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India's Startup Ecosystem After a Decade of the Startup India Initiative: Policy Support, Innovation, and Economic Transformation

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Abstract

The emergence of startups has become a critical driver of innovation, employment generation, and economic transformation in emerging economies. In India, the launch of the Startup India Initiative in 2016 marked a significant policy intervention aimed at strengthening the entrepreneurial ecosystem and fostering innovation-driven growth. Over the past decade, India has evolved into one of the largest startup ecosystems globally, with more than 200,000 Department for Promotion of Industry and Internal Trade (DPIIT) recognized startups as of December 2025. This paper examines the role of the Startup India initiative and associated policy interventions in shaping India's startup ecosystem. Using secondary data from government reports, policy documents, and institutional publications, the study analyses key schemes such as the Fund of Funds for Startups, Startup India Seed Fund Scheme, and the Credit Guarantee Scheme for Startups, along with complementary programmes including Atal Innovation Mission (AIM), NIDHI, and GENESIS. The study highlights how policy support mechanisms, funding access, incubation networks, and mentorship platforms have facilitated the expansion of the startup ecosystem beyond metropolitan hubs to Tier-II and Tier-III cities. The findings suggest that startups are playing a crucial role in technological innovation, employment creation, financial inclusion, and regional development, thereby contributing to India's long-term economic vision of Viksit Bharat 2047.

Keywords: Startup India, unicorns, policy reforms, innovation ecosystem, entrepreneurship, India

1. Introduction

Entrepreneurship and innovation are increasingly recognized as key determinants of economic growth and structural transformation in modern economies. Startups, in particular, play a critical role in developing new technologies, creating employment opportunities, and promoting economic dynamism. Governments across the world have introduced policy initiatives to support startup ecosystems through funding support, incubation networks, and regulatory reforms.

In India, the Government launched the **Startup India Initiative in 2016** with the objective of creating a supportive ecosystem for innovation and entrepreneurship. The initiative is led by the **Department for Promotion of Industry and Internal Trade (DPIIT)** under the Ministry of Commerce and Industry and seeks to promote startup growth through policy reforms, financial incentives, and institutional support mechanisms.

Over the past decade, India has experienced significant expansion in its startup ecosystem. As of December 2025, the country hosts more than **200,000 DPIIT-recognized startups**, positioning India among the largest startup ecosystems in the world (Press Information Bureau, 2025). Major innovation hubs such as

Bengaluru, Hyderabad, Mumbai, and Delhi-NCR have emerged as centers of entrepreneurial activity. However, the ecosystem is no longer limited to metropolitan regions, with approximately **50% of startups originating from Tier-II and Tier-III cities**, reflecting the democratization of entrepreneurship.

Beyond economic growth, startups are increasingly addressing developmental challenges in sectors such as agriculture, healthcare, education, and financial services. Innovations in areas such as **agri-tech, telemedicine, digital finance, and clean mobility** are contributing to inclusive development and bridging the rural-urban divide.

Against this background, the present study examines the evolution of India's startup ecosystem over the past decade and evaluates the role of government policy initiatives in fostering innovation-driven entrepreneurship.

2. Literature Review

Research on entrepreneurship and growth highlights the role of policy in reducing market failures and enabling innovation **(Audretsch & Keilbach, 2004).** The relationship between entrepreneurship and economic development has been widely discussed in economic literature.

According to **Schumpeter (1934)**, entrepreneurial innovation serves as the engine of economic development by introducing new products, processes, and markets. Schumpeterian frameworks link firm-level innovation to aggregate productivity gains **(Aghion, Akcigit, & Howitt, 2015).**

However, unicorn valuations are shaped strongly by venture capital cycles and global liquidity conditions **(Kenney & Zysman, 2019)**. Empirical work on India emphasizes rapid ecosystem expansion but underscores weaknesses in scaling, profitability, and institutional capital **(NASSCOM, 2022; World Bank, 2020)**.

