

Analyzing the Policy Landscape of Indian Startup Ecosystem



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Abstract

The Indian startups have expanded rapidly over the last few years. Infosys, founded in 1981, is India's first startup success story in the realm of startups. The Indian economy started to gain momentum from the early 1990s. Buoyed by new policies that fostered business activities, there was a significant growth in new company registration from 15,000 to 100,000. By 2010, the traditional business model was upended by the startup model, following an influx of private investors (e.g., angel investors, venture capitalists', crowdfunding, incubators, and accelerators, corporate funding, etc.) and government programs. Between 2016 and mid-2023, the startups witnessed a growth rate of 225 times- (442 startups in 2016 to 99,371 startups in 2023) and generated 8.93 lakh jobs by mid-2023.

Startups are instrumental in generating jobs, fostering innovations with the potential to generate impactful and scalable solutions in various sectors including technology, education, health, agriculture, manufacturing, and environment. However, the dream run that Indian startups have been experiencing for the last two decades was abruptly truncated, following the loss of private investors in FY 2022. A report cited a 33% decline in funding from the previous year (~\$35 Bn. In FY 2021 to ~24 Bn. in FY 2022) resulting in shutting down of startups or laying-off existing employees to rationalize operating costs. The same report also claims that there exist significant variations in the proportion of funding and volume of funding for early versus late start-ups. Within the startup ecosystem, 71% of the funding has been restricted to five sectors- software as a service (SaaS), FinTech, Logi and AutoTech, EdTech and direct to consumer (D2C).

Considering the significant role played by startups in fueling India's economic growth, this paper will focus on understanding the policy landscape, and the role it plays (along with challenges) in powering the startup ecosystem. A report cited the failure of 90% of startups within the first five years despite the entrepreneurial spirit. The paper is expected to present a series of recommendations to the central government, aiming to help startups leverage government support to foster innovations, generate employment, and economic growth. From a global perspective, it is imperative that the government continue to prioritize the Indian startup due to presence of two contrasting economic realities.: First, in the context of post-COVID, the world witnessed massive supply chain disruptions, which forced global manufacturers to scout for new locations for investment, presenting new opportunities for developing countries such as India. Second, the growing concern over global downturn prompted private investors to reduce cash flow to the Indian startup ecosystem. The study draws from secondary data released by national/international agencies and the Indian government. This is validated through discussions with select stakeholders in the startup ecosystem including, startup entrepreneurs, investors, incubators and accelerators, industry associations and consultant firms leveraging the foundation's connections and interests towards empowering the startups.

1. Background

Startups have become a key enabler for the economy to generate jobs and enable innovations. In the last four decades, the Indian economy witnessed rapid transformation, starting with economic liberalization in the early 1990s. The private sector flourished as new company registration grew by 57 times from 26,217 (1992) to 150,6491 (31.01.2023) (Ministry of Corporate Affairs). By 2010, the traditional business model was upended by the startup model following proliferation of global and domestic private investors (e.g., angel investors, venture capitalists, crowdfunding, incubators, and accelerators, corporate funding, etc.). This changed by the mid-2010s, when realizing the potential role for startups for the economy, the central government launched Startup India (2016), a flagship initiative implemented by the Department for Industrial Policy and Promotion (DIPP), for promoting startups through enablement of regulatory, funding and capacity building support for the entrepreneurs.

Following the launch of the Startup India, the government had formalized the definition of startups in the Startup Action Plan (January 16, 2016) (refer Annexure 1), which was revised following several rounds of discussions with the key stakeholders in the ecosystem (refer Annexure 2). Formalizing the definition of a startup was essential for the purposes of determining what type of enterprise should qualify as a startup and receive both financial and non-financial initiatives.

A startup is an entity, which is registered in India not over five years and the annual turnover not exceeding INR 0.25 crore in any financial year. It is an entity which works towards innovation, development, deployment or commercialization of new products and services driven by technology or intellectual property (India.gov.in).

Between 2011 and 2019, the startup investments grew at a compound annual growth rate (CAGR) of 57% (ADB Working Paper No.1145, 2020, p.3). In less than two decades, the startups grew by 225 times, from 442 startups in 2016 to 99,371 startups in 2023 and added 893,000 jobs to the economy (Lok Sabha Unstarred Question No. 1743 dated 13.02.2023). According to the Global Startup Ecosystem Index (2022), India ranked 19th among the top hundred countries of startup economies, a jump by four places from previous year. In 2021, India also emerged as one of the top five "most startup-friendly countries in the world" based on five key parameters-human capital investment, research and development, entrepreneurship infrastructure, technical workforce, and policy dynamics (CEOWorld.biz). Nevertheless, the years following the global pandemic have seen a downturn for the startup growth stemming from inherent challenges within the startup ecosystem and broader global economic uncertainties.

In this paper, the primary focus is in comprehending the policy process relating to startups, and how it created both opportunities and bottlenecks for startup growth. To achieve this understanding, we look at the policy interventions, and how the interplay between central and state-level policies impacted the startup ecosystem. By unraveling the policy design and its implementation, we aim to shed light on the crucial factors that can drive India's progress towards achieving this ambitious economic goal.

2. Policy and Regulatory Overview of Indian Startups

In the first four decades post-independence, the state was the key enabler in production of goods and services and generating employment. Consequently, the private sector had a nominal role, which adversely impacted the rise of entrepreneurial spirit among individuals. This changed in the early 1990s, when domestic and international compulsions forced the state to embrace economic liberalization. The passage of the New Economic Policy (1991) prioritized the role of private players in all the sectors of economic growth, and helped India get integrated with the global market. It also transformed the core manufacturing (industrial) sector through diversification of goods (quality and types of goods) and increasing India's share in global trade. (Ibid, p.3-4).

The state's involvement in crafting transformative policies for the startup ecosystem came after startups had already become integral to the Indian economy. In fact, the country's startup journey started in the mid-1990s after the rise of IT and ITeS (IT enabled services) (Knowledge at Wharton, September 5, 2019). In the early 2000s, the country's economy witnessed a steady growth. Underlying the strong economic growth were multiple considerations including, rise in household consumption due to increasing disposable income (IBEF website), growing urbanization (i.e., the urbanization rate in India increased by ~20% between 2010 and 2019) (Globaldata website), and emergence of a large consumer for digital products and services (Resource Hub, June 7, 2020). This further propelled the startup ecosystem to organize, and grow rapidly between 2007 and 2016, to take advantages of India's market dynamism (Grant Thornton-ASSOCHAM-Startup India, 2016). When we look at the sectoral distribution of startups (refer Figure 1), many of the startups focused on software as a service (SaaS), FinTech, Logi and AutoTech, EdTech and direct to consumer (D2C) services. By mid-2010, the Indian state recognizing the opportunity for startups intervened and formulated policies which were expected to create favorable conditions for supporting a strong startup ecosystem.

