

## TRANSFORMATION OF INDIAN ECONOMY THROUGH STARTUPS

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### ABSTRACT

Startups are innovation based new business models focused on finding innovative solutions to solve the existing problems of various sectors of the Indian economy. Government of India is promoting and supporting Startups to ignite the young creative minds, nurtures the budding ideas and directs them towards entrepreneurship promotion. Startup India is one of the prominent initiatives in the direction of reaping demographic dividend, making India a five trillion economy, attaining self-reliance and transforming India as a worldwide competitive economy. With the significant expansion and contribution of startups, India has emerged as the home to the third largest startup ecosystem worldwide. This research paper is mainly focused on the role and scope of startups in the transformation of the Indian economy. The paper also elaborates the stages of growth of startups, startup ecosystem and the various government initiatives undertaken to promote startups in India.

**Keywords:** Startups, Ecosystem, Entrepreneurship, lifecycle, Sectors

### Introduction

Entrepreneurship is the backbone of a nation's holistic development. MSMEs have their significant contribution in harnessing human as well as material resources towards generating income and employment opportunities and promoting inclusive growth. Presently Indian economy is enjoying demographic dividend with a large share of the working age population. In order to utilise the energy of these young, enthusiastic and innovative minds towards generating employment and economic prosperity for the nation, the government has introduced a number of programmes such as: Startup India, Standup India, MUDRA, Make in India and Skill India. Startup India scheme is a flagship programme of the government initiated on 16<sup>th</sup> Jan 2016 under the Department for Promotion of Industry and Internal Trade (DPIIT) of ministry of commerce and industry. According to DPIIT 2019 notification:

- An entity will be considered as a startup up to ten years of its incorporation/registration, as a private limited company or a partnership firm or registered as a limited liability partnership.
- Turnover of the entity should not increase Rs.100 crores for any of the years since its incorporation/registration.
- Such an entity should be working towards innovation, development or improvement of products, processes or services or it should have a scalable business model with high potential of employment generation or wealth creation.
- It Should not be formed by splitting up or reconstruction of an existing business.

Startup India scheme is promoting innovative entrepreneurship in the country especially among the young people including school as well as college dropouts. Startups originate just with a new idea in mind but have to go through a long way for successfully establishing it to a scalable business model.

According to The State of Indian Startup Ecosystem Report (2022), 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 soonicorns 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, DreamSports 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.

### Review of Literature

Different research studies have explored the concept, stages of growth and the role played by a startup ecosystem in startup development. Some of these studies are reviewed for this paper.

According to Steve Blank and Dorf (2012), Startup is a temporary organisation in search of a scalable, repeatable, and profitable business model. Choudhary et al. 2022, defined startup as a small business led by one or more entrepreneurs to develop a unique and innovative product or service to bring into the market.

Salamzadeh and Kesim (2015) explained bootstrapping, seed stage, and growth stage as the three stages of the startup lifecycle. Bootstrapping was collecting funds from family and friends. In seed stage, funds were raised from incubators and accelerators. In the growth stage funds were generated from investors like venture capitalists.

Mehra et al. (2016) elaborated pre-startup phase, startup, and growth phases of a startup. It was highlighted that emerging economy, young people and the growing middle class were the main factors that are supporting the growth of startups in India.

Nasscom (2017) highlighted the importance of incubators and accelerators in supporting and promoting the Indian Startup-ecosystem. The study found that the spread of technological startups was mainly in tier1 and tier2 cities of India.

Sunanda (2018) explained the functioning of startups through various growth stages. The study explained that from seed funding to venture capitalists and public markets, startups have to work hard for the growth of the business.

Studies by Tripathi et al. 2019, Kapoor et al. 2019, Bhalerao et al. 2020, and Han et al. 2021, highlighted that initial innovative ideas, entrepreneurs, technology, funds, government policy, financial institutions, culture, and market, etc. are the main supporting factors of a startup ecosystem. A conducive startup ecosystem contributes towards the establishment of a successful startup business.

States startup ranking report (2021), has shown that in a seven years' time period from 2015 to 2022 after the implementation of startup India scheme in 2015, number of investors, incubation centres, funding deals and amount of funds have increased sharply. Global startup ecosystem index (2022) has shown the expansion of the Indian startup ecosystem in terms of its rank in global startup ecosystem which improved from 23<sup>rd</sup> in 2019 to 19<sup>th</sup> in 2022. The study concluded that the Indian startup ecosystem is in expansion mode.

