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A study of the impact of the startups India scheme on the Indian economy

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Abstract

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 Indian government provided a new avenue for preparing the nation's young, brilliant citizens to launch their ventures instead of waiting for employment, demonstrating greater trust in their abilities. Young professionals can take advantage of the market by creating a good or service they think people will pay for. The startup concept is still in its early stages. Therefore establishing itself will present several difficulties. The main challenges are financing, lack of planning, hiring the right people, the regulatory environment, and poor risk management. Despite several obstacles, startups in India are contributing positively to the socioeconomic advancement of the country. The Startup India programme offers optimism to international investors and young people in India. The goal of the current study is to assess how startups are affecting the Indian economy. The research examines texts from books, websites, journals, and other sources to identify the many issues and difficulties experienced by startups in India.

Keywords: Startups, foreign direct investments, Indian economy, entrepreneurship, economic development, funding and innovation

1. Introduction

There are many brilliant people in India. The kids, however, do not have many chances to realize their aspirations. The Government of India's flagship programme, Startup India, aims to encourage the startup culture and create a healthy, inclusive environment for innovation and entrepreneurship in India. On August 15, 2015, Shri Narendra Modi, the country's honorable prime minister, unveiled the Startup India programme. The flagship project intends to create a robust ecosystem for supporting startups and innovation in the nation, promoting long-term economic growth and providing significant job possibilities. The young may thus use this campaign as a great springboard to achieve their objectives. 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).

2. Meaning and definition of startup

The word "startup" is continually growing due to its complexity and subjectivity. Hence there is no precise definition. As used in everyday speech, the startup describes a business that is just starting. It aims to create a good or service for which they think there is a market. With their announcement dated February 19, 2019, the Department of Promotion of Industry and Internal Trade (DPIIT), the Ministry of Commerce and Industry, and the Government of India attempted to define the word startups. A startup is defined as follows according to this notification:

2.1 An entity shall be considered a Startup:

- Up to ten years from the date of incorporation or registration, if it is registered in India as a limited liability partnership (under the Limited Liability Partnership Act, 2008), a partnership firm (under section 59 of the Partnership Act, 1932), or a private limited company (as defined in the Companies Act, 2013).

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2. Since incorporation or registration, the entity's annual revenue has never surpassed 100 crore rupees.
3. The organization is trying to develop new goods, processes, or services, or it is a scalable business model with excellent potential for income or employment creation.

In brief, a startup can be defined as an entity that is headquartered in India, which was opened less than ten years ago, and has an annual turnover of less than ₹100 crore

3. Objectives of startup in India

Our honorable Prime Minister Shri Narendra Modi's Startups India project aimed to advance the Make in India and Standup India initiatives and position the Indian economy as a developed, self-sufficient, and dependable economy worldwide. The startup India programme was introduced in January 2016 with the following main goals: -

1. Develop a pool of job producers as opposed to job seekers.
2. Increasing India's employment rate through fostering chances for new product and service development.
3. Lessens the burden of regulations on startups, enabling them to concentrate on their main line of business and keep compliance expenses down.
4. Give everyone an equal opportunity to utilize their skills and knowledge and make their dreams come true.
5. Offer financial assistance, marketing help, and regulatory assistance.
6. Establish a solid ecosystem to support entrepreneurs and innovation throughout the nation.

4. 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.

5. Limitations of the study

1. Data from 2016 to 2022 are the basis for this analysis.
2. Only secondary data were used to conduct this investigation.
3. The information for the recognized and unicorn businesses is for the relevant calendar year, while the information for the other startups is for the financial years starting in 2015-16.

6. Review of literature

1. Meenakshi Bindal, Bhuwan Gupta, Sweetie Dubey (2018) ^[18], The main objective is to analyze initiative for startup India, to understand the problems faced by the startups, to study the impact of startups on people, to study the awareness about the startups. It is based on secondary data. It is found that the government must help startups promote themselves, not just in india but across the global, as well as create policies that are startups friendly so that Indian startups get a major

boost and they can further create better employment.