It should be noted that the stages of startup evolution are different for each market and country. Broadly, the startup market lifecycle has five stages (refer to Annexure 2) based on the financial ramifications for both the entrepreneurs and investors (Stanford Social Innovation Review, March 25, 2020). In India, the startup lifecycle was broadly categorized into three stages (e.g., pre-startup, startup, and growth) based on investment, revenue generations, and areas of operations (Grant Thornton-ASSOCHAM-Startup India, 2016, p.3). Policymakers at the central and state level are expected to provide a range of support to the startups during their lifecycle that

can be broadly classified in three categories: regulatory, funding, and capacity building of stakeholders.

2.1 Regulatory

To transform the startup ecosystem the central government undertook regulatory reforms with the objectives of improving the ease of doing businesses and reducing the compliance burden. The Startup Action Plan, 2016 (refer to Annexure 4) was expected to create the right opportunities for startup growth by limiting the number of regulatory compliances (e.g., six labour and three environmental laws), improving the ease of setting and existing business, and helping the entrepreneurs apply for government schemes. Following the introduction of the regulatory reforms, the country emerged as a leading startup destination for the global South. To aid startups with post-pandemic recovery, the central government (i.e., working with different central ministries, RBI and SEBI) took on additional fifty-three reforms to facilitate an enabling environment for investors and entrepreneurs, i.e., simplify renewals, inspections, and filing records; rationalize or amend outdated laws; and decriminalize minor technical or procedural default (Ministry of Commerce and Industry, February 10, 2023). In addition, following the development of the digital infrastructure in the country, the central government leveraged the use of technology (i.e., National Single Window System (NSWS)) to improve the entrepreneurial experience for setting up new businesses.

Individual states and union territories have also worked closely with central government, public and private stakeholders to introduce legislative reforms aimed at reducing the compliance burden and improving the ease of setting up startups (refer to Annexure 4). There are some states adopting targeted policy intervention, which created considerable opportunities for developing a strong startup ecosystem. In 2018, Maharashtra unveiled a visionary startup policy for creating a conducive ecosystem for promoting startup growth across various sectors. The state startup policy prioritized the setting up of 10,000 startups, which were likely to generate 500,000 direct and indirect employment by 2023. To achieve the objective of creating an enabling environment for the startups, the state adopted several strategies and initiatives, including the Leapfrog Maharashtra program. As part of this program, the state offered a “single-window clearance system for obtaining clearances and approvals in a time-bound manner for startups. By creating the right set of policy opportunities, Maharashtra has emerged as the top state with the maximum number of startups (15,571) in the country (as recognized by the Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry).

Enablement of a grassroot level startup ecosystem has been recognized as an effective strategy for the country’s startup growth. Recognizing the importance of

promoting startups, which is not restricted to a few cities, Uttar Pradesh startup policy offers a decentralized governance structure as part of its implementation strategy (Uttar Pradesh Startup Policy 2020, p.3). This entails the creation of a four-tier governance structure including the Startup Nodal Agency acting as a “single window” for startup-related matters (e.g., identifying and applying for startup related requirements). The Policy Implementation Unit (PIU) is entrusted with supervising the operations of the nodal agency, and decision-making for effective implementation of the startup policy. The Policy Monitoring & Implementation Committee (PMIC) is entrusted with decision-making for policy implementation, ensuring inter-department collaborations or any issues referred by PIU for decision-making, and maintaining oversight through monthly review of progress made by various departments related to startups. Finally, all three institutions are overseen by the Steering Committee with the broader objective of reviewing startup policies both in terms of policy progress and deliberating on policy matters (Ibid, p.4). By prioritizing policy implementation for improving the ease of businesses in the state, the state has become a leader in developing a strong startup ecosystem (Startup India Ranking of States, 2022). The state has 6,654 registered startups with 69% of these startups set up in the last two years after unveiling of the startup policy (refer to Annexure 5a&5b).

When reviewing the state startup policies, Tamil Nadu has emerged as a leading state to prioritize the use of technology to extend regulatory support to startups starting from pre-seeding to growth stages (refer to Annexure 4). To ensure an inclusive and facilitating ecosystem for startups, the state has created a nodal agency (i.e., Entrepreneurship Development and Innovation Institute (EDII)) for enabling the setting up of startups. The Tamil Nadu Startup & Innovation Council (TANSIL), a mission within the nodal agency, helps in advocating and evaluating policies and programs relating to the state startups (Ibid, p.4). Consequently, the state has been successful in setting up of 6,000 startups (refer to Annexure 5a&5b) across different sectors with Chennai emerging as the most promising startup hub in the country (Inc 4 Plus Report, 2021; Startup India Ranking of States, 2022).

2.2 Funding

The success of a startup is dependent on steady access to finance throughout the entire lifecycle of its operations. In India, the funding ecosystem for startups has been mostly dictated by private investors (i.e., global, and domestic investors, corporates, banks, and non-banking financial NBFCs), even if the state had provided financial access to startups from the mid-2010s. According to the Startup Action Plan (2016), there are two broad categories of funding – the first category provides financial assistance in the form of aid, grants, loans, and assistance for supporting startup operations and scaling up of production. Some states would offer

financial reimbursement (e.g., reversal of patent filing costs/registration relief/GST/municipal duties/capital gains/legal costs/rental reimbursement for enterprise located in state parks, special economic and clusters) and concessions (e.g., land, physical infrastructure, electricity, cloud, and internet services). The second category comprises of tax exemptions. Startups registered under the DPIIT received tax exemptions (e.g., Income Tax exemptions under Section 80 IAC and Minimum Alternate Tax).

There are interest-free/low-cost loans for startups, financial support for building incubators, accelerators, or research parks. Some of the more startup friendly states have built a corpus funding to enable the startups. Uttar Pradesh established the UP-Startup Fund (corpus funding of INR 1000 Cr.) to finance startups in the state (UP Startup Policy 2020, p. 8). Similar funds-of-funds were created by Kerala (715 Cr.), Maharashtra (an initial corpus of INR 100 Cr., and total of INR 500 Cr. over the next five years), Tamil Nadu (INR 250 Cr.), Jharkhand (INR 250 Cr. over the next five years), and Andhra Pradesh (INR 100 Cr.)

