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Evolution of Start-Up Ecosystem in India

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Abstract

The Great Depression 2008 crisis led to the evolution of the startup ecosystem in India. Although, the evolution has been going on from the late 90s in a way it was mainly confined to setting up small-scale businesses. The government in the late 1900s was offering incentives and encouraging people to come up and set up any kind of business on their own which would ultimately provide employment to the lower class and give a boost to Gross Domestic Product (GDP). At the beginning of 2000, we saw the rise of the internet in developed countries and slowly taking the pace within a decade in developing countries as well.

As there is a saying, every dark phase in your life extracts the best out of you; interpreting this term in terms of business- every crisis often brings disruptive ideas into the industry like Flipkart, OYO, Ola to name a few in India. Earlier, the world's startup was mainly in the USA but now India is at number 3 in terms of the number of startups in the country. The COVID-19 pandemic accelerated the growth of startups in India, the unicorns have been rising like never before and also offering everyone regardless of their age the opportunity to start something on their own.

Keywords: *Startup culture, COVID-19, Internet revolution, the Great Depression, Gig economy*

1.0 Introduction

Nowadays, startups have been creating a buzz in India. As COVID-19 hit the world everything came to a standstill but our illusion of ‘everything from business to life came to halt’, do you think this is right to say? Well, absolutely not, it is wrong. The pandemic accelerated the pace of evolution all over the world and not just in India.

There used to be a time when everyone used to think twice before starting any business due to risk and uncertainty and remained always in doubt thinking whether it would work or not. But in the 21st century, anyone, regardless of their age or experience, can start anything on their own due to the internet revolution that has drastically reduced the initial cost of setting up their business. In the 20th century the term “startup” didn’t exist but the concept of ‘small scale industry’ was known. Startups or any small-scale project is all about solving problems that their target or potential customers are facing and turning the solution of the problem into a business model.

2.0 Pre LPG Policy Period

Soon after independence, it was realized that India needs to have its own foreign policy, economic reforms etc. To protect the domestic industries from foreign competition various reforms were implemented like the license quota raj, social economy, imposing huge taxes on imported goods. The policy maker's point of view was that India was just declared an independent country after 200 years and to avoid any other political and economic dominance in the country from any other country as Britishers came to India only for trade purposes but later on invaded the country.

The constitution-makers as well as those who laid down the economic framework of the country decided India's economy would be a closed economy for a while. The reason behind its ideology was to protect the local traders and producers from foreign competition. Domestic producers welcomed this idea with the hope of boosting their income and local trade in India. But looks like everything turned upside down after a decade of implementation. An economy can only prosper only when there is the ease of doing business. What happened in India was that a large number of businesses were only concentrated or restricted to a few hands, like that of big industrialists, and that too ineffective. Despite the availability of relatively cheaper quality products at high prices, consumers didn't have any other option but to purchase those due to limited options.

The banking and financial system is the part and parcel of the prospering economy; the majority of the banking and financial system control lies in the hands of the public sector. There was no watchdog to check upon the working of state-owned banks. Thus, it discouraged people and investors to make an investment in the country. To conclude, there were incentives for genuine entrepreneurs to start something on their own. The environment in the late 20th century was gloomy for small and medium scale businesses but at the same time, it offered an enormous opportunity to the budding entrepreneurs wherein consumers wanted good quality products at a competitive price. The government addressed the concerns of local consumers and producers and finally on July 24, 1991, the LPG policy came into effect.

3.0 LPG Policy

- With the introduction of the Liberalization, Privatization, Globalization (LPG) Policy, the government encouraged people to set up their own businesses. There were a lot of problems that consumers were facing during the pre-LPG Policy period like bad quality products, production-based approach, overpricing etc. A sound infrastructure of a country is the heart and soul of a developed economy. India's infrastructure was quite inadequate and lagging behind East and South Asia for business creation. The LPG policymakers addressed this concern and soon started investing in the physical as well as social infrastructure.
- After the implementation of LPG, it offered a wide range of incentives to the customers to choose from a variety of products at a competitive price. On the other hand, it gives the producers as well as big industrialists to expand their reach to the customers in international markets. Economic policies like foreign investment schemes, reduction in import tariffs, abolition of License Raj- which serves as a big hindrance in starting a business- to name a few which led to economic stability in the country. Economic stability in the country offered incentives to the investors to invest in the small scale business which gave a boost to the number of entrepreneurs in the country.