2. Hans Westlund (2011) ^[19]: The current empirical entrepreneurship literature mainly shows a positive correlation between entrepreneurship (measured as the number of startups) and economic growth. However, the mechanisms by which entrepreneurship exerts its positive influence are not obvious. The net result of startups on employment or GDP can be negative, at least in the short run, since efficient, new companies may lead to closures of less efficient ones. Based on an assumption that economic entrepreneurship in the form of startups creates unobserved supply side effects on the firm level (Fritsch & Mueller 2004) and entrepreneurial social capital on community level (Westlund & Bolton 2003) this paper studies the connections between startups and local development at the municipal level in Sweden between 2000 and 2008. We use a unique database including not only total startups, but data on startups divided in six branches to study the impact of entrepreneurship on population and employment growth. Analyses are performed on all municipalities as well as by municipality type and by growth rate.
3. Mishra (2018) ^[20], This study primarily demonstrates a positive relationship between entrepreneurship (number and percentage of startups) and economic expansion. However, the components through which the business exerts its positive influence are not obvious. The net side effect of new activities on employment or GDP can be negative, in the short term, as new productive organizations may have to shut down less efficient ones. Due to the hypothesis that financial activity such as new firms produces unconscious side effects on firm level investments and positive share capital at the local area level (Bindal, Gupta & Dubey, 2018) ^[18], this paper focuses on connections between start-ups, business and civil-level development in Sweden sometime between 2000 and 2008. Tests are conducted in all regions, as well as by region type and level of development.
4. Sahoo (2018) ^[21], This study is focused on understanding the impact of Make in India scheme on Indian economy. This describe that the e government has made steps to open new industries to FDI, raise the sectoral cap on already-existing industries, and simplify other FDI policy requirements. Reforms to the FDI policy are intended to make conducting business easier and hasten the flow of foreign investment into the nation. Overall, the made-in-India and FDI landscape were encouraging to potential investors from across the world. It represents a comprehensive overhaul of procedures and regulations. With the introduction of Make in India, the Indian government has changed its perspective from that of an issuing authority to that of a business partner.

7. 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.

8. New initiatives under startup India scheme

The Government of India's Startup India action plan, 2016, saw the following projects carried out under the Startup

India program:-

1. Simplification and Handling.
2. Funding and Incentives.
3. Incubation and Industry-Academia Partnership.

8.1 Simplification and Handling

As part of its action plan, the Government of India has simplified the compliance process to make it simple, pleasant, and flexible for entrepreneurs

- Compliance regime based on Self-Certification
- Startup India Hub.
- Rolling – out of mobile apps and portal.
- Legal support and fast-tracking patent examination at a lower cost.
- Relaxed norms of Public procurement for startups
- Faster exit for startups.

8.2 Funding and Incentives

Access to financing has been one of the main issues Indian startups have had to deal with. Startups frequently fail to secure funding owing to a lack of collateral or cash flow. In addition to the considerable risk involved with startups, many fail to take off. The Indian government, as part of its action plan, takes the following actions to secure financing for startups:-

- Providing funding support through a Fund of Funds with a corpus of INR 10000/-Crore (Ten Thousand Crore)
- Credit Guarantee fund for Startups
- Tax exemptions on Capital gains.
- Tax exemptions to startups for three years to meet the working capital requirement.
- Tax exemption on Investment above Fair Market Value.

8.3 Incubation and Industry-Academia Partnership

The Government of India acknowledged the need for incubation and industry-academia partnerships to leverage the private sector. In its Startup Action Plan, 2016, the Government of India takes the following actions to meet this need:-

- Organizing Startup fests for showcasing Innovations and providing collaboration platforms.

- Launch of Atal Innovation Mission (AIM) with Self-Employment and Talent Utilisation (SETU) Programme
- Harnessing Private Sector Expertise for Incubator Setup
- Building Innovation centres at National Institutes
- Setting up of seven new research parks modelled on the research park set up at IIT Madras.
- Promoting Startups in the Biotechnology sector
- Launching of Innovation Focused programmes for students
- Annual Incubator grand challenges.

9. The impact of startups on the Indian economy

9.1 Startups Recognized By DPIIT

Since the 2016 introduction of the startup action plan, 84012 startups have been recognized by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce & Industry, Government of India, as of November 30, 2022. The year-by-year breakdown of businesses recognized demonstrates an upward trend that is steady year over year, demonstrating the programmer’s importance, effectiveness, and popularity among young, creative entrepreneurs.