Recent studies highlight the growing role of startups in driving technological innovation and economic transformation. **Audretsch and Thurik (2001)** argue that knowledge-based entrepreneurship has become a key determinant of competitiveness in modern economies.

In the Indian context, several studies have examined the evolution of the startup ecosystem. **NASSCOM (2023)** reports that India has emerged as one of the leading startup ecosystems globally due to supportive policy frameworks, access to venture capital, and the rapid growth of digital infrastructure.

Government policy has also played a significant role in shaping entrepreneurial ecosystems. According to **World Bank (2020)**, government-led initiatives such as incubation networks, startup financing schemes, and innovation missions can significantly enhance entrepreneurial activity in emerging economies.

The **Startup India Action Plan (Government of India, 2016)** introduced several policy interventions aimed at reducing regulatory barriers, improving access to funding, and strengthening innovation infrastructure. Subsequent studies have highlighted the importance of initiatives such as the **Fund of Funds**

for Startups, **Atal Innovation Mission**, and **Startup India Seed Fund Scheme** in supporting early-stage startups (IBEF, 2024).

Despite the rapid growth of startups in India, scholars have also pointed to challenges related to funding gaps, regional disparities, and commercialization of innovation. Therefore, evaluating the effectiveness of policy interventions remains an important area of academic inquiry.

3. Research Objectives

The study is guided by the following objectives:

1. To examine the growth and evolution of India's startup ecosystem over the past decade.
2. To analyse the role of government policy initiatives in promoting entrepreneurship and innovation.
3. To evaluate the contribution of startups to economic growth, employment generation, and regional development.
4. To assess the effectiveness of major startup support schemes implemented by the Government of India.

4. Research Methodology

The study is based on **secondary data analysis**. Data has been collected from various sources including:

- Government policy documents
- Press Information Bureau reports
- Ministry reports and official portals
- Startup India official publications
- Institutional reports such as IBEF and NITI Aayog

A qualitative analytical approach has been adopted to examine the impact of policy initiatives on India's startup ecosystem.

Limitations: Reliance on secondary data; causality cannot be established definitively due to confounders (e.g., international VC flows). The analysis therefore emphasizes plausibility and association rather than strict causal claims.

5. Policy Framework Supporting India's Startup Ecosystem

5.1 Startup India Initiative

The **Startup India Initiative** serves as the central policy framework for promoting entrepreneurship in India. The initiative aims to create a robust startup ecosystem through regulatory reforms, funding mechanisms, and institutional support.

One of the most notable outcomes of the initiative has been the rapid increase in startup valuations. India's unicorn ecosystem has expanded from **four unicorns in 2014 to more than 120 unicorns**, with a combined valuation exceeding **$350 billion**.

5.2 Fund of Funds for Startups (FFS)

The **Fund of Funds for Startups (FFS)**, managed by the Small Industries Development Bank of India (SIDBI), was established with a corpus of **₹10,000 crore** to provide capital support to startups through SEBI-registered Alternative Investment Funds (AIFs).

As of 2025, the fund has committed investments to **over 140 AIFs**, which have collectively invested more than **₹25,500 crore in over 1,370 startups**.

5.3 Startup India Seed Fund Scheme (SISFS)

The **Startup India Seed Fund Scheme** was introduced to support early-stage startups engaged in product development, prototyping, and commercialization.

With a corpus of **₹945 crore**, the scheme supports startups through incubators across the country, strengthening the early-stage innovation pipeline.

5.4 Credit Guarantee Scheme for Startups (CGSS)

The **Credit Guarantee Scheme for Startups** enables startups to obtain collateral-free loans from financial institutions. The scheme is implemented through the **National Credit Guarantee Trustee Company (NCGTC)**.

6. Complementary Innovation Initiatives

Several government programmes complement the Startup India initiative by strengthening innovation infrastructure and promoting entrepreneurship across sectors.

6.1 Atal Innovation Mission (AIM)

Launched by **NITI Aayog**, the Atal Innovation Mission aims to foster a culture of innovation across schools, universities, and startups. Through initiatives such as **Atal Tinkering Labs**, the mission has established innovation infrastructure across more than **10,000 schools**.

