

#TheIndiaDialog Working Paper Series
Working Paper (WP–2024–025, June 2024)¹

Startups and the New India Growth Story
Rameesh Kailasam²

US Asia Technology Management Center
521, Memorial Way, Knight Building
Stanford University

Institute for Competitiveness
155, National Media Center
Gurgaon, Haryana, India

¹ The views presented here are those of the authors and do not necessarily represent the position of either Institute for Competitiveness or Stanford University. Working papers are in draft form. This working paper is distributed for purposes of comment and discussion only.

² The Author is CEO, Indiatech.org

Startups and the New India Growth Story

For the past few centuries, India stood on the periphery of industrial change, witnessing revolutions from afar. But as the world enters the era of the fourth industrial revolution, a tectonic shift is brewing, and this time, India is no longer a bystander. It stands poised to not just participate, but to lead the change, wielding a potent arsenal of strengths that promise to redefine the technological landscape including a government triggered Digital Public Infrastructure.

The demographics and cultural diversity act as a big plus for the businesses operating in India as they present vast opportunities. India's most potent weapon is its youth – the largest in the world, a vibrant source of tech-savvy minds brimming with potential in a vibrant democracy. This human capital, nurtured by an evolving education system, forms the lifeblood of Industry 4.0. As these young minds delve into AI, IoT, and robotics, they become not just consumers of technology, but its architects, shaping the future not just for India, but for the world. India's entrepreneurial spirit burns bright, fueled by a relentless pursuit of progress. Its startup ecosystem, one of the fastest-growing globally, pulsates with disruptive ideas and ingenious solutions. India has already emerged as the 3rd largest ecosystem for startups globally with over 1,20,873 Department for Promotion of Industry and Internal Trade (DPIIT) recognized startups across 763 districts of the country, and is home to 111 unicorns with a total valuation of around \$350 Bn.

India is seen as an emerging market and offers high potential to businesses, given its large market size. India is on the verge of becoming a \$4 Trillion economy and is one of the fastest growing at 6.5-7% in FY23 as per the Economic Survey 2022-23. The services sector has been a strong contributor to the GDP and startups have brought in record inflows of Foreign Direct Investments over the past five years. Be it travel, mobility, fintech, healthcare, e-commerce, tourism, delivery tech or gaming, tech startups have revolutionized the way traditional businesses function and connected them to their customers like never before.

Indian tech companies have a storied past, one etched with resilience and adaptability. From weathering the dot-com bust to emerging stronger from the global financial crisis, they have consistently navigated the turbulent waters of technological change. This legacy of overcoming challenges serves as a compass, guiding them through the uncharted territory of the fourth industrial revolution.

The government, in a rapid transformation, has equally been working towards a number of significant economic reforms, swiftly dismantling the long-standing license Raj, eliminating price controls and entry restrictions, initiating the privatization of several state-owned enterprises, and extending a warm reception to global investors besides attempting to rationalize and bring tax reforms.

It is in the last decade that “Ease of Doing Business” has made its impression in shaping policies and decisions and resulted in new-age Indian businesses coming to the fore. To become a magnet for global investors, India's next steps are clear: a regulatory regime that fosters innovation. This will unlock its manufacturing might, bolster investor confidence, and attract international capital, all while fueling the "Atmanirbhar Bharat" vision of self-reliance. Numerous initiatives have been put in place to achieve this.

In 2014, India's industrial landscape witnessed a transformative moment with the launch of the “Make in India” initiative. Spearheaded by the Department for Promotion of Industry and Internal Trade (DPIIT), this ambitious program marked a decisive shift towards rejuvenating the nation's manufacturing sector. This fostered a climate conducive to investment, innovation, skill development, intellectual property protection, and world-class infrastructure. One of the most impactful aspects of Make in India has been its focus on global integration. Key sectors were strategically opened up to attract substantial foreign investment, weaving India into the very fabric of the global supply chain.

