

# Start-up Ecosystem in India

Posted at: 01/05/2024

## Context:

Recently, Prime Minister Narendra Modi said at the Startup Mahakumbh event that India has emerged as the world's third largest startup ecosystem, boasting over 1.25 lakh startups and 110 unicorns.

## Background:

The 182nd report on 'Ecosystem of Startups to Benefit India' was tabled by the Department Related Parliamentary Standing Committee on Commerce last year. It has provided key insights which are discussed below.

## Start-up:

1. In India, a start-up is defined as an entity that is headquartered in India, which was opened less than 10 years ago, and has an annual turnover of less than ₹100 crore.
2. It is typically characterized by its innovative ideas, products, or services.
3. Start-ups often rely on a combination of personal savings, crowdfunding, angel investors, and venture capital to finance their growth.
4. They are typically funded through bootstrapping, venture capital, or other means.

## Significance/Impact of Start-ups:

1. Approximately 47% of the recognised start-ups are from Tier 2 and 3 cities, which provide employment opportunities to the youth.
2. Approximately 47% of recognised start-ups in the country have at least one-woman director.
3. They promote new ideas and innovations. For instance, Deep Tech Start-ups.
4. Fintech start-ups are now reaching out to remote areas, for instance, Paytm, etc.
5. Start-ups have attracted multinational corporations to bring in foreign investments.

## Issues/Challenges in the Start-up Ecosystem of India:

1. Out of the total recognised startups, only 5.18% are in the agriculture sector.
2. Only 11% of the patent applications filed by startups have been granted patents.
3. The Economic Survey 2022-23 highlighted the flipping trend due to more access to overseas debt, eliminating the risk of angel tax, better IP protection, etc.
4. Under Section 80-IAC of the Income Tax Act, 1961, only 1% of recognised start-ups have received the Certificate of Eligibility. This Section allows recognised start-ups a 100% tax exemption for three consecutive profit-making years.
5. Absence of adequate and specific testing standards, particularly for startups dealing with hardware products.
6. Funding from angel investors and venture capital firms becomes available to startups only

after the proof of concept has been provided.

**Recommendations of the Committee:**

1. Encourage the adoption of advanced technologies such as the Internet of Things (IoT), data analytics, etc., to improve productivity, optimise resource utilisation, and enhance decision-making in agriculture.
2. Establishing women entrepreneurs-focused funds to ensure uninterrupted access to capital.
3. Relaxation in regulatory/legal framework to enable direct overseas listing of unlisted Indian start-ups and steps to facilitate reverse flipping.
4. Amendments to the Income Tax Act of 1961 so that Employee Stock Option Plans (ESOPs) are taxed only at the time of sale of shares and not on notional gains.
5. Dynamic testing and certification standards shall be established as per international best practices.
6. Filling up the talent gap by encouraging industries to collaborate with educational institutions to create customised courses.
7. Encourage partnerships between start-ups and research institutes for collaborative innovation and R&D partnerships.



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