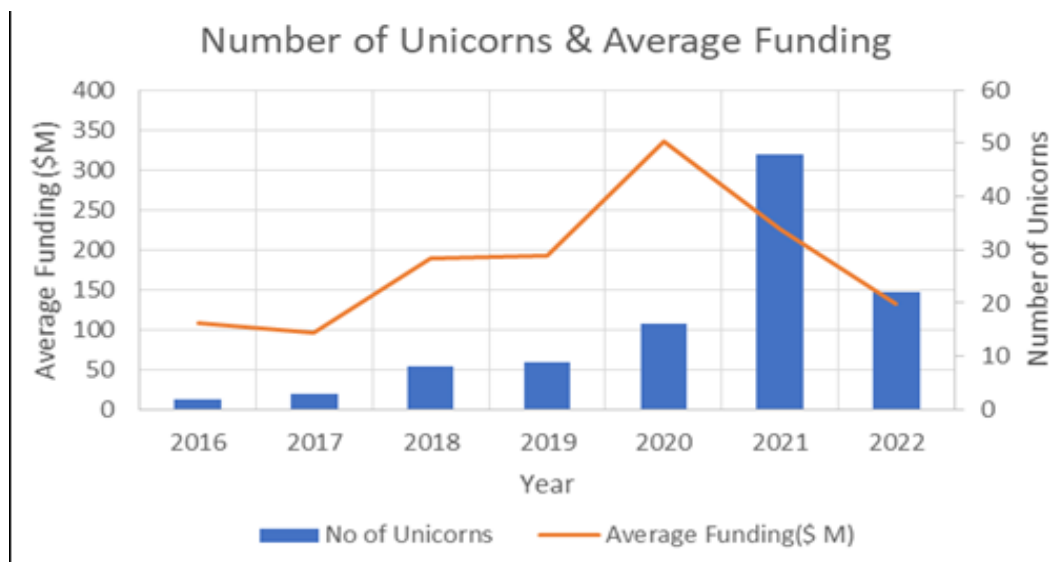
Table 1: Numbers of startups recognized by DPIIT

Year	No. of Startups Recognized by DPIIT
2016	452
2017	5147
2018	8689
2019	11328
2020	14534
2021	20089
2022	23773
Total	84012

Source: Ministry of Commerce & Industry, 16 DEC 2022 7:13 PM by PIB Delhi

9.2 Unicorn Startups

A privately owned firm with a market valuation of USD 1 billion or more is referred to as a unicorn. This phrase is frequently used about unlisted businesses rather than those listed on stock markets. Below are the unicorn firms' year-by-year statistics.



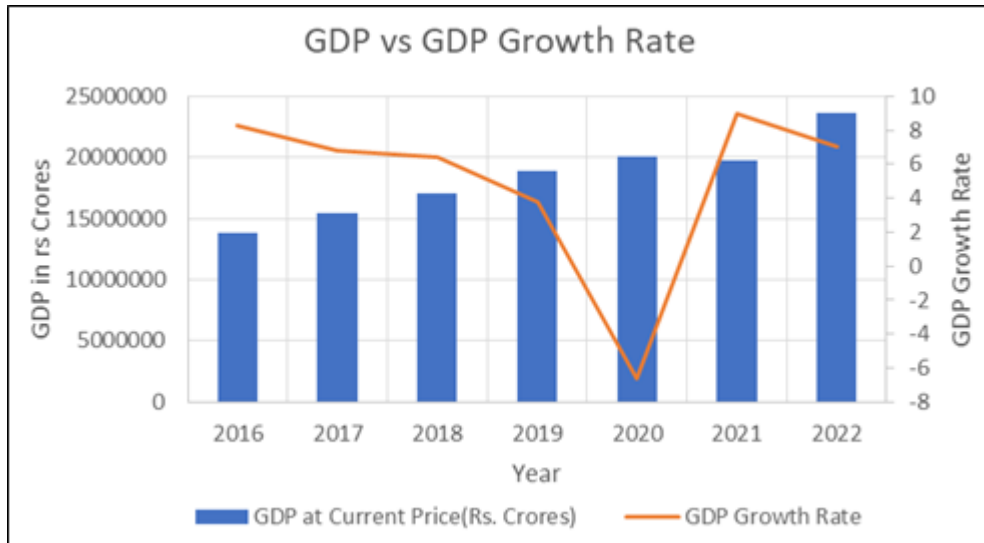
Source: Tracxn.com/d/unicorn-corner/India

Fig 1: Number of startups Built as Unicorn

The above figure represents that, as of December 31, 2022, India has one of the fastest-growing startup ecosystem, with 108 unicorn startups. Building a unicorn indicates that the founder's idea has gained international recognition and will play important role in development of Indian economy in the future. It also shows that young Indian entrepreneurs have been putting a lot of enthusiasm, passion, and tenacity into the possibilities offered by the Startup action plan, 2016

and turning their dreams into reality. One unicorn out of every ten that exists today was born in India. Overall, the number of firms joining the unicorn club has increased exponentially between 2021 and 2022. This is a blatant indicator that startups will be essential to economic growth over the next four to five years.

