

# The Role of Startups in India's Economic Growth

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**Abstract -** This review integrates existing literature on the contribution of startups to India's economic development, with the objective of addressing gaps in the understanding of their diverse roles and the challenges within the entrepreneurial ecosystem. The study seeks to evaluate the economic impact of startups, examine the effectiveness of government policies, analyze regional and sectoral variations, and explore dimensions of innovation and inclusivity. A systematic review of empirical and policy-oriented studies published was undertaken, with particular emphasis on research based on secondary data, policy assessments, and case study approaches within the Indian context.

Policy initiatives, particularly those aimed at fostering entrepreneurship, have contributed to the development of the startup ecosystem; however, issues related to implementation gaps and regional imbalances remain evident. Startup activity continues to be concentrated in major metropolitan regions, while smaller cities are experiencing gradual growth constrained by limitations in infrastructure and access to finance. Furthermore, the adoption of advanced technologies in sectors such as financial technology, artificial intelligence, and healthcare has enhanced scalability, although challenges related to digital capabilities and regulatory frameworks persist. Overall, the review highlights the critical role of startups in India's economic transformation while emphasizing the need for context-specific policy interventions and more robust, data-driven research to support inclusive and sustainable growth.

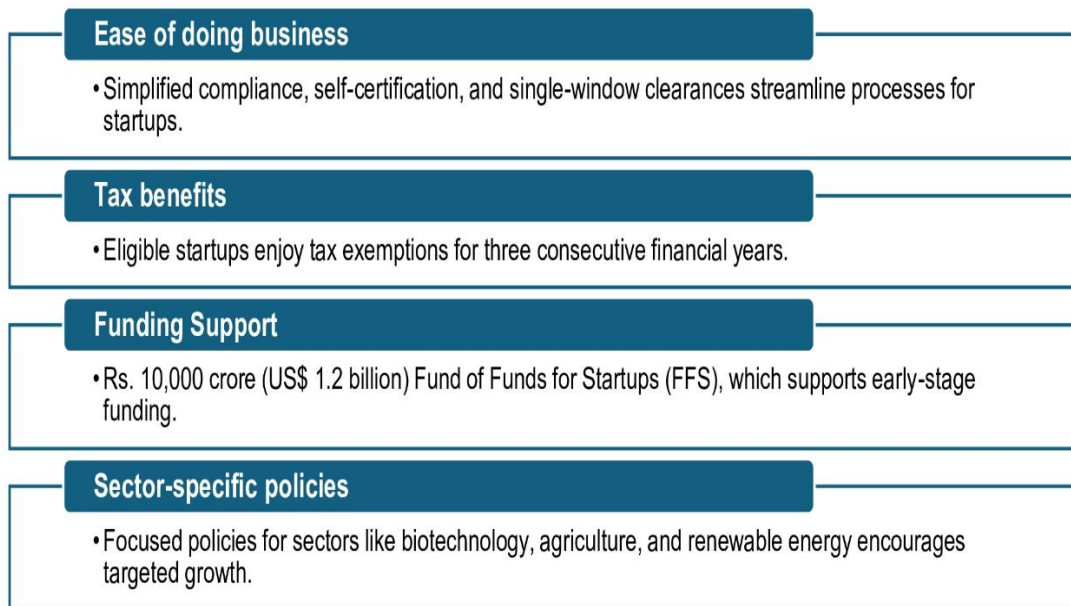
**The key Words :-** Economic development, the entrepreneurial ecosystem, government policies, innovation, regional disparities.

## 1. INTRODUCTION

Research on startups' role in economic growth in India has emerged as a critical area of inquiry due to their significant contribution to innovation, employment generation, and regional development. Over the past decade, India has evolved into the world's third-largest startup ecosystem, with over 157,000 recognized startups and more than 100 unicorns by 2024, reflecting a shift towards innovation-driven growth (Kumar & Rastogi, 2025) (Ray, 2024) (CJ et al., 2023). Over the past decade, India has established itself as a dynamic center for entrepreneurial activity, ranking among the world's leading startup ecosystems. With a rapidly increasing number of unicorns and a diverse range of emerging enterprises, the country's startup sector is playing a significant role in shaping modern economic development. By December 2024, more than 73,000 recognized startups included at least one woman director, accounting for nearly half of the 157,066 ventures supported under the Startup India initiative. This trend highlights the growing contribution of women entrepreneurs to inclusive economic progress.

