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A critical review of the effect of startups schemes on the Indian economy

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Abstract

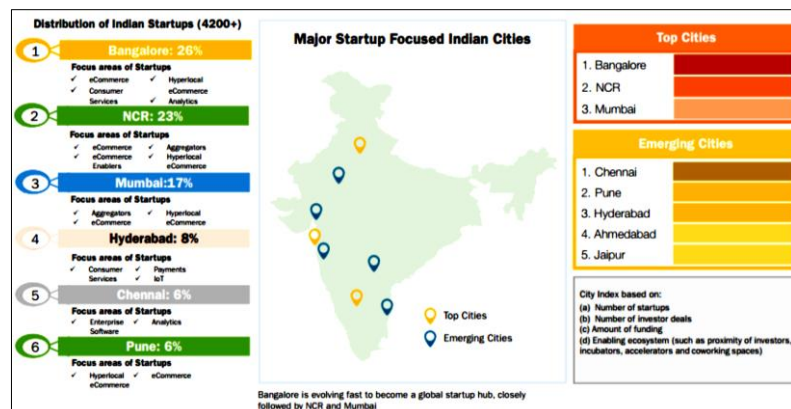
India needs over 100 million job possibilities per year, with startups being the primary source of employment rather than established enterprises. The importance of startup entrepreneurship rests in its capacity to create innovative innovations, produce job opportunities, and promote competitive dynamics in the business world and among firms. The importance of startups in promoting economic growth is increasing in the modern world. Startups has an inherent advantage in their capacity to provide job prospects. Research conducted on a global scale suggests that startups are creating a larger number of job chances in our nation as compared to well-established organizations or enterprises. The concept of a startup is now in its early stage. Therefore, the process of establishing itself would include several obstacles. The main challenges are budgetary limitations, insufficient strategic planning, recruitment of appropriate staff, the regulatory structure, and poor risk management. Despite facing several obstacles, entrepreneurs in India are making a valuable contribution to the socioeconomic advancement of the country. The Startup India project instills enthusiasm and optimism in both international investors and the young people of India. The aim of this study is to assess the influence of startups on the Indian economy. This research examines several textual sources, such as books, websites, journals, and other pertinent resources, to uncover the wide array of issues and hurdles faced by startups functioning in India.

Presently, several startups have used state-of-the-art technology such as Artificial Intelligence and Robotics. Presently, the bulk of large technology companies assign their tasks to small, innovative startups. Furthermore, it will improve the financial flexibility of entrepreneurs. Given the significance of the role that Indian startups play in contributing to the development of the Indian economy.

Keywords: Startups, Employment, Liquidity, Foreign Investor Indian Economy

1. Introduction

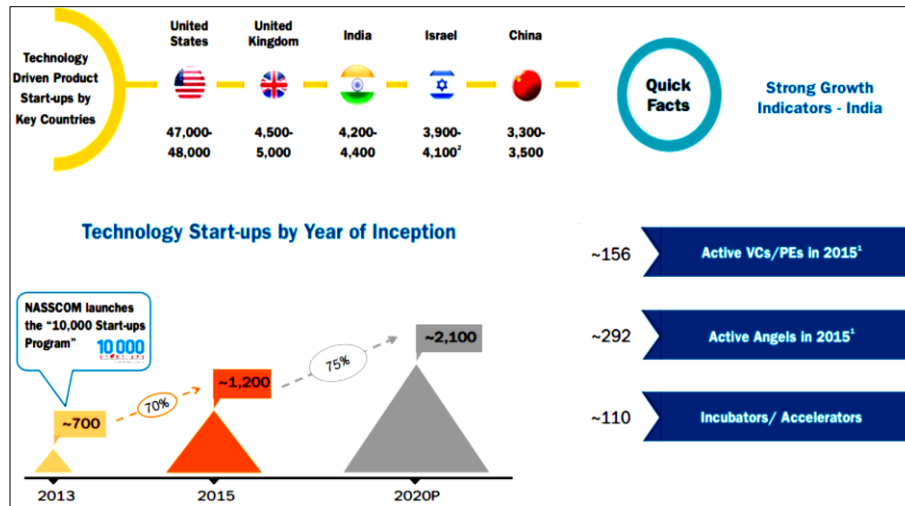
India is the birthplace of several inventive folks. Nevertheless, the youngsters have restricted chances in attaining their goals. Startup India is the main endeavour of the Government of India aimed at promoting the culture of startups and creating a favourable and inclusive environment for innovation and entrepreneurship in the country. The Startup India program was launched by Prime Minister Narendra Modi on August 15, 2015.