9.3 Data Related to GDP & GDP Growth rate



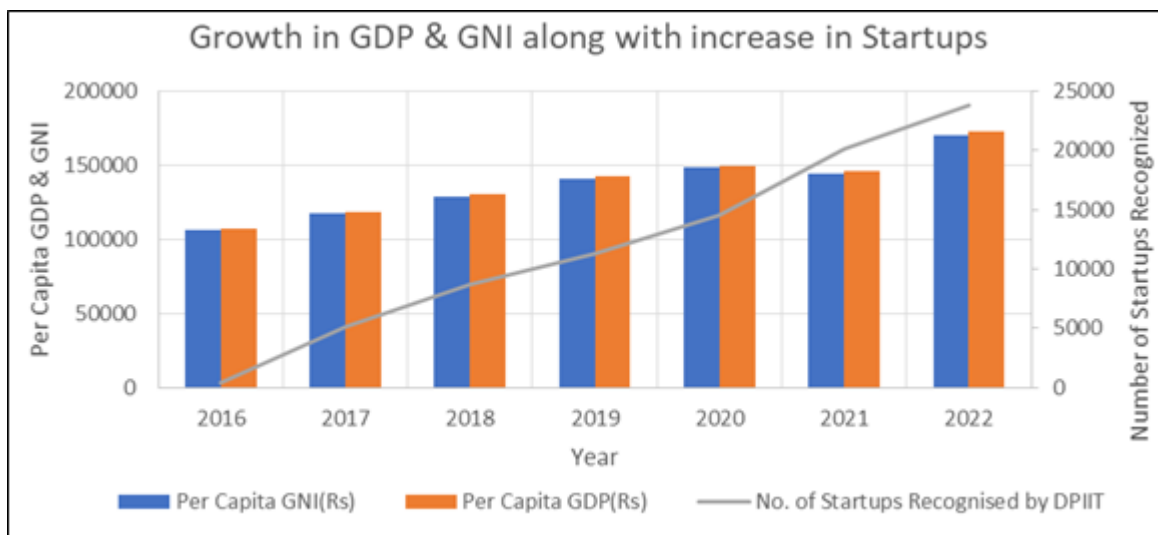
Source: rbi.org.in, National Statistical Office (NSO)

Fig 2: Gross Domestic Product at current price (Base Year 2011-12)

Note: Data for 2018-19 are third Revised Estimates, and for 2019-2020 are Second Revised Estimates. 2020-2021 are

the First Revised Estimates, and Data for 2021-2022 are Provisional Estimates.

9.4 Data Related to GNI, GDP & No. of Recognised Startups



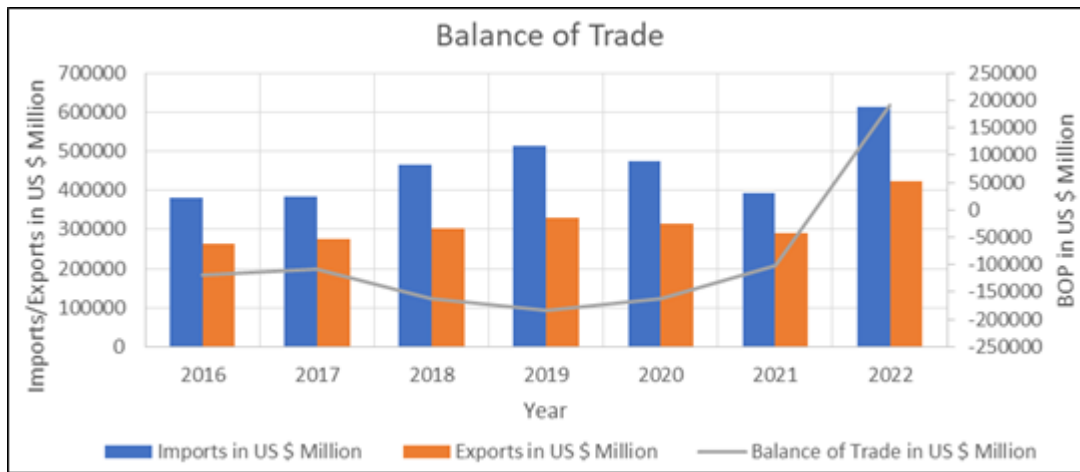
Source: rbi.org.in

Fig 3: Gross National Income at the current price (The base Year 2011-12)

Since the introduction of the Startup India programme in 2016, the number of recognized startups has been increasing rapidly. The number of recognized startup has increased from 452 in 2016 to 23773 in 2022 which represent almost six times increase in the number of recognized startups, The gross domestic product and gross national income have increased consistently and steadily from 2016 to 2022 but

this change is very little in comparison to change in number of recognized startups. However, it is just a relatively short period of six to seven years out of which more than two years are significantly influenced by Covid19 globally. It will take a few more years for India, which is not an exception, to see the highly positive effects on its economy.