The Indian startup ecosystem has grown considerably since the launch of the Startup India Scheme in 2016. There has been a spur from few tech startup companies to thousands of new startups in the past few years. Indian economy is having 3rd position in the number of startups and unicorn development respectively (Hurun research institute, 2022).

### **Objectives of the study**

The main objectives of the study are:

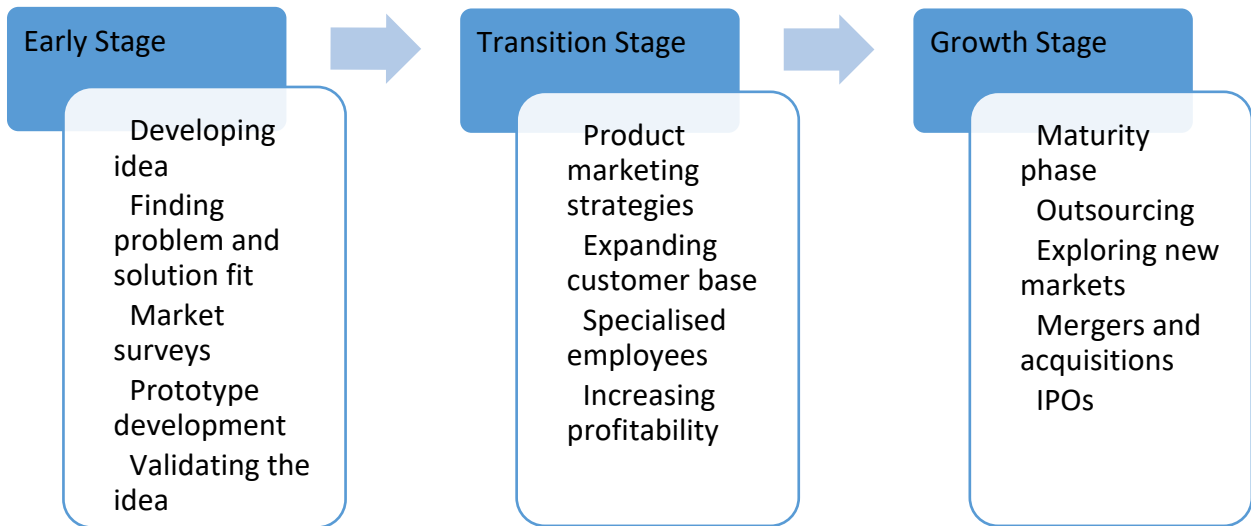
- 1) To analyse the startup ecosystem and different growth stages of a startup.
- 2) To highlight the role played by startups in the development of Indian economy.
- 3) To elaborate the various government initiatives for the growth of startups in India.
- 4) To find the future prospects of growth of Indian startups.

### **Methodology**

The study is based on secondary data sources. For the purpose of this study, various research papers, reports, government websites, startup India portal, newspaper articles etc. are analysed in detail.

### **Life Cycle of a Startup**

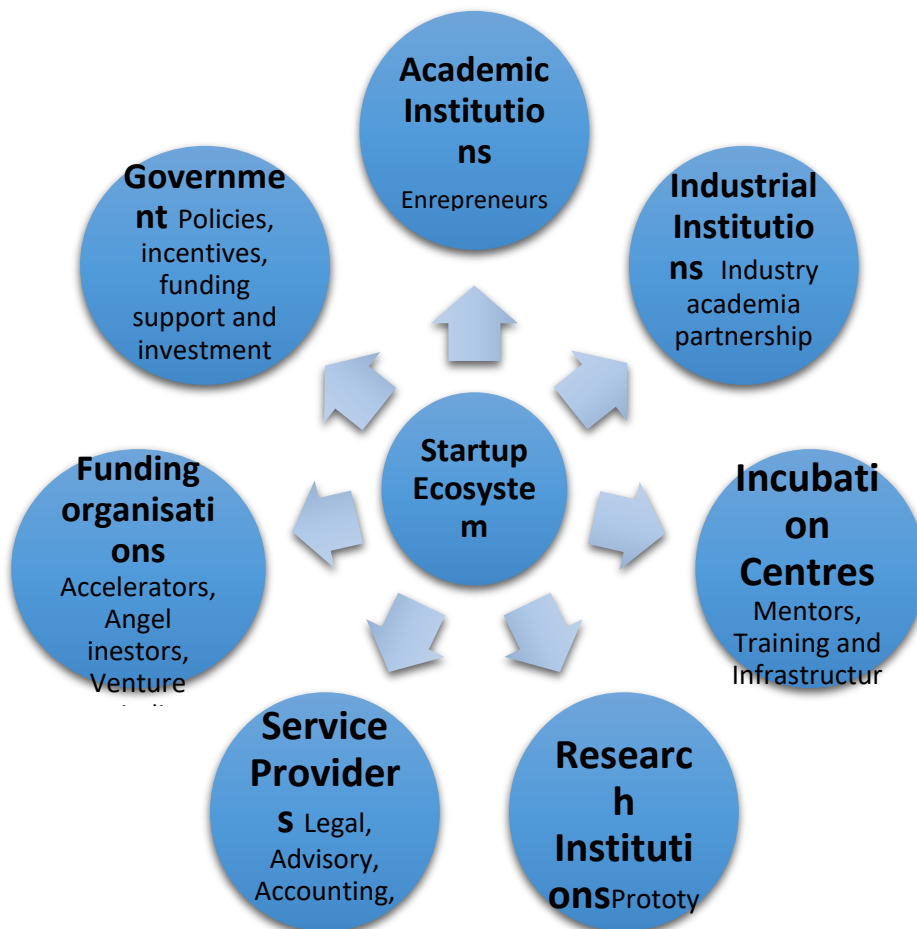
Startup is a small innovative idea that has to pass through a number of stages to grow and establish itself as a successful business. The lifecycle of a startup can be divided into three stages i.e. Early stage, Transition stage and Growth stage. Fig. 1 shows the detailed presentation of these three stages of a startup lifecycle.



