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INDIA'S STARTUP ECOSYSTEM: A CATALYST FOR ECONOMIC TRANSFORMATION

The Remarkable Growth of India's Startup Ecosystem

- **Rapid Expansion:** India has experienced extraordinary growth, evolving into the world's third-largest startup hub, with over 1,30,000 recognized startups in 2024 compared to merely 400 in 2015-16.
- **Increased Funding and Support:** During this period, funding grew 15 times, investor participation increased nine-fold, and incubators rose seven-fold, highlighting the ecosystem's vibrancy.
- **Key Drivers:** Robust digital public infrastructure has been instrumental, addressing critical global challenges like Sustainable Development Goals (SDGs), climate change, financial inclusion, and agricultural productivity.

Opportunities in Emerging Technologies

- **Technological Revolution:** India is witnessing rapid advancements in areas such as Artificial Intelligence (AI), Machine Learning (ML), big data, electric vehicles (EVs), quantum computing, robotics, genomics, drones, and space exploration.
- **Government Initiatives:** Programs like the National Quantum Mission, India AI Mission, and Semiconductor Mission, supported by Rs 1 lakh crore allocated for R&D, reflect the state's commitment to fostering innovation.
- **Global Leadership Potential:** These initiatives position India as a frontrunner in cutting-edge technology, enabling startups to leverage emerging opportunities.

Progressive Policies and Sectoral Expansion

- **Policy Reforms:** The government has opened up frontier sectors such as space, geospatial technology, defense, and drones, creating opportunities for startups to innovate.
- **Collaborative Ecosystem:** Partnerships between policymakers, entrepreneurs, and educational institutions are essential to harness these advancements effectively.
- **Deep Tech Challenges:** Despite progress, deep tech startups face barriers like insufficient access to patient capital. Specialized funds, alongside existing initiatives like the Fund of Funds for Startups (FFS), are crucial for sustained innovation.



The Need for Domestic Capital and Sustainable Growth

- **Dependence on Foreign Funds:** While Indian startups raised over \$12 billion in 2024, 75% of this came from international sources, highlighting the need for increased domestic investment.
- **Institutional Involvement:** Large domestic institutions like insurance companies, pension funds, and family offices must actively invest in startups.
- **Private Equity (PE) and Venture Capital (VC):** PE and VC funding grew significantly, from \$19.7 billion in 2015 to \$77.07 billion in 2021. However, ensuring sustainability requires a focus on profitability and long-term value creation.

Balancing Innovation and Accountability

- **Fostering Innovation:** Minimal regulatory interference has allowed startups to thrive, fostering an environment conducive to innovation.
- **Corporate Mismanagement:** Instances like those involving Byju's and BharatPe underline the importance of accountability and ethical governance.
- **Self-Regulation and Mentorship:** Startups must adopt transparent practices, supported by strong mentorship and professional governance frameworks, to ensure balanced growth.

Academia's Role in Fostering Innovation

- **Educational Institutions as Enablers:** Premier institutions like IITs, IIMs, and IIITs are at the forefront of producing skilled professionals and fostering innovation.
- **Addressing Skill Gaps:** Curricula need updates to focus on emerging fields like data science, AI-ML, and product development.
- **Industry-Academia Collaboration:** Internship and apprenticeship programs can bridge the talent gap, attracting top talent to startups.

Bridging the Intellectual Property Gap

- **IPR Deficiency:** Despite producing 24,000 PhDs annually, India's intellectual property ecosystem lags, with a significant royalty outflow of \$14.3 billion compared to earnings of \$1.5 billion in 2024.
- **Innovation-Friendly Ecosystem:** Startups must lead in creating an ecosystem that rewards and protects intellectual property, driving advancements in science and technology.

Unlocking Regional Potential and Inclusivity

- **Emergence of Tier II and III Cities:** Nearly 50% of startups now originate from smaller cities like Indore, Jaipur, and Ahmedabad, marking a shift from metro-centric entrepreneurship.



- **Infrastructure and Inclusivity:** To sustain this trend, infrastructure development, better educational opportunities, and enhanced inclusivity—particularly increasing women’s leadership representation—are critical.

Challenges Hindering Growth

- **Entrepreneurial Spirit:** Only 2% of Indian graduates pursue entrepreneurship, compared to 16% in the US. Increasing this to 5% could result in 5 lakh new entrepreneurs annually, creating thousands of sustainable startups.
- **Regulatory Hurdles:** Complex regulations, such as those under the Motor Vehicles Act and Digital Personal Data Protection Act, 2024, create operational challenges for startups.
- **Talent Retention:** A significant percentage of Indian tech professionals seek opportunities abroad, intensifying competition for skilled talent.
- **Infrastructure and Funding Gaps:** Limited internet penetration in rural areas (37%) and funding disparities for women-led startups highlight existing inequities.
- **Scaling Challenges:** Approximately 90% of startups fail within five years due to operational difficulties and challenges in scaling to new markets.

Conclusion

India’s startup ecosystem has achieved remarkable growth, emerging as a global hub for innovation. However, challenges like insufficient domestic capital, skill retention, and scaling barriers persist. Addressing these issues through progressive policies, enhanced inclusivity, and collaboration among stakeholders is essential to unlock the ecosystem’s full potential. With sustained efforts, India is well-positioned to achieve its vision of *Viksit Bharat by 2047*, setting a global benchmark for entrepreneurship and innovation.

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