9.5 India’s Import and Export



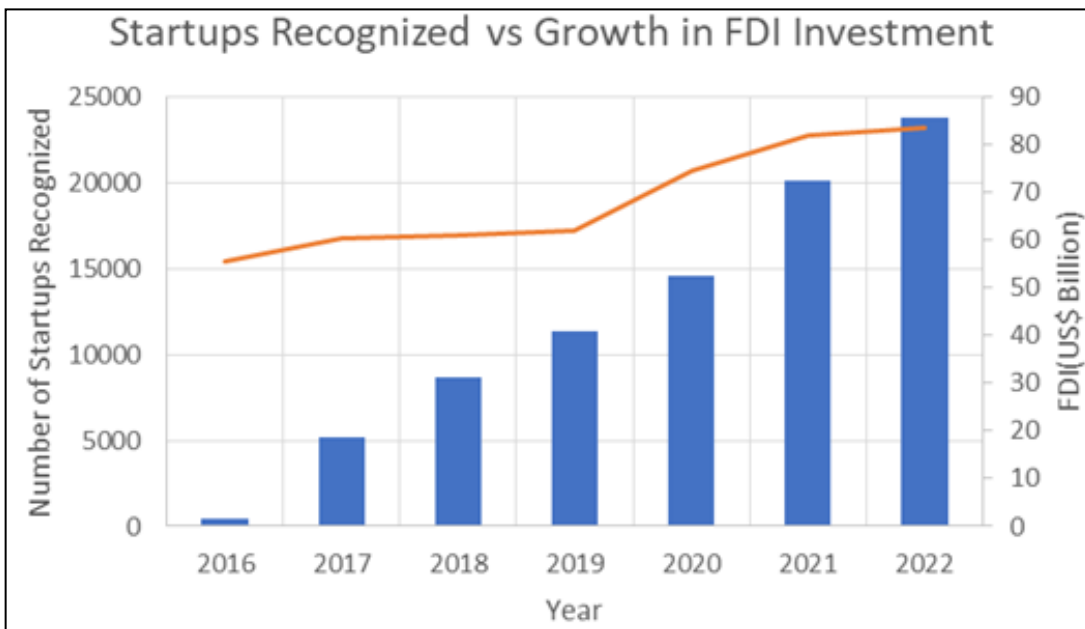
Source: rbi.org.in (Directorate General of Commercial Intelligence and Statistics).

Fig 4: India's exports and Imports- US Dollar

There is a constant upward trend as the India’s export and import is concerned since 2016, but the rate of increase of Import is more that rate of increase in export. Therefore the balance of trade is continuously increasing from the year

2016 to 2022. In the coming years we are expecting that the export will increase due to sustainable startup ecosystem.