Accessibility to the Indian market has significantly increased which can be attributed to “India Stack”. Investments and innovation in digital public goods have proved beneficial for businesses and customers. The issuance of a Unique ID in the form of an Aadhar card and its linking to bank accounts enabled direct government subsidies transfer. The launch of the Unified Payments Interface (UPI) proved to be a game changer. It has managed to penetrate wide and deep and many businesses have integrated payments with UPI, thus managing to capture a large market.

In January 2016, the “Startup India” initiative was launched by the Department of Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry. Its core objective was to support entrepreneurship and build a robust startup ecosystem in the country. With around 120k startups have registered with DPIIT and some of which also benefiting from the tax exemptions and funding opportunities. A number of regulatory reforms have been carried out to enhance Ease of Setting up Business, Ease Of Doing Business, Ease Of Raising Capital, and reduction in the compliance burden for the startup ecosystem.

Another initiative, launched in 2016, to promote a culture of innovation and entrepreneurship is the Atal Innovation Mission (AIM). Under this initiative, Atal Tinkering Labs have been opened in schools to encourage students to develop a problem-solving mindset and adept themselves with technological advancements. Additionally, incubation centers have been opened up to facilitate mentorship, funding, and networking.

Lately, many new-age companies have also been publicly listed, something which was not possible earlier with Industry think tanks and associations like Technology Services Industry Association (TSIA)-Indiatech.org working closely with the government to enable India listing of new age tech companies. Technology-based startups have primarily focused on capturing the market rather than aiming for profitability from the get-go. Ease in norms for mainboard listing has strengthened the confidence of early-age investors who get an exit option. Hence, they are more inclined to invest their money in India. Now there is an attempt underway to bring about a homecoming of sorts to attract back Startups that set up their holding companies and structures abroad to be able to list back in Indian Stock Exchanges. This may require some bit of policy changes but will ensure a large chunk of such structures come back to create wealth in India.

Livelihoods

If we look at the global employment figures a vast majority of the world operates in the informal employment mode with emerging gig economy slowly taking over. The Gig economy spearheaded by start-ups from the platform economy today range from ride-sharing, deliveries, home-services, beauty and wellness, coding, project management, marketing, fintech, pharma, tourism, edu-tech and so on.

Also the most encouraging part is that people are able to enter the platform economy as a means of livelihoods without any middleman. Since Covid-19 struck, Prime Minister Narendra Modi mentioned that more than 800 million people of the country received free ration annually and benefited from the Pradhan Mantri Garib Kalyan Anna Yojana. This also indicates that a majority section of population is still vulnerable and we need to work harder to create more work opportunities for their livelihood.

It is also quite clear that a majority of the world earns its livelihood not from jobs but by doing work that may be informal or gig. With a population growth from once 20million averaging 15 to 18 million per year and with number of jobs created every year lesser than the addition India makes to its population every year, the only major option is self-employment, gig or informal employment.

What has kept India civil and the economy growing is the fact that every individual aspires to work and earn with self-respect. So whether it is about starting a small business, cottage industry or taking up various professions or being honorably self-employed by opening a shop or being a hawker, Indians preferred entrepreneurship and self-employment to make up for lack of jobs for such a large populace.

With the advent of internet and smart phone penetration, the gig economy started to grow and due to its flexible and participatory nature, gave the freedom and opportunity for workers to choose days/hours one wanted to engage to earn.

The Ministry of Labour demonstrated India's progressive outlook and is the first to be acknowledging the growing number of workers associated with the unorganized sector and gig by extending social security benefits to them. The government interacted closely with the industry and related parties to create the much needed Code on Social Security, 2020 which defines a gig worker as 'a person who performs work or participates in a work arrangement and earns from such activities outside of traditional employer-employee relationships.' While almost all notable start-ups operating in the gig economy space provide the gig workers with some form of social security cover like insurance and other benefits, the Social Security Code 2020 aims to provide social security for unorganized workers, gig workers and platform workers besides making provisions for their registration. The code is still yet to be made fully operational and the process of enrollment of gig and informal economy workers still underway in the government's e-shram portal.

The Ministry of Skill Development and Entrepreneurship has also launched "Bharat Skills", a Central Repository for skills which provides NSQF curriculum, course material, videos, question banks, mock test and Qualification packs.

