



Scaling Up the Startup Ecosystem

This editorial is based on “[UAE galvanising start-ups](#)” which was published in The Hindu Business Line on 05/12/2024. The article brings into picture the emergence of India’s startup ecosystem as a global leader, with over 140,000 startups and 111 unicorns, supported by the UAE’s \$20 billion investment. However, it highlights the need to address challenges in funding, regulation, and innovation to sustain growth.

For Prelims: [India's startup ecosystem](#), [Startup India](#), [Standup India](#), [Fast-moving consumer goods](#), [Artificial Intelligence Reserve Bank of India](#), [Corporate Venture Capital](#), [Atal Innovation Mission](#), [Fund of Funds for Startups](#), [National Research Foundation](#), [SAMRIDH \(Startup Accelerator of MeitY for Product Innovation, Development, and Growth\)](#). —

For Mains: Current Growth Drivers of India’s Startup Ecosystem, Key Issues Related to India’s Startup Ecosystem.

[India's startup ecosystem](#) has emerged as a global powerhouse, with over **140,000 recognized startups** and **111 unicorns** driving technological innovation across diverse sectors. The UAE has become a critical strategic partner, with significant investments exceeding **\$20 billion** and providing crucial support for Indian entrepreneurs seeking international expansion. More than **30% of Dubai's startups are founded by Indians**, demonstrating the deep entrepreneurial synergy between the two nations. However, India needs to work more to enhance its startup culture, addressing challenges in **funding, regulatory frameworks, and sustained innovation to maintain its competitive edge**.

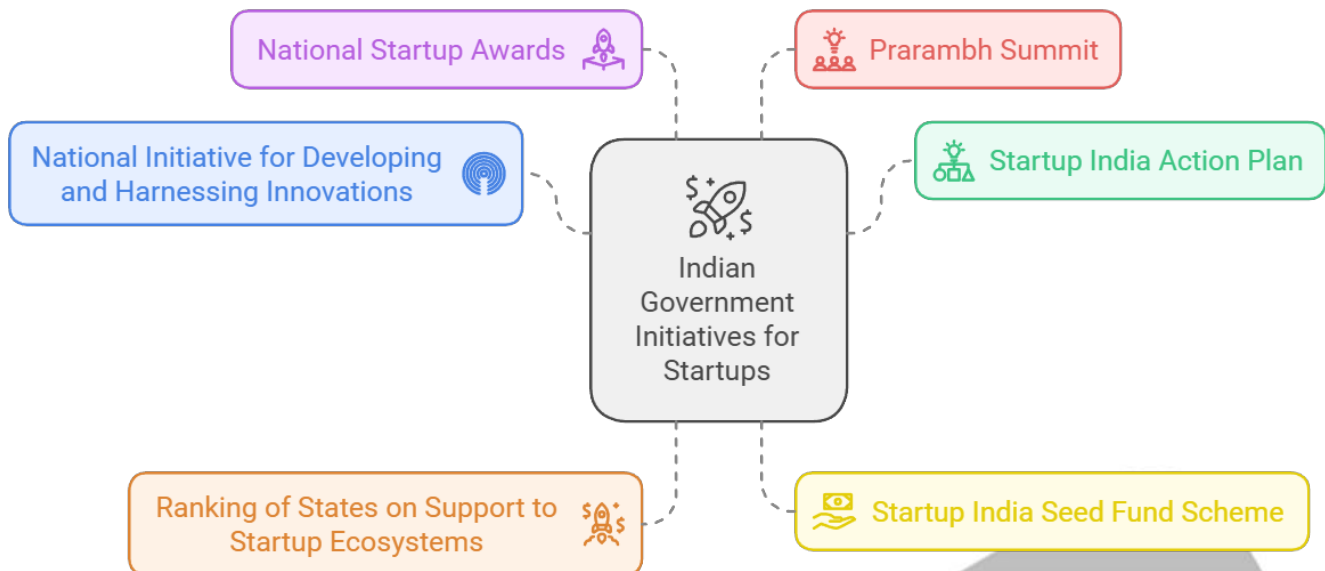
What are the Current Growth Drivers of India’s Startup Ecosystem?