**Fig. 1: Different Stages of a startup lifecycle**  
Source: Self-compiled

**Startup Ecosystem**

Startups can grow in a conducive ecosystem, consisting of various supporting organisations that help to promote a budding idea from its birth to attaining maturity. These are the various academic institutions, industrial institutions, incubation centres, research institutions, service providers, funding agencies and supportive government systems. Fig. 2 elaborates a conducive startup ecosystem.



**Fig. 2: Startup Ecosystem**  
Source: Self-compiled

### **Role of Startups in the Growth of Indian Economy**

Startups produce ripples of economic effects through their forward and backward linkages. Startups generate employment, reduce income inequalities and lead to digital and technological innovations. Recognising the actual contribution of startups towards economic development of the nation, 16<sup>th</sup> January has been declared as the National Startup Day. Startups are flourishing and are enhancing productivity and efficiency of almost all the sectors of the Indian economy. However, the top most sectors in terms of total valuation and funding are Enterprisetech, E-Commerce, Fintech, Consumer Services, Healthtech, Edtech, Media and Entertainment, Deeptech, Transport tech, Logistics and Agritech. The top startups of these sectors are Zoho, Flipkart, Paytm, Zomato, Practo, Byju's, Games 24\7, Polygon, Ola, Delhivery and Dehaat respectively. The major startup hubs in India are in Bengaluru, Delhi NCR, Mumbai, Chennai, Pune, Hyderabad, Jaipur, Ahmedabad, and Kolkata cities (The state of Indian Startup Ecosystem Report, 2021).

The vision and mission of the government to support and flourish startups is now maturing and the growth of startups has gained momentum. The sustained efforts of the government have resulted in increasing the number of recognised startups. 41,317 startups have been recognized by DPIIT between the time period of Jan 2016 to Dec 2020. More than 39,000 startups have provided employment to 4.7 lakh people (Evolution of startup india, 2021).

As per a report of government of India, ministry of commerce and industry, DPIIT (2022), 65,861 startups have generated 7,07,508 employment opportunities in 56 diversified sectors of the Indian economy up to March 2022. But as this scheme is in its initial stages of growth, the expansion of the startups is both regional as well as sectoral biased. Approximately 60% of the startups are concentrated in Maharashtra, Karnataka, Delhi, Uttar Pradesh, and Gujarat. In contrast to this, 13 states and 7 UTs have approximately 5% of the total startups only. Maharashtra state is leading the Indian startup ecosystem with 20% of the total startups.

It is also found that the top eight sectors according to the number of startups have approximately 50% of the total startups and contribute to 53% of the total employment generated by the startups of all 56 sectors. These eight sectors are: IT services, Professional and Commercial Services, Healthcare, Education, Agriculture, Food and Beverages, Construction and Finance Technology. But now the government is focusing on the expansion of this programme beyond metropolitans to tier2 and tier3 cities of India, as well as encouraging startups in all the sectors of Indian economy, to develop this programme as a national startup ecosystem rather than a regional or sectoral ecosystem to ultimately achieve the objective of inclusive growth.