4.0 Internet Revolution

When the internet in India was launched by the Educational Research Network (ERNET) in 1986, at that time, the network was made available to educational and research communities. ERNET was initiated by the Department of Electronics and backed up by the government of India and the United Nations Development Program (UNDP). The internet was first made available to the public in India in 1995 by state-owned Videsh Sanchar Nigam Limited (VSNL). On one hand, the internet speed wasn't good enough, on the other hand, startups in the late 20th century in developed countries like Amazon, Google, Apple etc. started to rise. Silicon Valley became the hub of startups in the world and it led to the creation of a bubble for new businesses and just after that, we witnessed the rise of dot-com.

India didn't get the opportunity to witness the business that was built around the internet rather there were small initiatives by people to start something on their own like a small business

and also there were some big industrialists and companies who were betting high like, expanding their reach in the international market like Tata & Sons, Asian paints etc. India's IT professionals have always been famous for their skills in the USA. India at the beginning of the 21st century was seen as one of the emerging economies in the world and perceived as a new market for many international companies to expand their market in India as well.

In 2003, Airtel launched broadband services in India and in 2004 India approved a broadband policy. With the coming of broadband services, the ease of doing business pushed companies to set up their offices in India and the availability of a skilled workforce at a low wage rate gives incentives to the investors and big businesses to start venturing into new business models. In the first decade of the 21st century, there was a paradigm shift in the workforce from manufacturing to the service sector. The service sector in India at that time wasn't well developed like lack of required infrastructure, logistics but services like outsourcing were a huge success creating huge employment.

Indians residing in America decided to return to their homeland to exploit the resources as a first-mover advantage and build on their own but initially, they faced obstacles like many people at that time weren't comfortable in doing online purchases and there was a lack of trust among buyers and sellers.

2001: Indian Railways allows online booking of tickets through Irctc.com.

2003: Airtel launches broadband services in India.

2004: India approves broadband policy.

2005: Dot in sites are launched

2006: Info Edge (India) Ltd, the parent company of Naukri.com, files for an IPO.

2007: Sachin Bansal and Binny Bansal start Flipkart.

2010: 3G and broadband wireless access spectrum auctioned (in India).

2011: Mobile number portability is launched in India

Source: Livemint, 2015

5.0 Digital Revolution & The Great Depression Period, 2008

The dot-com bubble burst in the developed countries in 2002 and slowly took pace within a few years in developing countries like India. Digital banking and digital literacy is a key factor among high trust factors.

Factors that led to a digital revolution in India:-

1. 4G, fiber and satellite: provide seamless connectivity, 4G internet data, Wi-Fi provides convenient and efficient connectivity around the clock for business. The government also played an important role in accessing connectivity to every Indian. The economic empowerment of citizens demands a continuous connection between the citizens and the government. For a successful model, the government needs to identify the end-users i.e. citizens. Seamless integration between Jan Dhan Aadhaar and Mobile will help in the Direct Benefit Transfer but needs some reforms in the financial ecosystem (Deloitte, 2016).
2. Role of technology and innovation: The rapidly changing economic and social landscape in India requires a considerable amount of investment in physical, social, digital infrastructure.
According to some reports, the number of companies in the fortune 500 will be based in emerging economies and the consumer market is expected to grow by 3.6 times in 2021. Rapid urbanization is also one of the major factors with more than 50% of the population residing in urban areas. 49 metropolitan clusters are expected to account for 77% of India's incremental GDP (Deloitte, 2016).
3. Rise of Cashless economy: Digital wallets, UPI, pay through mobile. The Rise in innovation in E-payment thrives people to use digital wallets. Demonetization in 2016 further accelerated the growth and recently with the launch of the Unified payment system (UPI) by the government to ease the making of payment to any merchant regardless of what digital wallets the merchant is using.
4. Jan Dhan Yojna, E-aadhaar: Initially people weren't comfortable in using net banking, UPI and lack of trust was also a major hindrance. The Government then came up with the solution to move everything from physical to online for example to provide subsidies to poor people. The amount now is directly transferred to the beneficiary.