Today gig-economy has opened doors for many to go up the value chain. From an aspirational standpoint gig work today includes delivery entrepreneurs, financial advisors, home services, resellers, tech freelancers, online tutors, travel agents, cloud kitchen entrepreneurs, agripreneurs, medical entrepreneurs to EV battery charging/swapping entrepreneurs etc. The future is therefore work and regulations should recognise and enable more such opportunities collaboratively while ensuring social security, safety and fair earnings for all.

Industry here needs a predictable regulatory environment and it is important for governments to take charge and work collaboratively, else this potential golden goose may run a life risk. While gig economy is a boon to millions of Indians wanting to earn a livelihood, there is the risk of duplication emerging from states that want to have their own programs for gig workers and are not necessarily following

the direction of the Central Government's Code on Social Security which can result in higher cost of compliance and limited Universal Coverage.

There are close to 440 million working age women in India as per various estimates. Women make up 48 percent of the Indian population and need to benefit equally from India's economic growth. Women are the largest reservoir of untapped potential in India that can usher India to its next big economic success. In last few years the number of working women has risen up drastically; thanks to various proactive and commendable measures launched in promoting girl child and women focused schemes by the Prime Minister and the Woman and Child Development Ministry.

A report released last year by McKinsey Global Institute estimated that as a nation if India worked to open up new avenues besides equal opportunities to women, there is a huge potential to add up to US\$ 770 billion to India's GDP by 2025. While estimates state that women's contribution currently to India's GDP is still low at 18% and therefore there is a vast potential to further grow.

India is fast emerging to become one of the largest ecosystem for Start-ups. Currently 10% of start-ups are led by women founders. The need of the hour is to mobilize more support from a policy standpoint through various policy interventions. Last few years have demonstrated a sea change with more and more women becoming business leaders and founding/co-founding organizations including start-ups. Efforts like Start-up India and various state government incentives for women run start-ups, are steps in the right direction which however need to adapt from time to time to meet the changing on ground requirements as women are now foraying into sectors like manufacturing in strategic and even defence sectors.

Women's Self-Help Groups (SHGs) have thrived during the pandemic times and are now one of the largest institutional platforms of the poor, with over 70 million women as members of over 6.9 million SHGs in India. Further, women dominate to a significant proportion of all healthcare workers.

The gig economy is a convenient and flexible income generating model that can financially empower the women labour force. Digital platforms that allow WFH options also ensures that more women can be brought into the labour force. Increasing access to the internet for women can simultaneously boost their possibilities of engaging into the gig economy.

Innovation

India in the past few years has taken a deeper focus to get into the innovation economy. Government initiatives aimed at fostering creativity in education and incentivizing careers in science underscore India's steadfast commitment to nurturing its innovation ecosystem. India's remarkable rise in the Global Innovation Index (GII), soaring to the 40th position out of 132 countries in 2023, reflects its resolute dedication to promoting innovation. The GII, complemented by the India Innovation Index published by NITI Aayog and the Institute for Competitiveness, also empowers states to measure their innovation-driven progress against global benchmarks. In a landmark move, Union Finance Minister Nirmala Sitharaman outlined a bold vision for India's technological future as she presented the Interim Budget 2024. Central to her announcement was the allocation of a substantial Rupees One trillion corpus to bolster technology research, signaling a transformative leap towards fostering innovation and self-reliance. While the "what" and the "how" are awaited, the announcement heralds

a new era for India's tech landscape, highlighting the pivotal role of innovation as the cornerstone of national development.

Despite emerging as a global hub for research and development across diverse sectors such as aerospace, biotechnology, and computation, India's public spending on research has remained relatively low at around 0.8 percent of GDP. This starkly contrasts with countries like China and the United States, where investment in research and development far exceeds India's.

Recent government initiatives, such as the establishment of innovation centers and the promotion of entrepreneurship through programs like Startup India and Make in India underscore a renewed commitment to fostering a culture of innovation and entrepreneurship. India is now home to a significant number of innovation centers and a burgeoning entrepreneurial landscape, the country has emerged as a beacon of innovation in Asia, attracting foreign investment and spearheading groundbreaking research initiatives.

