year Startup India launched. Information on startup fundraising rounds in India may be available through trackers such as Traxn (<https://tracxn.com/>) or Venture Intelligence (<https://ventureintelligence.com/>). It can be informative to examine funding trends in conjunction with FDI data.

Impact on GST

- More formalisation will result in more people registering for GST, which will broaden the tax base and raise government revenue.
- Simplified compliance: Prior to the GST, entrepreneurs operating in multiple states had to navigate a complicated web of indirect taxes that were unique to each state. Because of its uniform structure, GST makes compliance easier, which lessens administrative hassles and could save beginning costs.
- Increased openness: GST encourages transactional transparency, which is essential to drawing in investors. Businesses that are subject to GST may be able to attract investors with a more pristine financial record.
- Level playing field: By eliminating interstate tax barriers, the GST levels the playing field for new businesses. This makes the market more dynamic and competitive by enabling them to compete with established companies more successfully.
- Working capital impact: For startups, particularly those with thin margins, having to pay input GST ahead before getting paid by customers can place a pressure on working capital.

- Reverse charge system: The GST's reverse charge mechanism might be more complicated and need more record-keeping for new businesses that deal with imports or unregistered suppliers. The following actions can be taken to lessen the difficulties:
- Simplifying GST filing processes or lowering tax thresholds especially for businesses in their early stages of expansion are two ways to simplify GST for startups.
- Initiatives for enhancing capacity: Provide seminars and training courses to give new businesses the information and abilities they need to comply with GST regulations.
- Simplifying working capital requirements: Look for ways to postpone paying GST until after customers have paid, particularly for new businesses in particular industries.
- GST exemptions for R&D: To promote innovation, take into account exemptions or lower GST rates for services pertaining to R&D activities carried out by startups.



CONCLUSION

This study has explored the fascinating world of Indian startups and their significant influence on the economics of the country. Through an analysis of the Startup India project (see aim 1), the government's dedication to promoting a thriving entrepreneurial ecosystem was discerned. Additional examination (goal 2) demonstrated the program's diverse objectives and comprehensive strategy. The impact of the program on the country's gross domestic product (GDP) was examined in order to evaluate its efficacy and highlight its role in economic growth (goal 3). Furthermore, the study investigated the program's capacity to draw in foreign direct investment (FDI) (goal 4), demonstrating its ability to support the Indian economy. Lastly, research was done on Startup India's effect on employment generation (goal 5), highlighting the initiative's capacity to alleviate unemployment issues.

To put it simply, this study emphasizes how the Startup India initiative can change lives. This program has established itself as a key factor in shaping India's economic destiny by fostering innovation, drawing in investment, and creating jobs. But more investigation is advised to determine whether the program can be sustained over the long run and whether it can handle issues like infrastructure development and finance access. Undoubtedly, the Startup India program will be crucial in determining the direction of the Indian economy as the startup scene develops further.

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