- **Government Initiatives and Policy Support:** The Indian government has implemented policies like [Startup India](#), [Standup India](#), offering **tax exemptions**, funding, and support for incubators, which have significantly boosted entrepreneurial activity.
 - As of June 2023, **over 100,000 startups have been recognized under this initiative**, reflecting its widespread impact.
- **Expanding Digital Infrastructure:** The **proliferation of smartphones and affordable internet** has expanded digital access, enabling startups to reach a broader customer base.
 - India is now the **second-biggest manufacturing hub for mobile phones** due to heavy investment from original equipment manufacturers and original design
 - Also, India has more than **820 million active internet users at present**, facilitating the growth of digital businesses.
- **Growing Investment Ecosystem:** A surge in venture capital and private equity investments has provided startups with essential funding.
 - Between 2014 and H1 2024, the Indian startup ecosystem attracted over \$150 billion in investments, with [ecommerce](#), [fintech](#), and [enterprise tech](#) leading the charge, **contributing to 52% of the total funding**

- Programs like **Google's Launchpad and Microsoft for Startups** offer funding, mentorship, and market access.
- **Evolving Consumer Market:** A growing middle class with increasing disposable income has created a robust domestic market for new products and services.
 - India's **fast-moving consumer goods (FMCG)** sector grew **5.7% by value and 4.1% by volume** in the **July-September 2024** driven by rural demand.
 - Projections indicate that India's affluent segment will reach **100 million by 2027, offering substantial opportunities for startups.**
- **Supportive Regulatory Environment:** Recent regulatory reforms have streamlined business operations. The **Reserve Bank of India (RBI)** has streamlined the compliance process for foreign companies undergoing a **"reverse flip" merger** with their Indian subsidiaries, cutting the timeline **from 12-18 months to just 3-4 months.**
 - This move boosts efficiency and encourages startups to list in India.
- **Thriving Incubation and Acceleration Programs:** Institutions like **IIM Bangalore's NSRCEL** provide mentorship, funding, and resources, nurturing early-stage startups and fostering innovation.
 - Programs such as the **Women Entrepreneurship Program** have been instrumental in supporting diverse
- **Rise of Deep-Tech and AI Startups:** The demand for cutting-edge technologies like **Artificial Intelligence, Machine Learning, and IoT** is fueling the growth of deep-tech startups.
 - India has emerged as a **top contender in Artificial Intelligence (AI) readiness**, ranking among the **top 10 globally**, as per the Boston Consulting Group's (BCG) report.
 - According to Nasscom, India's deeptech sector is buzzing with over 3,000 startups and a **53% growth rate over the past decade.**
- **Expansion of D2C (Direct-to-Consumer) Models:** The **direct-to-consumer model** has gained traction, with startups bypassing intermediaries to connect with consumers digitally.
 - The **Indian D2C market is expected to reach \$100 billion by 2025.** The increasing adoption of e-commerce platforms and personalized marketing tools is propelling this trend.
- **Rise of Tier-2 and Tier-3 City Entrepreneurship:** Entrepreneurship is **no longer confined to metropolitan cities**; smaller cities are emerging as startup hubs.
 - Initiatives like the **Atal Innovation Mission** are enabling entrepreneurs in Tier-2 and Tier-3 cities through incubators and funding.
 - **Over 50% of startups recognized by the DPIIT in 2023** originated from non-metro regions, showcasing this decentralized growth.
- **Digital Payments Revolution and FinTech Boom:** The adoption of **UPI and the growth of digital payments** have transformed the fintech landscape, creating opportunities for startups.
 - Over **11 Billion UPI transactions** were done in October 2023 alone, fostering startups like PhonePe and Razorpay to scale rapidly.
 - The **Indian fintech market** touted as the fintech hub globally is estimated to reach assets under management (AUM) of **\$1 trillion by 2030**, up 10-fold from its 2021 size of roughly \$100 billion.
- **Fostering Sustainability and Green Startups:** Sustainability-focused startups are gaining traction, fueled by government commitments like **India's Net Zero 2070 target.**
 - Startups like **ElectricPe and Zypp Electric** are leveraging EV and clean energy markets. The **UNDP Accelerator Labs in India** have further nurtured green innovation.
- **Emergence of Corporate Venture Capital (CVC):** Large corporations are investing in startups via **Corporate Venture Capital**, offering not just funding but also market expertise.
 - Companies like **Reliance, Tata, and Infosys** have active CVC arms. This integration provides startups with the resources to scale and innovate.
- **Cultural Shift Toward Entrepreneurship:** A growing cultural shift in India views **startups as aspirational career choices**, with risk-taking becoming more socially acceptable.
 - Media programs like **Shark Tank India** and **startup success stories** have popularized entrepreneurship.
 - Surveys reveal that **77% of Indian youth** expressed an interest in starting their own ventures.