At the forefront of India's innovation agenda lies a steadfast commitment to leveraging science and technology for economic growth and societal welfare. The last ten years under Prime Minister Narendra Modi have particularly witnessed prioritization of science and technology as fundamental pillars of India's development strategy with a target to increase research and development spending to over 2 percent of GDP.

At the heart of India's innovation narrative lies its flourishing startup ecosystem, propelled by the resilience and ingenuity of its entrepreneurs. The surge of technology startups, harnessing innovative solutions to address diverse market needs, underscores India's prowess in digital innovation.

With the rapid expansion of India's digital consumer market fueled by the accessibility of affordable tech products, the nation witnesses the emergence of unicorns and a palpable surge in innovation capacity. Various government endeavors like the Atal Innovation Mission in 2016 exemplifies India's dedication to nurturing a vibrant innovation sector. This initiative aims to foster innovation hubs, tackle grand challenges, and catalyze startup ventures in technology-driven domains. Additionally, the Atal Tinkering Labs initiative, nurturing innovative startups at schools and incubation centers, plays a pivotal role in instilling a culture of innovation from a young age. The government's call for startups and private sector firms to invest in burgeoning fields like artificial intelligence, renewable energy, electric cars, defense, and semiconductor manufacturing underscores India's determination to embrace the transformative potential of cutting-edge technologies. The advent of new technologies and data-driven solutions holds immense promise for India, particularly in democratizing access to high-quality services and economic opportunities.

Challenges

Startups are disruptive and come with their own challenges. India has made a conscious effort to address the Ease of Setting Up Business bit, however, Ease of Doing Business still needs further addressed as there continues to exist differences between how the Central Government and State governments perceive the same business model. There are also variations and differences amongst states from a regulatory standpoint on a number of industries. This divergence on regulatory front affect almost every sector from travel, cab hailing, mobility, EVs, e-commerce, pre-owned cars, online gaming and so on.

Micromanagement in terms of taxation through Goods and Services Tax (GST) is one recurring factor. For instance, a digitally procured product is charged GST with higher rate than one sold offline which undermines efforts of digital India program. The online world creates a better audit trail and brings the informal world into the formal world. Such an effort should ideally be treated and supported with lesser taxes and less onerous compliances as this will help build a better and inclusive formal economy of tomorrow. Most of the areas that require regulatory clarity today reside around taxation and differences with how states treat a new emerging form of business.

Conclusion

India's growth in startups with increasing unicorns and soonicorns will carry a heavy weightage in the GDP growth rates in the coming decade. These new start-up business models that have emerged many of whom can be called the "children of the internet" need to be nurtured and regulated with an open mind.

The tech start-ups today have not only led the way in job creation but also presented work opportunities. Today Indian startups have shown more inclusive participation than other conventional sectors as the participation in the consumer internet space includes participation from top of the pyramid, the knowledge economy to the bottom of the pyramid.

Entrepreneurship and frugal innovation have become the buzzwords. Startups are not mere engines of economic growth; they are catalysts for social change. The social fabric of the country has seen a perception change towards businesses and problem-solving ideas. Startups have become dinner-table conversations and are inspiring the youth to be job creators rather than seekers.

India's vast domestic market, with its insatiable appetite for technology, presents a unique advantage. This is not just a land of consumers; it is a testing ground, a crucible where homegrown solutions can be fine-tuned and scaled. This fosters a symbiotic relationship between innovation and adoption, creating a self-sustaining ecosystem that propels both economic growth and technological advancement. This fertile ground needs to nurture groundbreaking technologies, fostering an environment where the impossible becomes not just conceivable, but inevitable.

Sources

1. Gainfully employed: Focus on creating 'work' opportunities -Financial Express: 18th April 2022- By Rameesh Kailasam
2. Women in Workforce- The GIG Picture – Financial Express: 03rd June 2022- By Rameesh Kailasam & Madhabi Sarkar
3. Setting India on the innovation journey- Financial Express 05th Feb 2024- By Rameesh Kailasam and Jharna Kamdar