When we look at the startup landscape, the majority are early stage (i.e., pre-seed stage) startups relying on bootstrapping (e.g., personal funds, loans from family and friends) to run their operations. To support startup entrepreneurs in this stage, states offer a range of financial assistance including seed funding, performance grants, innovation grants, sustenance allowance, aid for joining incubators and accelerators, and travel grants. For instance, Gujarat startup policy continue to prioritize funding for early startup entrepreneurs by offering, sustenance allowance³, seed support⁴, assistance for social impact startups⁵, enrolling/participation in accelerator program⁶ and skill development. Most of the state startup policies also offer reimbursement for meeting the operational costs of running a startup, which is beneficial to the early-stage startup entrepreneurs with limited capital access (refer to Annexure 4).

When it comes to creating an enabling startup ecosystem for women and other socio-economically marginalized communities, some states have specific policy provisions. Kerala extended four types of financial support to women startup entrepreneurs in the form of loans and grants. States including Bihar offered additional subsidies- 5% women,15% for SC/ST and 15% for disabled, and additional corpus funding were reserved for SC/ST beneficiaries to set up startups (Bihar Startup Policy 2022, p.12). According to the Odisha startup policy, an additional monthly support of INR 22,000 is extended to women, transgender, and socio-economically marginalized groups. The state also provided funding support for product development and marketing assistance to women, transgender and socio-economically marginalized entrepreneurs (Odisha Startup Policy 2016). In Uttar Pradesh, additional funding support (i.e., seed capital in the form of marketing assistance) was made available to women, disabled, socio-economically

marginalized groups, people residing in Bundelkhand and Purvanchal region of the state. Uttar Pradesh is one of the few states to promote an inclusive startup policy in terms of gender and socio-economic representation in Tier 2 and 3 cities.

A sector-wise analysis of startups (refer to Figure 1) indicates that SaaS, D2C, FinTech, e-commerce B2B, Logistics and Auto-Tech are among the top five invested sectors receiving 89% of the private investment in the Q1 of FY 2023-24 (PWC Report 2023, p.5). Realizing the opportunities available in the tech-startup space, Karnataka, Telangana, and Andhra Pradesh have ensured 360-degree policy support including targeted access to finance. Karnataka accounted for a significant share (40%) of the nation's exports, encompassing vital sectors of software, biotechnology, Electronic System Design and Manufacturing (ESDM), and aerospace. Additionally, Karnataka remains at the forefront of cutting-edge technologies, including blockchain, IoT, artificial intelligence, nanotechnology, machine learning, cyber security, robotics, genetic engineering, and quantum technologies (Ibid, p.5). To facilitate the needs of the tech-enabled startup ecosystem, the state offers INR 50 lakhs (one-time grant-in-aid) to early-stage startups to develop their ideas to proof-of-concept stage (Karnataka Startup Policy 2022-27, p.10). In addition, the state committed INR 100 Cr. as Venture Capital Fund to support “emerging innovative and deep tech startups in Artificial Intelligence, Machine Learning, Electric Vehicles, MedTech, Robotics, Drones, and other such disruptive technologies across all sectors.” (Ibid, p.10). The government extended additional financial support towards capacity building of the entrepreneurs through incubators and accelerators. In the case of Telangana startup policy, the focus was on enabling early-stage tech- entrepreneurs by extending funding support through the T-Fund7 (Telangana Innovation Fund). The state policy also made additional financial provisions through the T-Seed8 and Phoenix9 funding (Telangana Innovation Policy 2016, p. 13).

2.3 Capacity building

Capacity-building is of crucial importance for aspiring and existing entrepreneurs wanting to increase both technical and managerial skills. As most entrepreneurs do not have knowledge of how to operate a business, the incubators and accelerators offer an institutional mechanism for helping with product or idea development to co-creation of a viable business model. In India, incubators and accelerators are set up with central and state government funding, but recent years have witnessed an influx of private investors interested in operating an incubator and accelerator.

Following the launch of the Startup India Initiative, the central government has worked towards setting up of both incubation and acceleration to support startup entrepreneurs (NASSCOM Report 2020, p.13). The Atal Innovation Mission (AIM), set up incubators, innovation centers and research parks (PWC Report 2016, p.2).

A report (2020) indicated that the country had 520+ tech incubators and accelerators, the third largest number of programs in the world. The incubators and accelerators have enabled 6,200 startups with 63% located outside metro cities (Ibid, p. 9).

Every state also has a different policy for supporting both incubators and accelerators. These policies range from direct financial assistance to colleges and universities and aiding private players to launch incubators and accelerators. In fact, incubators and accelerators have been set up in universities, technical colleges recognized under the central/state legislations and center of excellence (e.g., IIT, IIM, NISER, IISER, NIT, etc.) providing a platform for collaboration between academia and the industry to foster innovations. Kerala is one of the better performing states to recognize the significance of creating an enabling environment for the startup entrepreneurs by prioritizing capacity building for the entrepreneurs. Kerala set up its first incubator (approved by the Department of Science & Technology) in 2006-Technopark Technology Business Incubator (Inc42 Report 2022, p.4). From 2015, the state has worked closely to build the capacities of startup entrepreneurs by setting up numerous incubators, innovation zones, and accelerators (e.g., The Maker Village – India’s largest electronic hardware incubator and Electronics System Design and Manufacturing (ESDM) facility; Digital Hub for technology startups and Bionest for biotechnology sector) (Ibid, p.4).

Andhra Pradesh is set on a mission to create 100 incubators and accelerators and has been seeking active collaboration with private stakeholders. The state is working with world class incubators and accelerators to help replicate the global best practices in Funding and Mentoring Models (Andhra Pradesh Innovation & Start-up Policy 2014-2020, p.2). The policy also extended financial support towards building the physical infrastructure for existing Technology Business Incubators (TBI's) (Ibid, p.2). Telangana on the other hand, realizing the significance of rural and social enterprises, have looked towards supporting incubators and accelerators in the social sector (Telangana Innovation Policy 2016, p.20). Moreover, by helping to create rural and social enterprise startups, the state looked towards enabling startups in Tier 2 and 3 cities (Ibid, p.20). States with limited financial capacities such as Jharkhand supported capacity building of startups through the setting up of Central Incubation Lab.