What are the Key Issues Related to India's Startup Ecosystem?

- **Tightening Liquidity and Funding Challenges:** India's startup ecosystem faces a stark reduction in **funding**, highlighting a shift toward **cautious investment practices globally**.
 - The reduced risk appetite among investors is prioritizing profitability over growth, constraining startups dependent on external capital for scaling.
 - Indian startups have reported around **73% decline in funding in 2023 as compared to 2022** startups are grappling with stagnation amid rising operational costs.
- **Policy Volatility and Taxation Woes:** Frequent changes in taxation policies and regulatory ambiguity undermine investor confidence and operational ease for startups.
 - The **imposition of the Angel Tax on foreign investors in 2023**, while aiming to curb money laundering, deterred legitimate foreign investments in early-stage startups.
 - Despite initiatives like **Startup India**, the majority of Indian startups still spend a major chunk of their resources on navigating compliance, **limiting their focus on innovation**.
- **Talent Retention and Skill Mismatch:** While India produces a large volume of skilled **graduates annually**, startups face difficulties in retaining top talent due to global opportunities and domestic salary disparities.
 - The allure of stable jobs abroad or in established MNCs has worsened the "**brain drain**" in critical areas like AI and machine learning.
 - Between 2015 and 2022, **1.3 million Indians left the country**, many of whom were highly educated professionals creating a **talent vacuum for Indian startups aiming to innovate**.
- **Overdependence on Urban Markets:** Startups largely focus on **urban-centric business models**, neglecting the vast potential in rural India.
 - This overdependence restricts their scalability and misses out on a market comprising over **65% of India's population** and startups still struggle to penetrate rural areas due to logistical and infrastructural challenges.
- **Market Saturation and Fragmentation in Key Sectors:** Certain industries, such as **edtech and fintech**, are reaching saturation points, leading to intense competition and declining margins.
 - The fall of major players, showcases how overexpansion and unregulated competition have destabilized these sectors.
 - Such saturation has resulted in **layoffs and funding crunches**, creating a ripple effect across the ecosystem.
- **Insufficient Collaboration Between Academia and Startups:** India's academic institutions remain underutilized as engines of innovation for startups.
 - Unlike **Silicon Valley**, where academia drives commercialization, Indian startups rarely collaborate with research institutions for cutting-edge technologies.
 - A 2019 report suggests that out of **500 odd industrial clusters across India, 30-35% do not have any research institute or university** in their vicinity.
- **Digital Divide and Infrastructure Gaps:** Despite the **proliferation of digital tools**, startups are hindered by inconsistent infrastructure, particularly in rural areas.
 - The absence of **high-speed internet in rural regions** limits access to untapped markets, slowing the growth of sectors like agritech.
 - A 2022 report revealed that almost **60% of the rural population is still not actively using the internet**, startups struggle to deliver scalable, tech-driven solutions to underserved populations.
- **Lack of Focus on Sustainability and ESG Alignment:** Startups are increasingly scrutinized for failing to align with **Environmental, Social, and Governance (ESG)** standards, leading to reputational risks and regulatory challenges.
 - Food delivery platforms like **Swiggy and Zomato faced backlash for over-reliance on plastics**.
 - As India pushes for a circular economy and net-zero commitments, startups failing to adopt sustainable practices risk losing market trust and funding.
- **Rising Protectionism and Global Competition:** India's startups are increasingly facing challenges from **global rivals in sectors like fintech, gaming, and e-commerce**, where international players dominate.
 - At the same time, local protectionist policies, such as **mandatory data localization**, create compliance hurdles for startups aiming for global scalability.
 - For instance, while Indian startups have struggled with compliance costs, global competitors like **Amazon have continued aggressive market expansion in India**.



What Steps can be Taken to Strengthen India's Startup Ecosystem?