Source: Zinnov Research and Analysis

Fig 1: Start-ups contribution to Indian economy

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Source: Zinnov Research and Analysis

Fig 2: Fastest Growing Base of Start-up Worldwide

The main goal of the flagship project is to create a robust framework that supports the creation of new businesses and encourages innovation inside the nation. The objective of this project is to promote long-term economic growth and provide significant job prospects. The younger generation may use this campaign as a potent stimulant to achieve their objectives. The Startup India Initiative, launched on January 16, 2016, has introduced many measures to promote entrepreneurship, develop a thriving startup ecosystem, and shift India's focus towards generating employment rather than having a high number of job seekers. The supervision of these operations is conducted by a specialized Startup India Team, which is responsible to the Department for Industrial Policy and Promotion (DPIIT).

1.1 Definition and Significance of a Startup

The term "Startup" is constantly expanding in popularity due to its intricate nature and subjective interpretation. Therefore, a definite definition does not exist. In colloquial language, the term "startup" refers to a newly established firm. The objective is to develop a product or service that the creators believe will have demand in the market.

In a declaration issued on February 19, 2019, the Department of Promotion of Industry and Internal Trade (DPIIT), under the Ministry of Commerce and Industry, and the Government of India made an effort to provide a precise definition for the term "startups". According to this notice, a startup is defined as follows:

2 Literature review

Prakash Goyal (2011) [12]. Conducted a research study on the historical and current state of entrepreneurship. He contended that the status of entrepreneurs has been consistently improving in modern times, and economies are making attempts to further increase the capabilities of entrepreneurs. Additionally, he emphasized the need of correctly configuring start-ups with commercial knowledge. In addition, he elaborates on the necessary measures implemented by the government. This study provides a clear and efficient approach to comprehending the essence of the research subject.

Hans Westlund (2011) [6], the existing empirical entrepreneurship literature mostly demonstrates a positive association between entrepreneurship (quantified as the

number of startups) and economic growth. We utilize a unique database that encompasses not only the overall number of startups, but also provides data on startups categorized into six different sectors. This enables us to examine the influence of entrepreneurship on population and job growth. Analyses are conducted on every municipality, categorized by municipality type and growth rate.

Meenakshi Bindal and Sweety Dubey (2018) [1], The primary goal is to examine the initiative for startup India, to comprehend the challenges encountered by startups, to investigate the influence of startups on individuals, and to assess the level of knowledge about startups. The analysis relies on existing data that has been collected from previous sources. It has been determined that the government should assist startups in promoting their businesses, both domestically and internationally. Additionally, the government should establish rules that are favourable to startups in order to significantly enhance the growth of Indian entrepreneurs and facilitate the creation of more job opportunities.

Mishra (2018) [10], this research essentially establishes a direct correlation between entrepreneurship, measured by the number and proportion of startups, and economic growth. This paper examines the relationship between startups, business development, and civil-level development in Sweden from 2000 to 2008. It is based on the hypothesis that financial activities, such as the establishment of new firms, have unconscious effects on firm-level investments and positive share capital at the local level. Tests are administered in all geographical areas, categorized by region type and degree of development.