3. Policy challenges for the Indian startup ecosystem

In India, 90% of the startups are forced to stop operations within first five years of operations (Forbes, May 18, 2017) Failures of early-stage startups are often linked to lack of innovation in product/service designing, and viable business model for marketing the product or services. When examining startup failures from a policy perspective, it becomes evident that the government has not succeeded in fostering collaborations between academia and industry. Such collaborations could have significantly enhanced technical and scientific innovation performance. India's quest towards becoming "an innovation-driven knowledge economy" remain incomplete with the country failing to promote innovations and ranking 40th out of 132 countries as per the Global Innovation Index (GII) (2022). Second, startup ecosystem failed to generate new business models, which dampened its ability to raise additional capital for business growth (McKinsey & Company, August 19, 2019). Third, markets continued to remain unorganized and fragmented, which made it difficult for the startups to graduate to the next stages of its evolution (Grant Thornton-ASSOCHAM-Startup India, 2016, p.4). Finally, many startups suffered from a lack of strategic leadership, access to skilled workforce, finance, and infrastructure.

From a policy perspective, we would persist in utilizing the overarching categories of regulation, funding, and capacity building. This approach further contributes to our comprehension of the obstacles that hinder the growth of startups.

3.1 Regulatory

Policy level interventions to help with startup growth did not take place till the mid-2010s. There were wider variations within the state, both in terms of the nature of interventions and timings of policy formulation, which impacted startup growth. Except for a few states, no nodal agency was created to aid in startup registration, filing for compliances, and availing government schemes. Information asymmetry impacted aspiring/existing entrepreneurs, as they struggled to comprehend both the legal and regulatory provisions for their business operations. While the country had experienced a digital transformation, states failed to leverage the use of technology for addressing registration and compliance concerns. Without a guidance framework outlining how to adhere to all regulations and laws, startup entrepreneurs would find themselves in trouble due to non-compliance, ultimately affecting the overall productivity of their companies.

3.2 Funding

In India, the startup growth has been largely driven by private investment by global and domestic Venture Capitalists (VCs), Angel Investors, Corporates, Banks and NBFCs. In the last two decades, the country experienced a dream run in terms of growing investment in the startup ecosystem (refer to Figure 2a& 2b). However, the last two years have witnessed a steady decline in startup funding (~33%) by private investors (PWC Report 2022; The Economic Times, July 9, 2023). The decline in startup investment is a result of geopolitical and economic uncertainties (e.g., Russian war against Ukraine, deterioration of US-China relationship, disruption of global supply chains from the COVID induced restrictions, rising energy costs from the Russian-Ukraine war, Eurozone crisis, rising US federal interest rates) (Global Risk Report 2023; Bain & Company Report 2023).

Few states (e.g., Maharashtra, Gujrat, Karnataka, Uttar Pradesh, and Tamil Nadu) with greater financial resources extended additional access to capital through tax rebates, grant support, financial aid to incubators and accelerators. In contrast, north-eastern states with limited resources were unable to increase the volume of financial support to create a strong startup ecosystem.

The startup suffered from a widespread gender disparity with female co-founders raising just 13% of USD 11.5 Bn. (Inc42 Plus Report 2020, p.17). When reviewing state policies for fostering startup growth, a select number of states offered additional financial assistance to women, disabled and other socio-economically marginalized communities. This further indicates that the general policy landscape failed to create an enabling environment for promoting women entrepreneurship. In India, ~20% MSMEs (~1.4 to 1.6 Cr)-are women-led enterprises, which also employ 23% of the workforce (Bain and Company, 2019). By accelerating the quantity and quality of women entrepreneurship, it would have created 3 Cr. women-led enterprises, while generating 15-17 Cr. employment by 2030 (Ibid, p.1). While access to finance plaguing the startup is a universal problem. Indian women are disproportionately affected by the lack of finance due to absence of collaterals. Consequently, they are less likely to be able to rely on bootstrapping for funding startup operations in the early stages.

3.3 Capacity building

Today, incubators and accelerators are the key stakeholders in creating startup entrepreneurs by building their technical and business skills. In the last two decades, there has been a steady growth in the number of states supporting incubators, accelerators, innovation parks, and research centers. As the country aspires to become a global startup hub, it would need to address the gaps in demand versus

supply of incubators and accelerators vis-a-vie the beneficiaries. At present, each state has facilitated/created incubators and accelerators with the objective of promoting innovations and entrepreneurship. However, a major challenge for the incubators and accelerators is related to the governance mechanism, which is shaped by state policies. Discussions held with team members of Liftoff program revealed that majority of the incubators and accelerators set up with government funding remain inoperative or used for other purposes (i.e., not linked to startup related activities). There are challenges relating to the absence of monitoring and accountability mechanism for evaluating the nature of mentorship and training for developing a product/idea, and access to quality infrastructure. Moreover, the program structure of the incubators and accelerators were largely restricted to addressing the training and financial needs of early-stage startups, which impeded the growth trajectory of mature startups.

4. Policy Recommendations

The role of startups in job creation and transforming the Indian economy is undeniable. There exist immense opportunities for startups to leverage from India's growing market size, rising income, increasing labour productivity, and declining external dependency ratio (Goldman Sach July 6, 2023). If India had to become a global startup, fostering innovations, and creating jobs, the government startup policy should be agile and adaptive to the needs of the ecosystem. This paper proposes a series of policy recommendations, which helps in creating the right conditions for generating startup growth:

Regulations

- Establish a nodal agency for startups in each state. The nodal agency should be tasked with creating and managing a digital platform, which serves as a one-stop shop for information dissemination, startup registration filing compliances and applying for government schemes on a real-time basis.
- Create a single tendering process for procuring goods and services from registered startups.
- Establish a state-specific framework for reviewing the monthly progress made by different departments/ministries working on respective startup policies.
- Leverage the use of technology to develop a guidance mechanism for startup entrepreneurs regarding policies and regulations issued from ministries and departments.

Funding

- Financial assistance and reimbursement offered to startup entrepreneurs should be pro-rated and based on inflation and consumer price index (CPI).
- Create a framework for fund management and grant allocation to startup entrepreneurs through incubators and accelerators.
- Foster convergence between Ministries and Departments to extend additional funding opportunities to promote startup entrepreneurship among women, transgender, disabled, socio-economically marginalized communities, people living in geographically isolated areas, to adopt an inclusive and equitable approach to entrepreneurship.
- Establish innovation grants aimed at fostering innovation-driven ventures among youth in central and state-run colleges, universities, and research institutions.

Capacity Building

- Adopt a cluster development approach for supporting non-tech-based startups to help with processing, testing, designing, and manufacturing.
- Facilitate involvement of private sector to organize training and mentorship for startup entrepreneurs.
- Develop a performance matrix to evaluate the impact of incubators and accelerators in driving startup growth.