The government recently gave a policy push to ensure that no Indian remains without a unique identity. Today, 99% of Indian adults have an Aadhaar identity number.

6.0 Future Trends of Digital economic growth- An Advantage to Startups

The Government's step in to promote the startup's ecosystem proves to be an advantage to founders. The government of India defines startups that are less than 7 years old, are headquartered in the country and have an annual turnover of fewer than 250 million rupees (Mukherjee, 2020). The Indian startups were lagging behind due to shortage of funding, capital investment, logistics, accounting, finance etc. the external aids are a necessity for startups to meet the above-stated problem so that they will be able to focus on consumerism and business development then there would be a more progressive outcome and able to compete in a highly competitive market.

Here the role of government schemes in India came in. They play a vital role in making long-term goals and vision which will ensure the success and continuous development of the businesses. Specific schemes aim to provide funds, banking, accountancy, product description, overall development, legal backing, branding, design, launching, publicity, marketing, etc., thereby aiding them in getting their business running (Mukherjee, 2020).

Schemes like:

- a. Support for international patent protection in electronics and Information Technology (IT):- headed by the department of electronics and information technology. It aims at providing financial assistance and technology to startups and acknowledging the capabilities of global IP.
- b. Multiplier Grants Scheme (MGS):- headed by the Department of Electronics *and* Information Technology. In the 21st century, R&D has been at the forefront of any successful business like apple R&D is approx. \$15 billion. To fill that gap, MGS Initiated inter-organizational R&D collaborations between industries and education for better insight. Regulating development of products and packages through R&D institutions.

There are many more schemes from credit or loan grants to legal and financing aid.

7.0 Revolution across the globe due to Great Recession

The Great Recession period was a severe economic depression period, excessive risk-taking and credit banking facilities, bursting of the US housing bubble and culminating with the announcement of the collapse of the biggest investment bank Lehman's brothers.

As there is a saying, Every dark phase in your life extracts the best out of you; interpreting this term in terms of business- every crisis often brings disruptive ideas into the industry like Flipkart, OYO, Ola to name a few in India.

In developed countries, startups like Uber, Airbnb etc. have something in common; they both were founded during the global financial crisis 2007-2008. Within a few years, they were on the unicorn list. Some of the biggest startups in the space didn't waste the 2007-2009 window. Labour and housing market forces came together to create the sharing economy, and the advent of smartphones in 2007 gave many companies a new platform for their applications and services. Somewhat paradoxically, we can look back at the Great Financial Crisis as a golden era of tech entrepreneurship, one that might not be revisited soon (Rowley, 2017).

8.0 Rise of Gig Economy

According to some economic analysts, the COVID-19 pandemic accelerates digital growth even faster than where the world is supposed to be in 2025. We are living in that "2025 era" in 2021.

Gig workers are independent contractors, online platform workers, contract firm workers, on-call workers and temporary workers. Gig workers enter into formal agreements with on-demand companies to provide services to the company's clients (Ceres, Pure Food Innovation, n.d.). Gig workers have been in India for a long time providing on-demand services like construction, hospitality, housing and consumer services. Lately, it is rising like never before due to the availability of cheap smartphones and mobile internet connectivity.

According to a report by Boston Consulting Group (BCG) which states that "India's burgeoning gig economy has the potential to provide up to 90 million jobs in the non-farm economy alone, generate over \$250 Billion in the volume of work and contribute 1.25% to the country's GDP in the long term. These findings are among the major ones in a new report titled,

“Unlocking the Potential of the Gig Economy in India” The report also added that mainly four industries- construction, manufacturing, retail, and transportation and logistics – could alone account for over 70 Million of the potentially ‘gigable’ jobs (Rakheja, 2021).