9.6 India’s Foreign Direct Investment



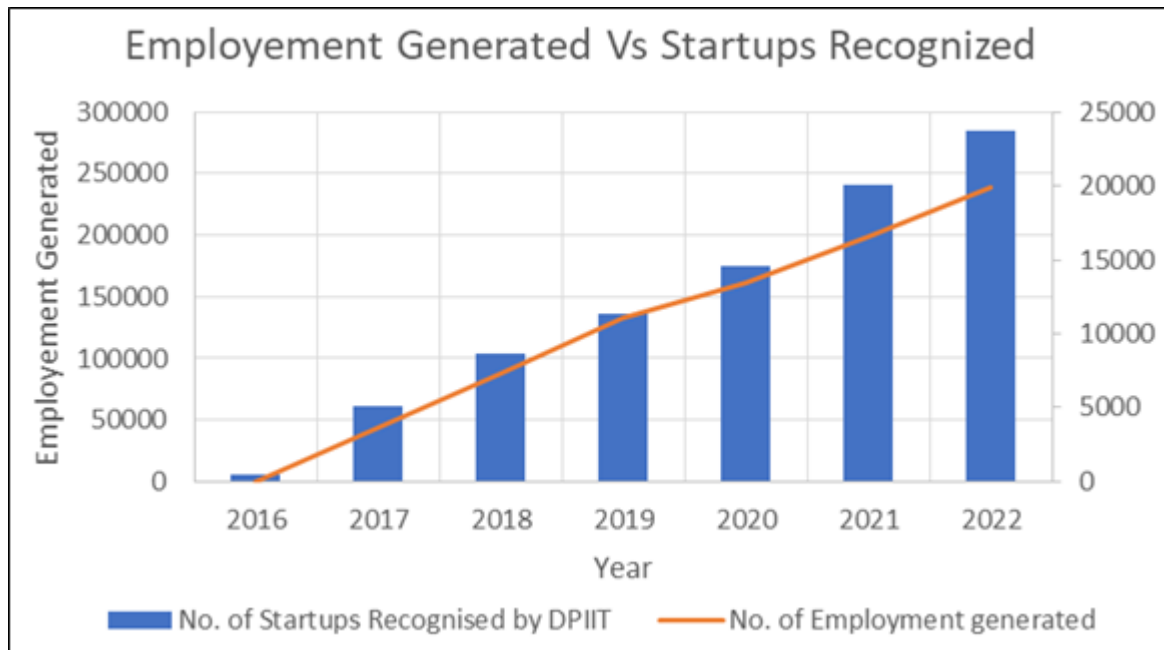
Source: Ministry of Commerce & Industry (20 MAY 2022 4:19PM by PIB Delhi)

Fig 5: The Foreign Direct Investment in India

The FDI Inflows indicates that the amount of FDI Inflow significantly increased after the announcement of Startup India programme action plan in 2016. In 2016 the amount of FDI inflow was USD 55.55 Billion which is USD 83.57 Billion in 2022. It represents a very significant favorable impact on FDI inflow in India. There are variety of causes for the rise in FDI Inflows, but the impact of the startup India scheme cannot be ignored. Therefore, the 2016 Startup India Action Plan has had a positive effect on FDI inflows.

9.7 Startups and Employment Generation in India

According to the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce & Industry, Government of India, startups have generated more than 8.6 lacks direct employment as of November 30, 2022, since the inception of Startup India in 2016. The average number of jobs produced by startups over the past three years has been a little over two lakhs, according to a detailed analysis of entrepreneurs' employment yearly. This may not seem like a significant influence, given the scale of our economy. Still, it does point to a shift in the younger generation's outlook that will benefit the economy in the future.



Source: Ministry of Commerce & Industry (16 Dec 2022 7:13PM by PIB Delhi), dipp.gov.in

Fig 5: Number of Employment generated by Startups

10. Challenges for startups in India

Innovation and creativity are essential for a country's economic growth. The Startup Action Plan 2016 was released by the Government of India to provide young professionals with the chance to turn their concepts into marketable goods and services, allowing under or underutilized human and non-human resources to be used to their full potential. The startup programme in India is still in its infancy; as a result, it will face several obstacles in growing. The main obstacles are financing, lack of planning, hiring the right people, the regulatory environment, and poor risk management.

11. Conclusion

Despite the numerous difficulties that Indian entrepreneurs confront, they succeed because of the Government of India's extensive assistance. Other than the federal government, some state governments are offering their full support for expanding the plan and modifying their laws to facilitate commerce. According to recent statistics from the government, up from 452 in 2016, there will be 84,012 startups registered in the nation by November 30, 2022. Additionally, it stated that India had a substantially greater success rate for startups compared to other countries. After the US and China, India has the third-largest startup ecosystem. According to a forecast by Stride One, a tech-enabled NBFC, startups will increase their share of India's GDP from 2.5 to 3% to roughly 4-5% over the next three to five years.

The Indian economy is one of the fastest growing economies in the world, thanks to entrepreneurship built on innovation. Due to its sizable untapped market, diversified culture, and significant demographic dividend, India is now considered by international investors.

Today, startups play a significant role in the Indian economy and significantly influence the country's socioeconomic advancement. Innovation and ingenuity drive the country towards excellent employment rates, better goods, and better services.

In 2021 and 2022, India outperformed many developed nations by adding 70 (seventy) firms to the unicorn club. One further positive development is the country's population's shift in attitude towards startups. Overall, the outlook for startups in India is promising. Many people think that a slew of startups will be the ones to propel India's economy towards becoming a \$5 trillion one.

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