Annexures:

Annexure 1: Start Up Definition

As per notification (dated 19 February 2019) of Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry, the definition of a startup was revised and issued in supersession of the previous notifications dated 11 April 2018 and 16 January 2019 by DPIIT.

S.No.	Particulars	As per notification issued on 11 April 2018 (as modified by notification dated 16 January 2019)	As per notification issued on 19 February, 2019
Start-up eligibility			
1	Duration of recognition as start-up	<ul style="list-style-type: none"> Ten years for start-ups in the biotechnology sector. Seven years for others. 	Ten years for all entities.
2	Turnover threshold limit	Turnover for any FY since incorporation/ registration of the entity not exceeding INR 250 million.	Turnover for any FY since incorporation/ registration of the entity not exceeding INR 1 billion.
3	Nature of activities	Entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.	No changes.
Exemption from section 56(2) (viib) of the Act			
4	Threshold limit of share capital and share	Aggregate paid-up share capital and share premium of the start-up after the proposed issue of shares	Aggregate paid-up share capital and share premium of the start-up after the

	premium to become eligible for exemption	does not exceed INR 100 million	<p>proposed issue of shares does not exceed INR 250 million. Further, for the purpose of computing the aggregate amount of paid-up share capital and share premium of INR 250 million, the shares issued to the following persons shall not be included:</p> <ul style="list-style-type: none"> · A non-resident; or · A venture capital company or a venture capital fund registered as Category I AIFs; or · A specified company¹
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¹ "Specified company" means a company whose shares are frequently traded within the meaning of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and whose net worth on the last date of FY preceding the year in which the shares are issued exceeds INR 1 billion or its turnover for the FY preceding the year in which the shares are issued exceeds INR 2.5 billion. (PWC Report, 2019)

Annexure 2: Stages of Startup Growth

Stage 1: Ideation - Pre-Seed Stage	When the startup founders are working on an idea with limited fund requirements, which they acquire through “bootstrapping:” (using personal resources, funds from family and friends, grants, or financial aid from pitching the business plan).
Stage 2: Validation-Seed Stage	In this stage, the startup has an “MVP” (Minimum Viable Product) that they are getting ready to launch in the market. The seed stages require additional fundings, which are explored through: Incubators, Government Grants/Aid, Angel Investors or Crowd Funding
Stage 3: Early traction - Series A Stage	In this stage, the product or service gets launched in the market. The funding for this stage is sourced from: Venture Capital funds, Banks/Non-Banking Financial Institutions, and corporate funding through <i>Venture Debt Fund</i> .
Stage 4: Series B, C, D & E Stage	In this stage, the startups tend to experience a fast rate of growth due to product viability and receiving increasing revenues. After completing the series A stage of funding, the startup entrepreneurs receive larger sums of money to scale and diversify production. The investors Private Equity Firms, Hedge Funds, and Investment Bankers, who invest money against <i>convertible stocks</i>
Stage 5: Exit Option	This is the final step in the lifecycle of a startup as they explore exit options including, selling the company to interested party, getting listed in stock-markets, selling company stocks to other venture capital or private equity firm, and founders buying back the company from the existing investors.

Source: King Stubb & Kasiva

Annexure 3: Action Plan to aid with accelerating the spread of Startups

Regulatory Reforms	Financial Access and Incentives	Capacity Building
<ol style="list-style-type: none"> 1. Compliance of environmental and labour laws based on self-certification. 2. Startup India Hub. 3. Rolling out of mobile app and portal. 4. Extending legal support and fast-tracking patent 	<ol style="list-style-type: none"> 1. Organizing startup fests for showcasing innovations and providing a collaborative platform. 2. Launching of Atal Innovation Mission² and Self Employment and Talent Utilization (SETU)³ program. 	<ol style="list-style-type: none"> 1. Providing funding support through Funds of Funds⁴ and the Startup India Seed Fund Scheme⁵ 2. Credit guarantee scheme for Startups⁶. 3. Tax exemption on capital gains.

² Atal Innovation Mission, a flagship innovation to create a culture of innovation and entrepreneurship across the country. The key objective of this program is to develop policies and programs that foster innovations across various sectors, provide a platform for collaboration among stakeholders, and oversee innovations and entrepreneurship ecosystem across the country. For details: <https://aim.gov.in/>

³ Self-Employment and Talent Utilization (SETU) was launched as a techno-financial, incubation and facilitation program to support all aspects of startup businesses, and other self-employment activities, particularly in technology-driven areas. For details: <https://pib.gov.in/newsite/PrintRelease.aspx?relid=116187>

⁴ The Fund of Funds for Startups (FFS) Scheme was created with a corpus of INR 10,000 crore to meet the capital needs of domestic startups. For details: pib.gov.in/PressReleaseFramePage.aspx?PRID=1895964#:~:text=As on 31st December 2022%2C under the Fund,in his reply to a Parliament Question today.

⁵ [Startup India Seed Fund Scheme \(SISFS\)](https://seedfund.startupindia.gov.in/about) was created with an outlay of INR 945 Cr. to extend financial assistance to startups for Proof of Concept, prototype development, product trials, market entry, and commercialization. The goal was to support 3600 entrepreneurs through 300 incubators. For details: <https://seedfund.startupindia.gov.in/about>

⁶ Credit Guarantee Scheme for Startups aims at providing credit guarantee for limited time against loans secured by startups from banks, NBFCs, etc. The extent of transaction-based cover will be 80% of the amount in default if the original loan sanction amount is up to Rs. 3 crores, 75% of the amount in default if the original loan sanction amount is above Rs. 3 crores, and up to Rs. 5 crores, and 65% of the amount in default if the original loan sanction amount is above Rs. 5 crores (up to Rs. 10 crore per borrower). For details: <https://www.cgtmse.in/Home>

<p>examination at lower costs.</p> <p>5. Relaxing norms of public procurement for startups.</p> <p>6. Faster exit for startups.</p>	<p>3. Harnessing private sector expertise for setting up incubators/accelerators</p> <p>4. Building innovation centers at national institutes.</p> <p>5. Launching seven research parks modelled on research parks set up at IIT Madras.</p> <p>6. Promoting startups in the biotechnology sector.</p> <p>7. Launching innovation focused programs for students.</p> <p>8. Annual incubator grand challenge.</p>	<p>4. Tax exemption for three years.</p> <p>5. Tax exemption on investments above market value.</p>
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Source: Ministry of Commerce and Industry