The entrepreneurial landscape in India has undergone a substantial transformation, marked by the rise of major innovation hubs such as Bengaluru, Hyderabad, Mumbai, and the Delhi-NCR region. Factors including widespread internet accessibility, a skilled workforce, and increasing digital adoption have facilitated the expansion of startups across sectors like fintech, edtech, health technology, and e-commerce. According to reports on India's startup ecosystem, emerging technologies such as artificial intelligence, blockchain, and the Internet of Things are being leveraged to address both domestic and global challenges. This innovation-driven environment is further strengthened by the presence of incubators, accelerators, and mentorship networks, which collectively foster problem-solving and technological advancement. Moreover, sustained policy support through initiatives like Startup India has played a crucial role in accelerating the growth and development of the startup ecosystem.

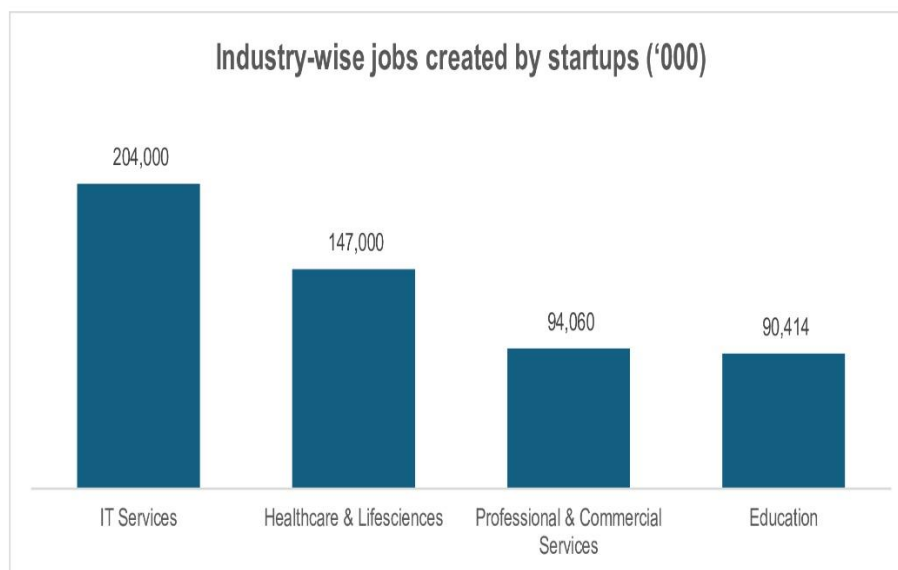
### Features of the Startup India initiative



Source:- Ibef.org

### Key milestones in India's startup journey

Over the past nine years, the Startup India initiative has been pivotal in shaping a vibrant entrepreneurial ecosystem.



Source: PIB

As of October 31, 2024, DPIIT-recognized startups have generated more than 1.66 million direct jobs across various sectors, making a substantial impact on employment creation.

## 2. STATEMENT OF PURPOSE

The objective of this report is to examine the existing research on "Startups role in economic growth in India" in order to synthesize current knowledge on how startups contribute to economic development, innovation, and employment generation within the Indian context. This review is important as startups have emerged as pivotal drivers of India's transition towards a knowledge-based and digitally empowered economy, influencing regional growth and national competitiveness. By critically analyzing the opportunities, challenges, and policy frameworks shaping the startup

ecosystem, the report aims to provide a comprehensive understanding of the multifaceted impact of startups on India's economic trajectory. The findings will inform policymakers, academics, and practitioners seeking to optimize startup-led growth strategies and address systemic barriers to sustainable entrepreneurial development.

