Startup Ecosystem in India: Growth and Challenges

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Abstract

Any new venture that comes up from scratch can be termed a startup. With the Indian economy growing at an envious pace, the stage has been set for new enterprises to come up. The growing population and shrinking of the job market are also acting as drivers to promote the growth of job givers rather than job seekers. This paper is an attempt to look at the present state of affairs for startups and the ecosystem available for their growth.

Keywords: Startup, Ecosystem, challenges.

Introduction

The Indian economy has traditionally been agriculture-dominated. Of late the service sector has been gaining ground. In the industrial parlance, manufacturing has always played a second fiddle to agriculture even though the contribution in GDP of the country through manufacturing has been on the rise since our independence. Seeing the bludgeoning growth in population and due to the advent of information and communication technology interventions in business, the job market is shrinking. A need was therefore felt to encourage youth to set up their enterprises and become job givers in place of job seekers. Every year the Indian education system has been churning out graduates both technical and nontechnical but the industry is not keen on taking them into its fold due to various reasons. In such a scenario to encourage the youth to set up their ventures, the government of India came with the latest initiative of startup India in 2016. The results were encouraging with a whole lot of new unicorns coming into the mainstream: Ola, Flipkart etc. to new a prominent few. Even in times of the current pandemic of COVID19, we were witness to four new unicorns coming up (Source: Economic Times, 19th October 2020).

Startup Ecosystem

Defined simply ecosystem is the environment in which a business entity is being set up. India has been ranked as the 3rd largest startup ecosystem in the World. The year-to-year growth rate has been in the range of 12-15%. There are approximately 55000 startups in India as per 2018 data. But not all startups are successful. The failure rate hovers around 15%. Most of the startups are happening in the technology sector. One more piece of heartwarming data is regarding the growth of women entrepreneurs which stood at 15% in 2019. The new startups have contributed to generating jobs for more than 40000 new jobs per year.

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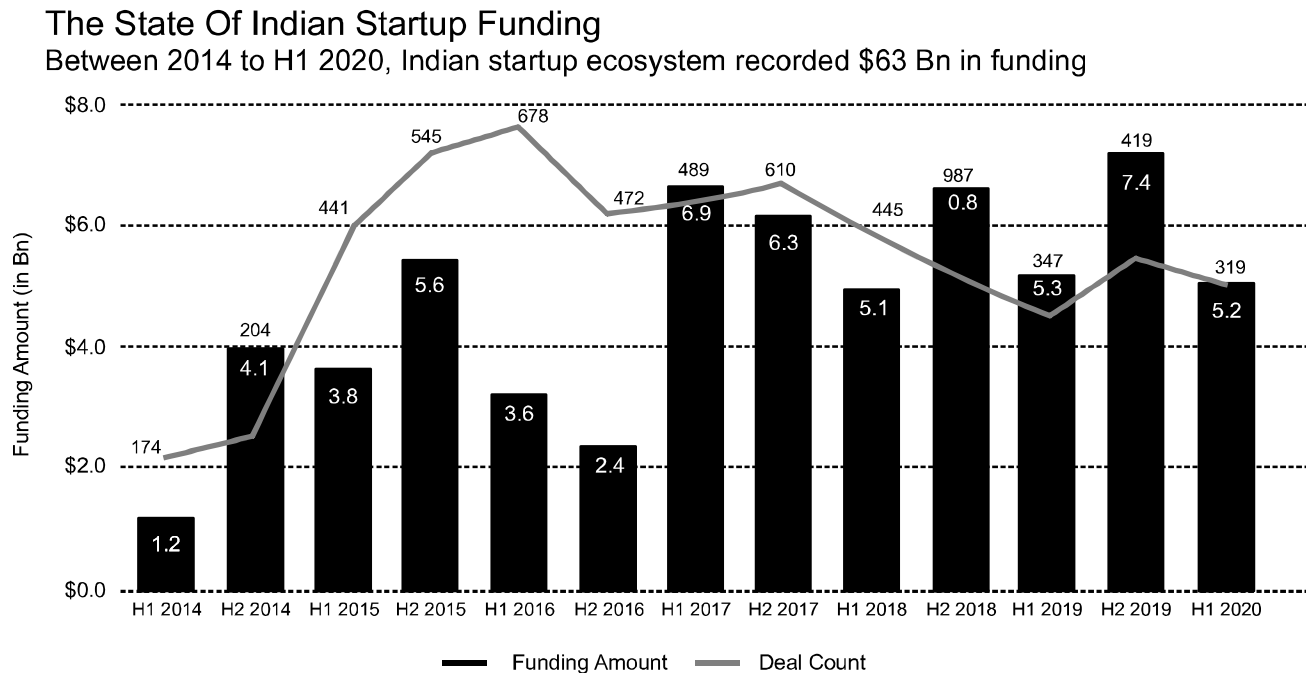
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The startup ecosystem in India has many players which include the government both central and state, private players, technical business incubators, catalysts, accelerators and individuals. In such a complex scenario it is difficult to figure out a quick fix solution and also to pinpoint what plagues the system.