Annexure 4: Overview of States Startup Policy Interventions

Key Elements of Startup Policy	States
State Action Plan	Goa, Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, Bihar, Rajasthan, Odisha, Madhya Pradesh, Jharkhand, Haryana, Sikkim, Assam, NCT Of Delhi, Arunachal Pradesh, Chhattisgarh, Himachal Pradesh
Sector wise Startup Policy (e.g., IT & ITeS, Rural and Social Enterprise, Hardware, Renewable Energy, Urban Development etc.)	Andhra Pradesh, Telangana, Kerala, Tripura
State Monitoring and Implementation Committee (e.g., PMUs)	Telangana, Goa, Gujarat, Bihar, Odisha, Madhya Pradesh, Assam, Tripura, Arunachal Pradesh, Himachal Pradesh
Self-certification/Online registration	Andhra Pradesh, Telangana, Kerala, Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, Bihar, Rajasthan, Odisha, Jharkhand, Sikkim, Haryana, NCT Of Delhi, Andaman and Nicobar Islands, Arunachal Pradesh, Himachal Pradesh
Regulatory Compliance Exemption (e.g., exemption from Factories Act, 1948; Maternity Benefit Act, 1961; The Contract Labour/Regulations and Abolition Act, 1970; The Minimum Wages Act, 1948; etc.)	Andhra Pradesh, Telangana, Goa, Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, Bihar, Rajasthan, Odisha, Madhya Pradesh, Jharkhand, Sikkim, Haryana, Andaman and Nicobar Islands, Arunachal Pradesh, Himachal Pradesh
Nodal Agency/Single-Window System	Andhra Pradesh, Telangana, Goa, Kerala, Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, Gujarat, Bihar, Rajasthan, Odisha, Madhya Pradesh, Jharkhand, Sikkim, Bihar, Haryana, Assam, Tripura, NCT of Delhi,

	Arunachal Pradesh, Chhattisgarh, Himachal Pradesh
Legal support and fast-tracking patent examination at lower/no costs.	Goa, Tamil Nadu, Maharashtra, NCT Of Delhi
Public Procurement Policy	Andhra Pradesh, Telangana, Kerala, Tamil Nadu, Karnataka, Uttar Pradesh, Rajasthan, Odisha, Madhya Pradesh, Jharkhand, Sikkim, Haryana, Tripura, NCT Of Delhi, Andaman and Nicobar Islands, Arunachal Pradesh, Himachal Pradesh
PPP Model of Incubation/Accelerator	Telangana, Kerala, Maharashtra, Jharkhand, Haryana, Chhattisgarh, Himachal Pradesh
Performance linked assistance to Incubation/Accelerator	Telangana, Uttar Pradesh, Odisha, Madhya Pradesh, Jharkhand, Haryana
State assisted physical infrastructure for Incubation/Accelerator/Co-working space/Research parks/Innovation zones/Innovation labs	Andhra Pradesh, Telangana, Goa, Kerala, Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, Bihar, Rajasthan, Odisha, Madhya Pradesh, Jharkhand, Sikkim, Haryana, Assam, Tripura, NCT Of Delhi, Andaman and Nicobar Islands, Arunachal Pradesh, Chhattisgarh, Himachal Pradesh
Subsidised incubators/accelerators	Telangana, Karnataka (For innovative startups), Maharashtra, Uttar Pradesh, Gujarat, Bihar, Rajasthan (digitally), Jharkhand, Haryana (Funding for incubators), Tripura (funding for incubators), NCT Of Delhi, Andaman and Nicobar Islands, Arunachal Pradesh, Himachal Pradesh
Incubation fund	Telangana, Goa, Kerala, Tamil Nadu, Himachal Pradesh

Non-financial/financial policy to support student/academia	Telangana, Goa, Kerala, Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, Bihar, Rajasthan, Odisha, Madhya Pradesh, Jharkhand, Haryana, Assam, Tripura, NCT Of Delhi, Andaman and Nicobar Islands, Arunachal Pradesh, Chhattisgarh, Himachal Pradesh
Funds-of-funds/Trust funds/Venture capital fund/ Innovation funds	Andhra Pradesh, Telangana, Goa, Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, Gujarat, Jharkhand, NCT Of Delhi (loans), Andaman and Nicobar Islands, Arunachal Pradesh, Chhattisgarh, Himachal Pradesh (given to incubators), Himachal Pradesh (Innovation projects)
Pre-seed/Seed stage funds	Telangana, Goa, Kerala, Tamil Nadu, Karnataka, Uttar Pradesh, Gujarat, Bihar, Rajasthan, Odisha, Jharkhand, Haryana, Arunachal Pradesh
Matching funds	Kerala, Tamil Nadu, Maharashtra (crowdfunding), Uttar Pradesh (acceleration programs), Gujarat (acceleration programs), Bihar, Rajasthan, Himachal Pradesh
Sustenance/monthly allowance	Andhra Pradesh (Employment creation incentives), Goa (Employment creation incentives), Kerala (Employment creation incentive), Uttar Pradesh, Gujarat, Odisha, Madhya Pradesh (Employment creation incentive), Jharkhand, Andaman and Nicobar Islands
Performance linked assistance	Telangana, Kerala, Bihar (seed grant), Rajasthan, Madhya Pradesh (State innovation challenge), Sikkim

Product development & marketing assistance	Telangana, Kerala, Tamil Nadu (Women), Karnataka, Uttar Pradesh, Gujarat, Rajasthan (iStar), Odisha, Jharkhand, Sikkim, Assam, Tripura, NCT Of Delhi, Andaman and Nicobar Islands, Himachal Pradesh
Additional financial support for women/SC/ST/disabled/transgender/geographically isolated areas	Goa, Kerala, Karnataka, Uttar Pradesh, Gujarat, Bihar, Rajasthan, Madhya Pradesh, Jharkhand, Sikkim, Assam, Andaman and Nicobar Islands, Arunachal Pradesh
Reimbursement towards housing rent, electricity, cloud, internet, IT infrastructure, etc.	Andhra Pradesh, Goa, Tamil Nadu, Rajasthan, Odisha, Madhya Pradesh, Jharkhand, Sikkim, Haryana, Assam, Tripura, Andaman and Nicobar Islands, Arunachal Pradesh, Himachal Pradesh
Reimbursement/reversal of Patent filling costs/Registration fees/GST/Municipal duties	Telangana, Goa, Kerala, Karnataka, Maharashtra, Uttar Pradesh, Bihar, Rajasthan, Odisha, Madhya Pradesh, Jharkhand, Sikkim, Haryana, Assam, Tripura, NCT Of Delhi, Andaman and Nicobar Islands, Arunachal Pradesh, Himachal Pradesh
Financial support for POC/MVP	Tripura, Andaman and Nicobar Islands, Arunachal Pradesh
Hackathons/Boot Camps/Business Plan competition/Startup Mela	Andhra Pradesh, Goa, Kerala, Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, Bihar, Rajasthan, Odisha, Madhya Pradesh, Jharkhand, Haryana, Assam, NCT Of Delhi, Andaman and Nicobar Islands, Arunachal Pradesh, Chhattisgarh, Himachal Pradesh
Incentives for VC, Angel Investors, Corporates, Banks and NBFC for investment in startups	Kerala, Tamil Nadu, Karnataka, Maharashtra, Uttar Pradesh, Gujarat, Bihar, Rajasthan, Odisha, Madhya