### 3. LITERATURE REVIEW

Study	Economic Impact Metrics	Policy Effectiveness Indicators	Regional Ecosystem Development	Sectoral Innovation Trends	Inclusivity and Sustainability Measures
(Ramchandra, 2025)	Startups drive job creation and tech advancement towards Viksit Bharat 2047	Highlights policy challenges and opportunities for ecosystem maturity	Emphasizes regional development linked to startup ecosystem growth	Focus on technology-driven sectors like AI and blockchain	Notes sustainability and inclusive growth as ecosystem goals
(Ramannagol, 2025)	Startups contribute to employment and productivity in digital economy	Evaluates government initiatives like Digital India and Startup India	Discusses digital infrastructure disparities across regions	Focus on AI, blockchain, Industry 4.0 technologies	Addresses digital divide and inclusive economic growth
(Bhushan, 2025)	Startups significantly boost innovation and employment generation	Assesses Start-up India initiative and regulatory hurdles	Highlights uneven geographic distribution of startup hubs	Emphasizes emerging sectors like space tech and AI	Calls for inclusive workforce initiatives and decentralization
(Hashmi, n.d.)	Startups contribute to GDP and job creation with over 90,000 startups	Reviews government schemes like Stand-Up India and Startup India	Notes regional disparities and funding gaps	Identifies innovation as key to startup success	Advocates for inclusive entrepreneurship and skill Development
(Singh & Singh, 2024)	Startups impact economic growth via job creation and innovation	Evaluates regulatory barriers and funding access	Discusses ecosystem challenges in various states	Highlights cross-industry innovation	Emphasizes need to address startup challenges for sustainability
(Tyagi, 2025)	Startups drive innovation, jobs, and productivity with sectoral funding trends	Analyzes government policies and digital infrastructure support	Maps regional disparities and startup density	Case studies in fintech, climate tech, space tech	Focus on inclusive scaling and policy recommendations

(Borah, 2025)	Startups create over 1.7 million direct jobs and enhance economic dynamism	Identifies regulatory complexity and capital shortages	Calls for broader regional incubation and policy alignment	Highlights digital platform productivity gains	Emphasizes safe, scalable innovation and inclusivity
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#### 4. ANALYSIS AND DISCUSSION

The literature on startups' role in India's economic growth reveals a comprehensive exploration of their contributions to innovation, employment, and regional development, alongside the challenges they face. Many studies emphasize the transformative potential of startups within the digital economy and highlight government initiatives like Startup India as pivotal enablers. However, there is a recurrent critique regarding uneven regional development, funding inefficiencies, and regulatory complexities that hinder scalability and sustainability. Methodological approaches vary, with a predominance of secondary data analyses and qualitative assessments, which sometimes limit the granularity of insights. Overall, the body of research underscores the critical importance of startups while calling for more nuanced, data-driven, and region-specific investigations to optimize policy and ecosystem support.

##### 4.1 Economic contributions of startups

###### Job Creation

India's demographic structure, characterized by a substantial working-age population, provides a strong foundation for employment generation through entrepreneurial activity. With approximately 112 million individuals in the 20–24 age group—exceeding comparable figures in other major economies—there exists significant potential for labor force participation. In the context of limited expansion in public sector employment, this demographic dividend has contributed to the rapid growth of the startup ecosystem as an alternative source of job creation.

By June 2024, India had developed into one of the largest startup ecosystems globally, with more than 140,000 startups recognized by the Department for Promotion of Industry and Internal Trade (DPIIT) and distributed across over 650 districts. These enterprises have demonstrated a strong capacity to generate employment opportunities, often surpassing traditional large-scale firms in terms of job creation within similar sectors. This trend reflects the increasing role of startups not only in fostering innovation and economic dynamism but also in addressing employment challenges, particularly among the country's youth population.