The startup movement in India started way back in the 1980s when the government of India set up the Science and Technology Entrepreneurs Parks. There were six of these parks established with the tacit support of the Department of Science & Technology. All of these were linked to technical institutions of repute with a mandate to encourage the outgoing technical graduates to take up entrepreneurship as a career. The government supported the initiative by providing the basic machinery, infrastructure costs and hand holding the young graduates. This resulted in a good number of graduates coming forward and taking up entrepreneurship as a career even beyond the traditional family business.
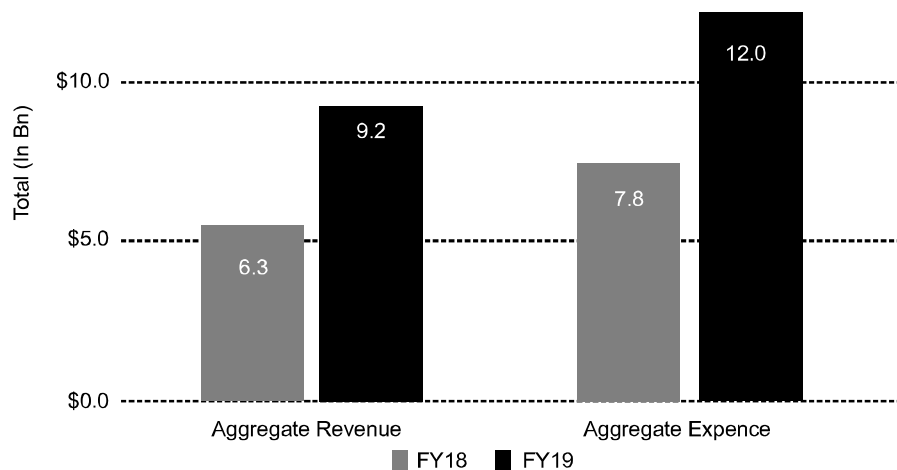
Fast forward to the year 2016 when the government of India came up with the Startup India initiative wherein it was suggested to open up the business incubators not only in the technology sector but also for other sectors viz. pharma, eductech, fintech etc. too. This gave an impetus to the startup movement with a number of incubators coming up under various government schemes. The schemes available were Department of Science & Technology recognized Technical business incubators, MSME TBI, NIDHI TBI, BIRAC TBI. All these incubators acted as nurseries to nurture the young graduates to develop as entrepreneurs. Most of these promoted the concept of FabLab wherein basic fabrication-related machinery was made available for product development. The necessary technology was taken from the technical institutes and the industries of the region.

The National Incubation and startup policy was formulated in 2019 and as mandated by the Ministry of education, all higher education institutions are supposed to implement it. The general guidelines were listed under this policy and a framework for promoting the culture of entrepreneurship was also given. The government on its part through the implementation agencies like AICTE started with a series of programs to train the faculty to handle the startups. Institutions were asked to specify the budget allocation for promoting the startups. The government also launched several schemes under which a new entrepreneur could get a substantial amount for starting his enterprise. Starting from the stage of ideation to the development of proof of concept and final launch in the market as a product, generous funding in form of grants is available from government agencies. In addition to this, the government extended a host of benefits in form of tax reliefs etc to new entrepreneurs. In case some ventures required more funding, several pitching contests were organized wherein the idea needed to be pitched to investors (angel or equity partners) to garner more funds for the venture. In fact, the Indian startups raised $63 billion in the last five and a half years since the start of startup India. Figure 1 shows the bar graph of the growth of startup funding and the number of startups funded. This has made setting up of startups a much easier task.