	Pradesh, Jharkhand, Assam, Tripura, Arunachal Pradesh, Himachal Pradesh
Financial support for attending international/national events	Telangana, Kerala, Karnataka, Uttar Pradesh, Gujarat, Bihar, Rajasthan, Jharkhand, Haryana, NCT Of Delhi, Andaman and Nicobar Islands, Arunachal Pradesh, Himachal Pradesh
Annual Startup/Entrepreneurship Award	Bihar, Rajasthan (Rural startups only), Jharkhand, Arunachal Pradesh, Himachal Pradesh

Source: States Startup Policy

Annexure 5a: State-wise Number of Startups Recognised by DPIIT under Startup India Initiative States/UTs

Number of Startups	2016	2017	2018	2019	2020	2021	2022
Andaman & Nicobar Islands	-	1	2	8	5	13	5
Andhra Pradesh	4	100	160	176	232	297	164
Arunachal Pradesh	-	-	2	2	-	4	2
Assam	10	34	68	67	119	188	116
Bihar	1	47	145	154	258	390	242
Chandigarh	9	22	26	40	54	69	37
Chhattisgarh	11	56	119	160	154	166	118
Dadra and Nagar Haveli and Daman and Diu	-	4	1	3	5	12	7
Delhi	66	727	1158	1378	1771	2191	1345
Goa	2	19	43	41	67	81	53
Gujarat	24	285	442	600	879	1717	973
Haryana	27	255	478	702	809	1063	651
Himachal Pradesh	-	9	16	29	41	56	53
Jammu & Kashmir	2	14	43	38	64	132	82
Jharkhand	2	35	85	88	164	191	110
Karnataka	61	842	1184	1675	1739	2144	1236
Kerala	25	163	326	653	702	921	487
Ladakh	-	-	-	-	1	-	2
Lakshadweep	-	-	-	-	1	-	-

Number of Startups	2016	2017	2018	2019	2020	2021	2022
Madhya Pradesh	7	102	289	329	425	558	409
Maharashtra	86	1058	1620	2129	2685	3721	2220
Manipur	-	4	7	6	12	37	13
Meghalaya	-	-	2	5	-	9	7
Mizoram	-	-	2	1	1	2	1
Nagaland	1	4	2	2	5	7	3
Odisha	4	108	166	184	277	392	198
Puducherry	-	3	15	10	13	17	14
Punjab	7	28	65	93	146	241	136
Rajasthan	14	137	241	349	496	620	442
Sikkim	-	1	-	2	1	3	1
Tamil Nadu	49	257	449	609	756	1103	730
Telangana	20	312	501	596	802	987	657
Tripura	-	-	2	7	23	12	18
Uttar Pradesh	27	392	776	881	1377	1968	1233
Uttarakhand	4	43	69	97	114	162	112
West Bengal	8	171	271	303	398	686	464
India	471	5233	8775	11417	14596	20160	12341

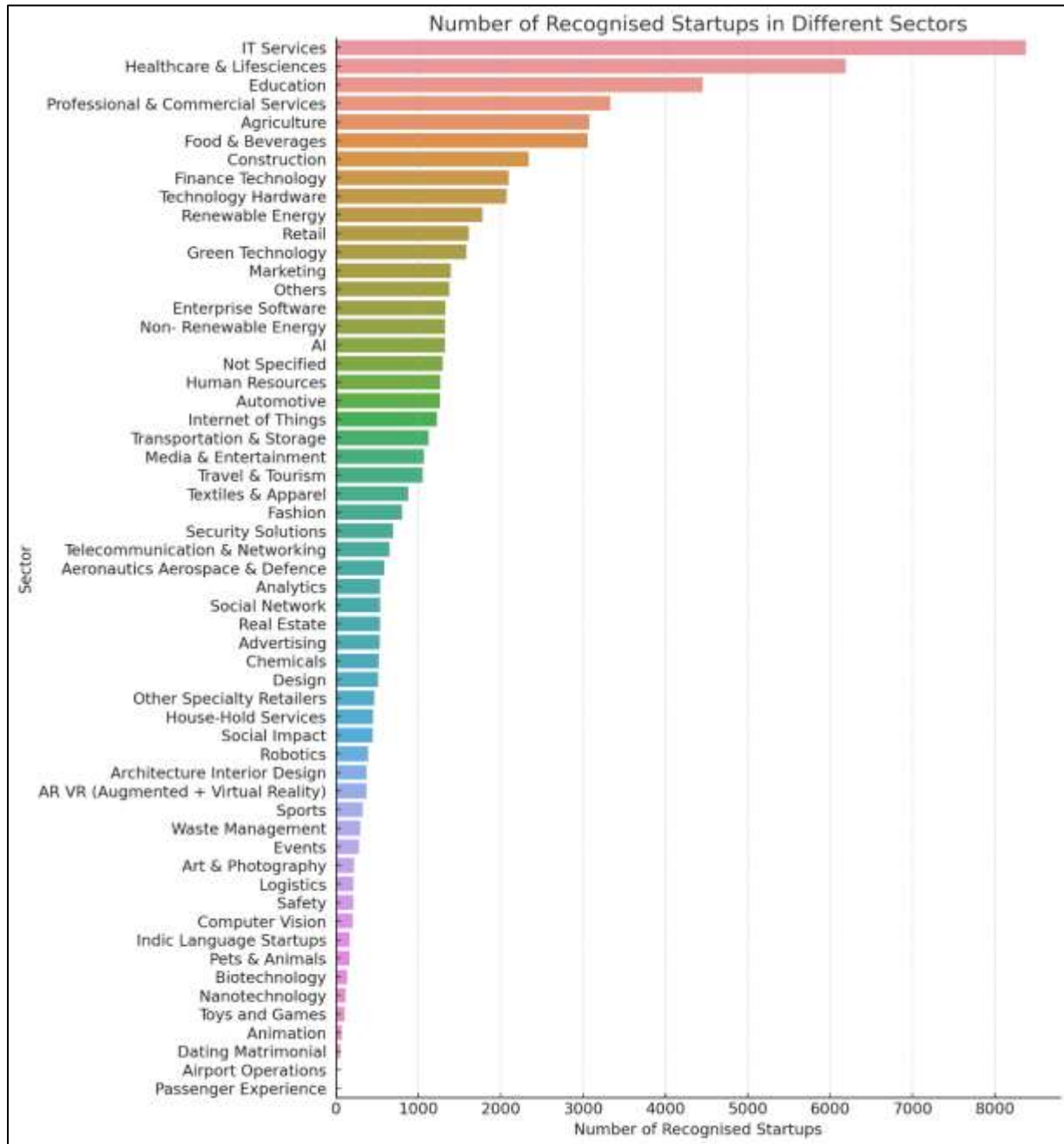
Source: Lok Sabha Unstarred Question No. 513, dated 20.07.2022.