###### New investments

Nowadays, a lot of big companies outsource their work to small companies so they may concentrate on their core skills. As a result, numerous global firms, in addition to Indian venture capitalists, are keeping a careful eye on the development of Indian start-ups in order to invest their funds. For instance, Accenture gave startups business worth Rs. 12 crore (US\$1.35 million) in FY24, giving them the chance to influence both Indian and international markets.

###### GDP growth

India maintained its GDP growth rate at 8.2% in FY24, higher than other emerging countries, despite increased inflation pressures brought on by rising global food and fuel prices. Growing startups and the economic advantages they provide to the country have contributed to this GDP sustainability.

###### Innovation and technological advancement

Many startups encourage innovation and demonstrate how their benefits reach even the most remote clients. In tier 2 and tier 3 cities, fintech companies are now reaching out to remote areas and facilitating easy access to financial solutions. By using its technology to bridge the gap between rural and urban areas, Hesa, a fintech and agri-tech business, may be able to solve rural issues. It efficiently facilitates banking transactions, simplifies supply chains, and raises the profile of rural farmers' goods. Rural opportunities have grown concurrently with the adoption of environmentally friendly electric cars by businesses like Zypp to

enable last-mile shipping without emissions. Despite living in areas far from major populations, entrepreneurial Indians see less obstacles when using digital marketing to sell goods overseas.

### Government Initiatives and Support

The Government of India has introduced a range of policy measures and financial instruments to strengthen the startup ecosystem and promote entrepreneurial activity across different stages of business development. Among these, the Startup India Seed Fund Scheme (SISFS), launched in 2021 with an allocated corpus of ₹945 crore (approximately US\$109.2 million), is designed to provide early-stage financial assistance to startups. The scheme supports activities such as proof of concept, prototype development, product trials, market entry, and commercialization. By the end of 2024, over 2,600 startups had benefited from disbursements amounting to approximately ₹467 crore (US\$54.0 million), indicating its role in enabling the transition of innovative ideas into viable business ventures.

Another key initiative is the Credit Guarantee Scheme for Startups (CGSS), which aims to improve access to debt financing by providing credit guarantees to startups recognized by the Department for Promotion of Industry and Internal Trade (DPIIT). The scheme allows financial institutions, including Scheduled Commercial Banks, Non-Banking Financial Companies, and venture debt funds registered under the Securities and Exchange Board of India (SEBI), to extend credit with reduced risk exposure. As of January 2025, credit guarantees had facilitated loans worth ₹604 crore (US\$69.8 million) to over 200 startups. Notably, a portion of these funds has been earmarked to support women entrepreneurs, reflecting a policy emphasis on inclusive growth. This initiative has contributed to improving startups' access to institutional finance and strengthening their operational sustainability.

In addition, the Fund of Funds for Startups (FFS), established in 2016 with a corpus of ₹10,000 crore (approximately US\$1.2 billion), plays a critical role in enhancing the availability of growth-stage capital. Managed by the Small Industries Development Bank of India (SIDBI), the scheme invests in SEBI-registered Alternative Investment Funds (AIFs), which in turn provide equity and equity-linked financing to startups. By December 2024, substantial commitments had been made both by the government and SIDBI to AIFs, resulting in significant downstream investments in over a thousand startups. This multi-tiered funding mechanism has been instrumental in mobilizing private capital and accelerating the expansion of India's startup ecosystem.

## 5. CONCLUSIONS

In summary, the literature collectively affirms that startups are indispensable engines of India's economic transformation, innovation, and employment generation. Maximizing their potential requires nuanced, data-driven policy responses that enhance funding efficacy, foster technological empowerment, and promote equitable ecosystem development across regions and sectors to ensure sustainable and inclusive growth aligned with India's broader economic ambitions. With more than 1.59 lakh DPIIT-recognized firms and a growing workforce, India has solidified its position as a global hub for entrepreneurship. Through flagship programs, capacity-building platforms like BHASKAR, and events like the Startup Maha Kumbh, the initiative has strengthened startups both inside and outside of metro areas. Because it creates new job possibilities and fosters an inclusive entrepreneurial civilization, the Startup India program remains the cornerstone of economic growth.

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