- **Streamlining Regulatory and Compliance Processes:** Simplifying **startup registration, taxation, and compliance procedures** is crucial to reduce bureaucratic inefficiencies.
 - A unified, time-bound single-window clearance system can address delays and ambiguities.
 - For example, expanding the scope of the **Ease of Doing Business Reforms 2.0**, combined with **reducing compliance costs under DPIIT's Startup India initiative**, can save startups hundreds of operational hours annually and promote faster scaling.
- **Expanding Access to Funding Mechanisms:** India should promote sector-specific venture funds and broaden the scope of the **Fund of Funds for Startups (FFS) program**.
 - Introducing innovative funding models like **revenue-based financing for early-stage startups** can reduce the burden of equity dilution.
 - Scaling up the **SIDBI Startup Fund** and linking it to emerging sectors like **green energy and deep-tech** can bridge funding gaps effectively.
- **Enhancing Collaboration Between Academia and Startups:** Structured industry-academia collaboration can drive innovation, particularly in deep-tech and biotech startups.
 - Setting up innovation zones in universities under the **National Research Foundation (NRF)** can provide startups with access to cutting-edge research and technical expertise.
 - These zones should **focus on converting research into commercially viable technologies**, creating intellectual property hubs.
- **Strengthening Rural Digital Infrastructure:** Expanding the **BharatNet program** to ensure **100% rural broadband coverage** is key to unlocking the rural startup ecosystem.
 - Startups in **agritech, edtech, and e-commerce** can thrive with enhanced internet penetration.
 - Partnering with private players for last-mile connectivity under **public-private partnership (PPP) models** can ensure faster execution and reduce costs, fostering rural inclusivity.
- **Promoting Sustainability-Centric Startups:** Incentivizing green startups through tax benefits and subsidies can align the ecosystem with India's climate goals.
 - Linking sustainability initiatives like the **National Green Hydrogen Mission** and renewable energy subsidies to startups in **EVs, clean tech, and waste management** can accelerate innovation in this sector.
 - For example, **grants for battery recycling startups** can align environmental goals with startup development.
- **Improving Access to Global Markets:** Encouraging startups to expand globally through

government-supported export schemes can increase their market size.

- Programs like **MADE (Mentoring, Access, Development, and Export)** should be initiated to include funding for participation in international expos and trade missions.
- Partnering with **chambers of commerce globally** can also help Indian startups build cross-border networks.
- **Tackling High Customer Acquisition Costs (CAC):** To reduce CAC, the government can promote digital public infrastructure like [**ONDC \(Open Network for Digital Commerce\)**](#) to create a level playing field.
 - ONDC can enable smaller startups to leverage shared resources and reduce dependence on heavy marketing spends.
 - Additionally, **incentives for startups leveraging data analytics** for customer retention can lower churn rates, improving profitability.
- **Fostering Women-Led Startups:** Targeted initiatives to encourage women entrepreneurs, such as **preferential credit under the Stand-Up India scheme**, can address gender disparities.
 - Expanding mentorship networks specifically for women founders and providing subsidized coworking spaces can create a more inclusive startup environment.
- **Leveraging Digital Public Goods (DPGs):** Startups can use India's robust digital infrastructure, such as **DigiLocker**, to develop scalable solutions.
 - Promoting **open-source APIs for startups** to build on top of these platforms can drive innovation.
 - For example, fintech startups can utilize **Account Aggregator Frameworks** to create personalized financial products, reducing the time to market and enhancing efficiency.
- **Building Robust Mentorship Networks:** Creating national and regional mentorship networks can address the knowledge gap among founders.
 - Programs like [**SAMRIDH \(Startup Accelerator of MeitY for Product Innovation, Development, and Growth\)**](#) can be expanded to provide sector-specific mentorship.
 - Pairing successful entrepreneurs with early-stage startups through **structured government-led programs** can fast-track their learning curve.
- **Reforming Labor Laws to Support Gig Economy Startups:** Labor reforms to accommodate gig and platform workers can enhance the ecosystem's sustainability.
 - **Creating social security frameworks and health benefits for gig workers** under programs like Code on Social Security, 2020 can reduce workforce volatility.
 - This would particularly benefit startups in sectors like **food delivery, ride-hailing, and logistics**.
- **Promoting Cross-Border Collaborations in Emerging Sectors:** Fostering international collaborations in areas like **AI, blockchain, and clean energy** can position Indian startups at the forefront of global innovation.
 - Bilateral agreements with countries like the **US and Japan**, focused on startup exchange programs, **can enable knowledge transfer**.
 - Integrating these with Startup India International Summits can enhance India's global startup footprint.

Conclusion:

India's startup ecosystem has demonstrated remarkable growth and global potential, driven by government policies, expanding digital infrastructure, and an evolving investment landscape. However, challenges like **funding shortages, policy volatility, and talent retention remain** significant obstacles. To strengthen this ecosystem, India must streamline **regulatory processes, improve rural digital infrastructure and foster academia-startup collaboration**.

Drishti Mains Question:

India's startup ecosystem has gained global recognition, yet challenges like funding gaps, regulatory hurdles, and limited innovation scaling persist. Discuss.

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/current-affairs-news-analysis-editorials/news-editorials/07-12-2024/print>