Gig workers in India have been there for a long time as a ‘casual workers’ segment including temporary farmworkers, daily-wage construction labourers and household help. While middlemen and personal references continue to help meet such “on-demand” service but with the advent of technology, the Internet has made it easy for an employer to get the on-demand service with much more convenience of work and flexibility. Food delivery Startups like Swiggy, Zomato and car rental services uber, Ola and many more are reliable on gig workers. There is a boost in no. of startups soon after the rise of the gig economy.

8.1 What future holds for gig workers?

The logistics or supply chain have become the part and parcel of a successful business or startup, the importance of gig workers has been recognized by the companies to establish themselves in a strong position in the competitive market. Gig workers thus become the centre of ensuring a smooth supply of products and services. For example, food delivery unicorns and startups like Zomato, Swiggy, and cab services like Uber are majorly dependent on gig workers.

According to the labour ministry, companies like Amazon, Flipkart, and others committed about Rs. 500 crore to the government’s proposed social security fund that will provide health insurance to one million gig workers. The Code on Social Security, 2020, was introduced and passed in September last year. The code recognized gig workers as a separate class of workers outside the traditional employer-employee relationship and proposed social security benefits through various central and state government schemes. (Business Standard, 2021)

Besides this freelancing in developed countries like the USA is a mainstream of income and comprises 10% of the overall workforce, for example, WeWork a startup in the USA built for people who work from home and freelance creating a workplace environment. (Business Standard, 2021) But in India, jobs are linked with social status. Indians want an office space

where they would be sitting and working. But the scenario has changed, with more than millions of Indians having access to cheap mobile and internet connectivity marketing strategies of almost all businesses have shifted and this pandemic showed us that to survive and thrive in the competitive environment, staying connected with your target and potential customers are indispensable. The demand for Content writers and freelancers have risen like specialized talent in the field of robotics, artificial intelligence, UI and UX design, and digital marketing.

9.0 COVID-19 Pandemic Evolution

The COVID-19 forced everyone to stay at home for so long. Everything was shut, there was no one outside to shop. But that doesn't mean people weren't active like before. Social media played a huge role in connecting people, social media platforms like Facebook, Instagram, Snapchat to name a few. The social media platforms were the only and still the effective way for the business and startups to communicate with their potential and target customers. Instagram is the topmost favourite among startup brands as people spend most of their time on Instagram. The millennial engagement is more on Instagram. 70% of Instagram users are under 35. Massive followers on Instagram counts as the most engagement for new brands, Instagram accounts play a vital role in building an audience for your brand. The higher the engagement rate is, the more traffic can be driven from the Instagram page to other social media platforms, making it the perfect platform for startups (Engineerbabu, n.d.).

According to a study, Instagram marketing tips 2019 saw the emergence of are focused on more than just influencers. While Instagram is the best platform for celebs, offering quick and easy ways to share updates, Instagram marketing is quickly catching on for businesses. Another unique attribute of Instagram is its Stories feature. Instagram marketing for business startups is further advancing on account of hashtags. Startup marketing strategies are increasingly focused on Instagram to market products to a wider, more interesting audience base without spending a big budget (Engineerbabu, n.d.). The biggest threat a startup faces is the big companies that are already dominating the market. Meanwhile, Instagram has solved this problem. On Instagram, any size of business can thrive. With all of those users to choose from, Instagram is an important place for businesses. That goes for large, well-known companies as well as smaller mom and pop

shops and entrepreneurs. Businesses can raise brand awareness and reach their target audience by keeping an active presence and maintaining a routine of at least one post per day. This is how both household names like Coca-Cola and Adidas, as well as a slew of small businesses, have effectively used Instagram to thrive (Kuligowski, 2020). Instagram in 2020 launched a new feature “shop cart” wherein people can directly shop from there and they don’t need to go to their official websites. All the small features like shop cart, IGTV etc. help small business owners to start their business directly from Instagram. This crisis is shaping up to be a perfect storm for the venture ecosystem, with simultaneous impact around demand destruction, supply chain disruption and funding dislocation (Contributors, 2020).

10.0 The allocation of funds in start-ups and MSMEs through the stimulus package

The 2021 budget was the much-awaited budget in history ever after India was hit hard by COVID-19. The growth of the number of startups during the pandemic was very impressive but the benefits like financial aid, logistics, etc. avail by the government was very less and limited. So many new entrepreneurs registered their company as MSME. MSME stands for Micro, Small, and Medium Enterprises; in a developing country like India, MSME industries are the backbone of the economy.