In the study conducted by Sahoo (2018) [11], the primary objective of this research is to analyse the effects of the Make in India initiative on the Indian economy. This indicates that the e-government has taken measures to facilitate the entry of foreign direct investment (FDI) into new sectors, increase the maximum limit on foreign investment in current industries, and streamline other regulatory procedures related to FDI. Overall, the manufacturing industry in India and the environment of foreign direct investment (FDI) were promising and appealing to prospective investors globally. It signifies a thorough and extensive revision of protocols and rules. The

Indian government's stance has shifted from being an issuing authority to that of a corporate partner with the launch of Make in India.

3. Objectives of the study

- To comprehend the Startup India initiative of the Indian government
- To identify new initiatives implemented under the Startup India programme.
- To examine the effect of the Startup India Program on national GDP
- To research how the Startup Indian Program has affected FDI inflows to India.
- To research how the Startup Indian Program has affected employment in India.

4. Research Methodology

There are three types of research design:

- Exploratory research design
- Descriptive research design
- Causal research design

In this study, descriptive research design is applied.

4.1 Sources of data

There are two types of data:

- Primary data
- Secondary data

In this research secondary data is used for the study.

4.2 Data collection tools

RBI reports, research publication, newspaper, reports of DPIIT etc are used for the study.

4.3 Population

All year's data of start-ups registered and Indian economy data.

4.4 Sample size

The 4 year as sample size from 2017 to 2020 have been taken. Because start-up Indian initiative has been implemented from 2016. Total no. of registered start-ups data has been derived from DPIIT report and economic variables data have been derived from RBI report. recognized start-ups have been used for analysis.

5. Role of start-ups to increase economic growth

- **Creation of job opportunities** Entrepreneurs play a vital role in relation to employment generation in the country. Thus, this will also help in decreasing the rate of unemployment in the nation. Therefore, one of the major advantages of start-up is creation of job opportunities.
- **Creation of wealth:** Entrepreneurs establish the start-ups with their own resources, but as the start-ups grow, they will eventually benefit the people of the nation. As the money will be shared among the people in the society then the wealth will also be created within the nation.
- **Increase in the standard of living:** As start-ups are established by the entrepreneurs to bring their unique ideas into realities. Many entrepreneurs have started the start-up in the rural areas to help the people of this

region to enjoy the benefits arising from them. This also helps in the development of these rural and backward areas. At the same time start-ups implement innovation and technologies that help in to increase the standard of living of people of the society.

- **Increase in the GDP:** GDP stands for Gross Domestic Products. It is one of the very important terminologies used in relation to the economy of a country. GDP forms a very important of the economy. By establishing more start-ups, it will help in enormous generation of the income domestically. It will also help to increase the flow of consumer's capital around the Indian economy.

6. Reasons for growth of start-up in India

The start-up growth in India was gradual in nature, and there are quite few reasons why India became such a sustainable environment for start-ups to thrive in. Some of the major reasons are:

- **The pool of talent** India has a population that has most of the younger generation. This shows the amount of potential that our country has in terms of talent. There are millions of students graduating from colleges and b-schools every day. Many of these students use their knowledge and skills to begin their own ventures, and that has contributed to the start-up growth in India.
- **The cost of setting up business is low** India is a labor-intensive country rather than being capital-intensive. The labor in India can also be hired on cheaper rates. So, compared to some other countries, the cost of setting up a business here is comparatively low. This is the reason why MNCs decided to set up their plants and offices in India. This one factor was really capitalized by the start-up owners as well.
- **Government boost** this past decade has seen massive start-up growth in India and one of the reasons for this could be attributed to the various schemes launched by the Government. Some of the major schemes that were introduced to boost entrepreneurship were Start-Up India and Stand-Up India.
- **Increasing use of the internet** India has the second-largest internet user base after China, and companies and start-ups can really leverage on this easy access to the internet. Not only can it be used to spread the message about a new business, but it can also be used to gather new information as well. So, communication has become much easier. This is also one of the major reasons for the start-up growth in India.
- **The advent of technology** The evolution of start-ups in India has also been due to the advent of technology. This has led to businesses growing by leaps and bounds. Technology has made the various processes of business very quick, simple and efficient. Now because of the trend around artificial intelligence and black-chain, many new start-ups are considering these options as well.
- **Variety of funding options available** Earlier there were only some very traditional methods available for acquiring funds for a new business model. However, this concept has now changed. There are numerous options and opportunities available. Start-up owners can approach angel investors, venture capitalists, seed funding etc. This availability of options and easy

accessibility has also contributed to the growth of the start-up ecosystem in India.