Annexure 5b: Overview of States with registered Startups

States that have registered <1000 startups:	States that have registered over 1000 startups (<5000 startup):	States that have registered over 5000 startups (<10000 startups):	States that have registered over 10000 startups:
<ul style="list-style-type: none"> • Andaman and Nicobar Islands • Arunachal Pradesh • Assam • Chandigarh • Chhattisgarh • Dadra and Nagar Haveli and Daman and Diu • Goa • Himachal Pradesh • Jammu and Kashmir • Jharkhand • Ladakh • Lakshadweep 	<ul style="list-style-type: none"> • Andhra Pradesh • Bihar • Kerala • Madhya Pradesh • Odisha • Rajasthan • Tamil Nadu • Telangana • West Bengal 	<ul style="list-style-type: none"> • Delhi • Gujarat • Haryana • Karnataka • Uttar Pradesh 	<ul style="list-style-type: none"> • Maharashtra

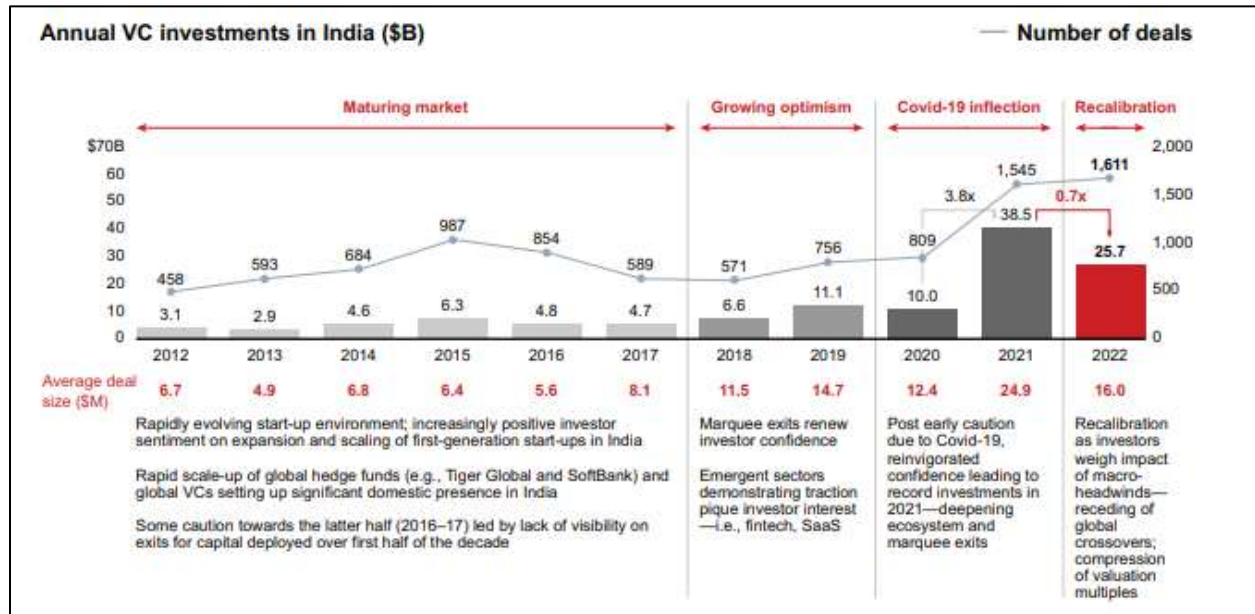
Source: Ministry of Commerce and Industry

Figure 1 Sector-wise Startups in India



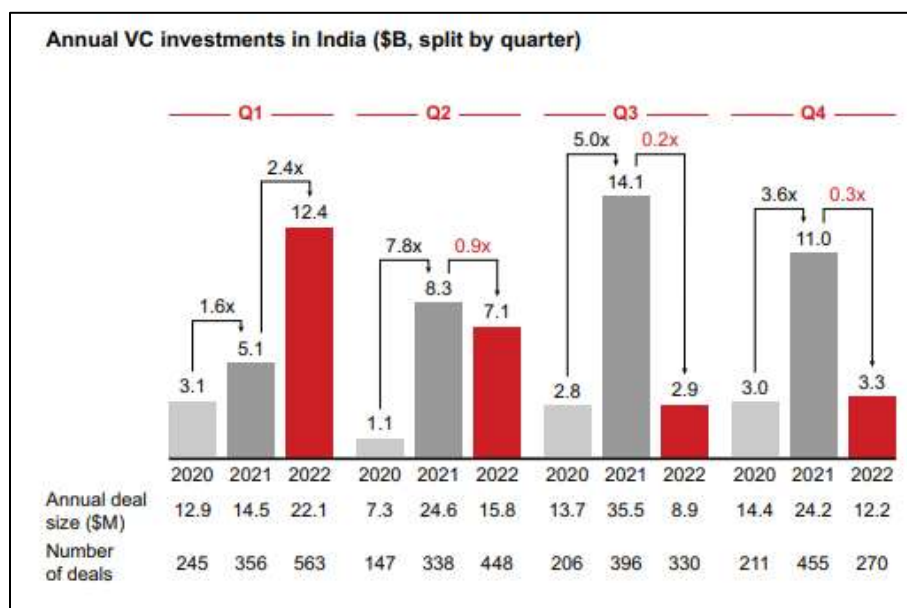
Source: Lok Sabha Unstarred Question No. 5670, dated on 06.04.2022

Figure 2a: Overview of Indian VC Landscape



Source: Bain & Company, 2023

Figure 2b: Status of Startup Investment in India—Annual Deal Size and Number of Deals



Source: Bain and Company, 2023

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