### **Government Initiatives**

The Government of India is visualising ample scope of developing the Indian economy through providing a strong startup base. Government has done numerous efforts in various directions to provide much needed boost to the startups to carry them to a take-off stage. Following are the major government initiatives:

A well-defined Startup India Action Plan (2016) comprising 19 action items broadly categorised under three areas viz. 'Simplification and handholding', 'Funding support and incentives' and 'Industry academia partnership and incubation' was unveiled on 16<sup>th</sup> Jan 2016. This plan defines comprehensive government support for a vibrant startup ecosystem.

- A 'Fund of Funds' for startups (FFS) with a corpus of Rs. 10,000 crores, monitored by DPIIT and managed by SIDBI through investing in Alternative Investment Fund (AIF) has been provided by the government for a period up to 2026. This fund meets the capital needs of startups at different growth stages.
- More than 50 regulatory reforms have been implemented by the government since 2016 to promote ease of doing business for the startups, reducing compliance burden, introducing self-certification and for promoting ease of raising capital etc.
- Startup activities are supported and promoted through granting various relaxations like income tax exemption for three consecutive years out of ten years since their establishment, compliance of 9 labour laws and 3 environmental laws with self-certification for a period of five years since inception, public procurement of startup products through Government e-Marketplace (GeM), supporting IPRs protection, provision for fast exit of the startups etc.
- Startup India portal run by DPIIT, is providing a single point of contact for the entire startup ecosystem including startups, mentors, incubators, accelerators, researchers and investors to enable knowledge exchange and acquiring funds.
- Efforts are made to connect the Indian startup ecosystem to the global startup ecosystem through global partnerships, global events and through international forums. In order to promote cross country collaborations government of India has established startup ties with over 13 countries i.e. Brazil,

Russia, Sweden, Singapore, UK, Portugal, Finland, Israel, Netherlands, Japan, Canada, South Korea and Croatia.

- Startup India Seed Fund Scheme (SISFS) with a corpus of Rs. 945 crores for a period of four years starting from 2021-2022 is launched for meeting the early stage capital requirements of startups for proof of concept, prototype development, product trials, market entry and commercialization. This is a very significant government effort as it supports the startups in their very crucial time period i.e. do or die phase.
- Startup India initiative is celebrated; startups are awarded and the budding entrepreneurs are encouraged through organising various conferences, international summits, startup competitions, fairs and fests.

### **Future Prospects of Growth of Startups**

Startups are progressing rapidly and contributing to the growth of Indian economy by stimulating innovative entrepreneurship and generating new employment opportunities. Though the progress is regional and sectoral biased and the spread is mainly in metropolitans and selected sectors, but still, the results have spread positive sentiments, and we can see India's bright economic future as this move will take path to tier2 and tier3 cities and then spread to the rural areas of India also. Startups have excelled in many sectors of the Indian economy like Enterprisetech, Fintech, E-Commerce, Healthcare, Consumer Services, Edtech, Deeptech, Logistics etc., earned huge revenues, attracted large investments and generated enormous employment opportunities. Now the startups are catching up and flourishing rapidly in many other sectors like Travel and Tourism, Transport and Storage, Green Technology, Renewable and Non-Renewable Energy, Artificial Intelligence, Automotive Technology, Human Resources and Internet of Things etc. These startups will modernise the productive systems by bringing new technologies, provide alternative employment opportunities, enhance cost competitiveness and promote self-reliance in the emerging sectors of the Indian economy. Therefore, there is ample scope for the startups to flourish in India and revolutionize the Indian economy.

### **Summary and Conclusion**

The rapid progress of the startups and their substantial contribution in developing the Indian economy, presents the success story of Indian startups. Startups initiate with a small innovative idea and pass through different growth stages to reach maturity. Government of India is also providing suitable environment to these budding enterprises through its various policies and programmes.

In India startups are rapidly progressing but the spread is not equal over all the regions and sectors. Startups are mainly progressing in IT services, Professional and Commercial Services, Healthcare, Education, Agriculture, Food and Beverages, Construction and Financial Technology sectors. The significant growth in just a few states, metropolitans and limited sectors, has energised and stimulated the Indian economy and brought India as the third largest startup ecosystem in the world.

Startups are in their initial stages in India, but as this move shifts toward tier2 and tier3 cities, rural areas and towards different other sectors of our economy, startups could be visualized as revolutionaries. They will further contribute to achieve the desired goals of economic growth and development. This startup revolution is heading towards bringing about a radical transformation of the Indian economy.

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