Figure 1. Startup Funding growth

The State Of Indian Startup Funding
Between 2014 to H1 2020, Indian startup ecosystem recorded $63 Bn in funding

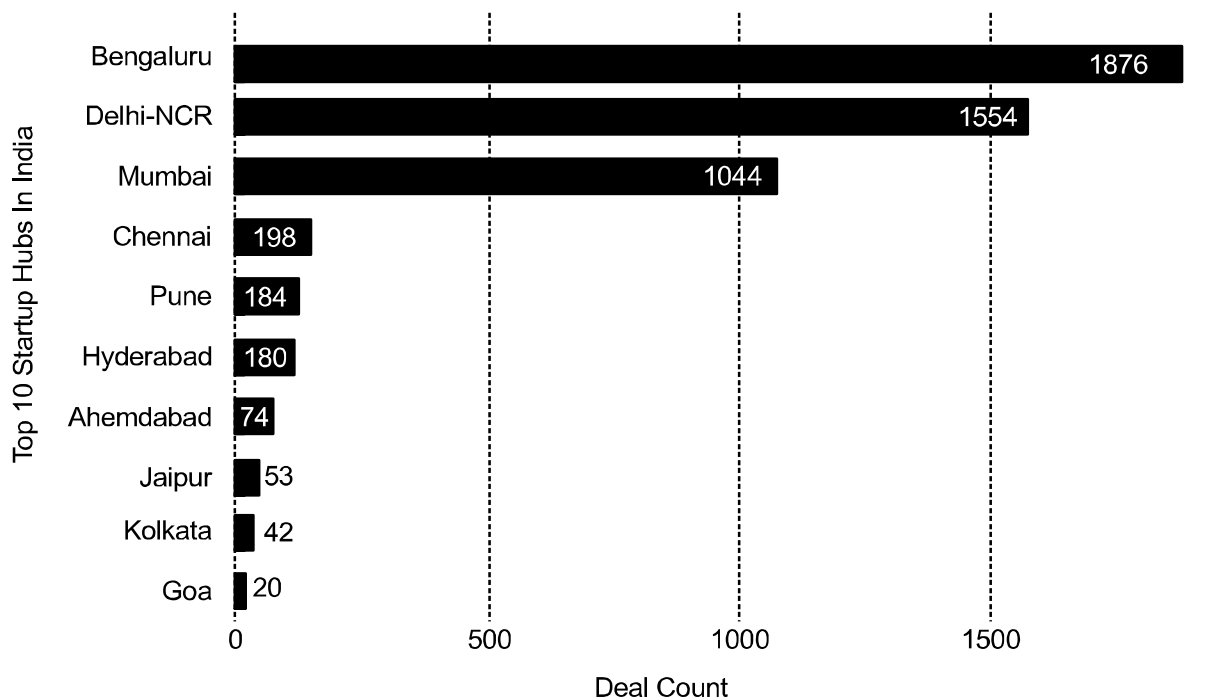**Source:** Singh, S. (2020). Presenting The State Of Indian Startup Ecosystem Report 2020

The startup system has seen healthy growth starting from 29000 startups in 2014 to 55000 startups by end of 2020. The market value and the number of unicorns have been shown in figure 2 from startups have also increased. The average time taken by Indian startups to the unicorn stage has been witnessed as 7 years which is amongst the fastest in the world.

Figure 2. The market value of Unicorns

Note : Lenskart Postman, Zeradha and Ola Electric are not
included INR to Dollar exchange rate 69.4 for both years
Source Data Labs by Inc42+

Source: Singh, S. (2020). Presenting The State Of Indian Startup Ecosystem Report 2020.

Talking of Indian cities as startup hubs, Bengaluru the IT capital of the country has the highest number of startups, followed by other metros. The growth of startups in the non-metros has been slower. Figure 3 shows the state of startups in various cities of India.

Figure 3. City wise Startup Count for India

Source: Singh, S. (2020). Presenting The State Of Indian Startup Ecosystem Report 2020.

It is seen that most of the startups have come up only in three big cities. The obvious reasons are the availability of more resources and a climate conducive for this kind of venture.

Challenges

The major challenge as of now is to have an equitable growth of startups in all parts of the country. For this, the government machinery has geared up and all state governments have a startup-related program for their people. The second major challenge is the disparity in the dissemination of information. Most of the time the targeted population is unaware of the government schemes and lands up with no resource or support from the government. A recent example of the funding not finding the right kind of people was the startup contest organized by the Ministry of youth affairs wherein the youth were not aware that such an opportunity existed. The youth from smaller towns and cities are also trying to move to bigger cities for want of facilities. The government should take up proper dissemination of all its policies to all concerned. Business incubators should be opened up in the remotest corners to garner ideas and help the youth to build up their enterprise.

Conclusion

The startup ecosystem in India is very vibrant. Only a small push to make it more inclusive would go a long way in promoting youth to take up entrepreneurship as a career. Entrepreneurship awareness and development camps should be organized in addition to ideation workshops and boot camps to find out the new ideas and take them to the level of an enterprise. Sector-specific, local problem-targeted solutions should be encouraged to have uniform growth. The startup scene in India as of now is very bright.

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