Finance Minister Nirmala Sitharaman in Union Budget 2021 has allocated Rs. 15700 crore which is more than doubled than the previous year. "Financial Inclusion: To further facilitate credit flow under the scheme of Stand Up India for the Scheduled Caste and Scheduled Tribes and also women, I propose to reduce the margin money requirement from 25 per cent 15 per cent only and to also include loans for activities in allied activities in agriculture," the Finance Minister added.

To enhance the competitiveness of the MSMEs sector and its products, the government is planning to make few amendments such as;

- Rationalization of custom duties on steel screws, plastic builder wares, prawn feed, finished gemstones and rationalizing exemption on duty-free items to incentivize exports of garments, leather, and handicraft items will benefit the MSME sector comprehensively (MSME, 2021).

- Reduction of customs duty on semis, flats and long products of non-alloy, alloys and stainless steel and reduction of duty on steel and copper scraps will be of great help to the MSME sector (MSME, 2021).
- The rationalization of duties on raw materials for textile production will also help the MSME sector to be price competitive in the export market (MSME, 2021).
- Reduction of BCD rates on caprolactam, nylon chips, and nylon fibre and yarns will help the textile industry and MSMEs and would help in exports. Calibration of customs duty rates on chemicals to encourage domestic value addition and to remove inversions. Rationalization of Customs Duty in Gold and Silver would provide the required impetus to MSMEs working in this sector. (MSME, 2021)

Further, Post Covid-19, Government has taken several initiatives under Aatma Nirbhar Bharat Abhiyan to support the MSME Sector in the country especially in the Covid-19 pandemic. Some of them are:-

- i) Rs. 20,000 crores Subordinate Debt for MSMEs.
- ii) Rs. 3 lakh crores Collateral free Automatic Loans for business, including MSMEs.
- iii) Rs. 50,000 crore equity infusion through MSME Fund of Funds.
- iv) Newly revised criteria for the classification of MSMEs.
- v) New Registration of MSMEs through 'Udyam Registration' for Ease of Doing Business.
- vi) No global tenders for procurement up to Rs. 200 crores

Source: James, 2021

The finance minister this year under the scheme Funds of Fund which means - A fund of funds (FOF) also known as a multi-manager investment, is a pooled investment fund that invests in other types of funds. In other words, its portfolio contains different underlying portfolios of other funds. These holdings replace any investing directly in bonds, stocks, and other types of securities. FOFs usually invest in other mutual funds or hedge funds. They are typically classified as "fettered," or only able to invest in funds managed by the FOF's managing company, or "unfettered," or able to invest in funds across the market. (CHEN 2020) The government has allocated Rs. 830 crore for the funds for startups in the budget of 2021-2022, for budget

2020-2021 was Rs. 430 crores. The government has set up a Fund of Funds for Startups (FFS) with an investment of Rs. 10,000 crore. The Small Industries Development Bank of India (SIDBI) is the operating agency for the FFS (Donatekart by TOI, 2021). Also, the government has approved Rs. 300 crore for credit guarantee funds to foster the startup economic growth in the country. (Investopedia, 2020)

The Department for Promotion of Industry and Internal Trade (DPIIT) has increased the budget to Rs. 7,782.24 crore for 2021-22 as against Rs. 4600 crore the previous year. The ministry of commerce has also increased the budget for 2021-2022 to Rs. 4896 crore (Donatekart by TOI, 2021) All the comprehensive measures are aimed at fostering the ecosystem of startups in India and MSMEs businesses. (MSME, 2021)

11.0 Conclusion

Owning a business nowadays has been easy like never before with so many opportunities are coming. Earlier, venture capital and angel investing used to be one of the major hindrances in a startup but in the 21st century that problem has been solved by government schemes and venture capitalists are willing to invest in new business models. In 2020, alone Indian startups raised around \$9.3 billion. Artificial intelligence, machine learning, changing of lifestyle, robots evolution, the rise of the gig economy etc. provides immense opportunity to budding startup founders.

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