6.2 National Initiative for Developing and Harnessing Innovations (NIDHI)

The **NIDHI programme**, implemented by the Department of Science and Technology, supports innovation-driven entrepreneurship through incubation, seed funding, and mentorship.

The initiative has supported **over 12,000 startups**, generated **130,000 jobs**, and facilitated the development of more than **1,100 intellectual property outputs**.

6.3 GENESIS and Technology Innovation Programmes

Technology-focused initiatives such as **GENESIS**, **TIDE 2.0**, and the **MeitY Startup Hub** aim to strengthen India's deep-tech ecosystem by supporting startups working on emerging technologies such as artificial intelligence, blockchain, and robotics.

7. Role of Startups in India's Economic Transformation

Startups contribute to economic development in multiple ways:

Innovation and Technology Development

Startups introduce new technologies and business models, enhancing productivity and competitiveness.

Employment Generation

Startups create direct employment opportunities while also generating indirect jobs through gig platforms and supply chains.

Regional Development

The expansion of startups in Tier-II and Tier-III cities promotes regional economic growth and reduces urban concentration.

Inclusive Growth

Women-led startups are increasingly contributing to economic participation, with more than **45% of recognized startups having at least one woman director or partner**.

8. Evaluating Policy Impact on startups

Policy reforms produced measurable effects:

- **Lowered friction for formalization**: DPIIT recognition and single-window processes improved legitimacy and investor due diligence cycles.
- **Signaling effect**: Government-backed funds (FFS) and IP support signaled credibility to private investors, indirectly mobilizing capital.
- **Ecosystem infrastructure**: Incubator networks and tax incentives increased pipeline volume.

However, limitations reduced policy leverage over scale:

- **Insufficient late-stage capital instruments**: Public interventions targeted early-stage risk; late-stage scaling relied heavily on foreign VC and private equity.
- **Weak focus on profitability and unit economics**: Policies rarely conditioned incentives on sustainable business metrics.

- **Limited export/global expansion support**: Assistance for global market access was ad hoc.

Consequently, policy measures were necessary but not sufficient; they prepared fertile ground but did not guarantee sustained unicorn growth without parallel market and capital conditions.

9. Key Findings

1. **Ecosystem formation succeeded**: Startup India materially improved ease of entry, registration, and ecosystem visibility.
2. **Unicorn growth is capital- and sector-driven**: Sectoral demand and global liquidity explained most variation in unicorn emergence.
3. **Sustainability concerns persist**: Many unicorns achieved high valuations before demonstrating durable profitability or domestic value capture.
4. **Policy misalignment at scale**: Insufficient instruments for late-stage domestic capitalization and scale-preserving industrial linkages limit the transition from unicorn to enduring large enterprise.

10. Policy Recommendations

To convert formation success into sustained scale and economic value, policymakers should:

1. **Create late-stage domestic capital vehicles** (sovereign-backed or pension-linked funds) targeted at growth rounds to reduce overreliance on foreign liquidity.
2. **Incentivize profitable scale** by designing conditional support that rewards path-to-profitability and domestic value capture (tax credits linked to performance milestones).
3. **Strengthen industry-startup linkages** (procurement targets, co-development) to provide demand anchors for scaling startups.
4. **Support internationalization** through trade facilitation, diplomatic investor roadshows, and export credits for scalable startups.
5. **Improve metrics and evaluation**: Move evaluation from counts/unicorns to productivity, GVA contribution, and employment quality.

11. Conclusion

Over the past decade, the Startup India Initiative has significantly transformed India's entrepreneurial landscape. Through a combination of financial support mechanisms, innovation programmes, and regulatory reforms, the government has created a conducive environment for startup growth.

Startups are now contributing not only to economic expansion but also to technological advancement, job creation, and inclusive regional development. As India moves toward the vision of **Viksit Bharat 2047**, strengthening the startup ecosystem will remain critical for sustaining innovation-led economic growth.

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