7. Data analysis and interpretations

7.1 Impact of start-ups on GDP at current price

Table 1: No. of start-ups and GDP at current price:

Year	No. of start-ups recognized by DPIIT	GDP at current price (RS in cr.)
2017	5373	15362386
2018	8724	17095005
2019	17390	18886957
2020	41317	20351013

Source: Based on compilation of Secondary data

Result: correlation between no. of start-ups and GDP at current price =0.91139 Interpretations: I have calculated co-relation co-efficient between no. of start-ups registered and GDP at current price. There is positive co-relation between no. of start-ups registered and GDP at current price.

It means that start-ups help to increasing GDP of Indian economy.

7.2 Impact of start-ups on GNI at current price

Table 2: No. of start-ups and GNI at current price

Year	No. of start-ups recognized by DPIIT	GDP at current price (RS in cr.)
2017	5373	15215269
2018	8724	16905230
2019	17390	18684632
2020	41317	20157899

Source: Based on compilation of Secondary data

Result: correlation between no. of start-ups and GNI at current price= 0.913965 Interpretations: I have calculated co-relation co-efficient between no. of start-ups registered and GNI at current price. There is positive co-relation between no. of start-ups registered and GNI at current price. It means that start-ups help to increasing GNI of Indian economy.

Result: correlation between no. of start-ups and balance of payment at current price =0.586541351 Interpretations: I have calculated co-relation co-efficient between no. of start-ups registered and balance of payment. There is positive co-relation between no. of start-ups registered and balance of payment. It means that start-ups help to increasing balance of payment of Indian economy.

7.3 Impact of start-ups on per capita GDP (RS.)

Table 3: No. of start-ups and per capita GDP (RS.)

Year	No. of start-ups recognized by DPIIT	Per capita GDP (RS)
2017	5373	118489
2018	8724	130061
2019	17390	142328
2020	41317	151760

Source: Based on compilation of Secondary data

Result: correlation between no. of start-ups and per capita GDP =0.907769857 Interpretations: I have calculated co-relation co-efficient between no. of start-ups registered and per capita GDP (RS). There is positive co-relation between no. of start-ups registered and per capita GDP (RS). It means that start-ups help to increasing per capita GDP (RS) of Indian economy.

7.4 Impact of start-ups on balance of payment

Table 4: No. of start-ups and balance of payment

Year	No. of start-ups recognized by DPIIT	Balance of payment Rs. crore
2017	5373	144234
2018	8724	280816
2019	17390	-20204
2020	41317	423206

Source: Based on compilation of Secondary data

7.5 Impact of start-ups on exports

Table 5: No. of start-ups and exports

Year	No. of start-ups recognized by DPIIT	Exports in Rs. crore
2017	5373	1849434
2018	8724	1956515
2019	17390	2307726
2020	41317	2219854

Source: Based on compilation of Secondary data

Result: correlation between no. of start-ups and exports =0.683161736 Interpretations: I have calculated co-relation co-efficient between no. of start-ups registered and exports. There is positive co-relation between no. of start-ups registered and exports. It means that start-ups help to increasing exports of Indian economy.

7.6 Impact of start-ups on imports

Table 6: No. of start-ups and imports

Year	No. of start-ups recognized by DPIIT	Imports in Rs. crore
2017	5373	2577675
2018	8724	3001033
2019	17390	3594675
2020	41317	3360954

Source: Based on compilation of Secondary data

Result: correlation between no. of start-ups and imports=0.614393865

Interpretations: I have calculated co-relation co-efficient between no. of start-ups registered and imports. There is positive co-relation between no. of start-ups registered and imports. It means that start-ups help to increasing imports of Indian economy. It is not a good indicator that the imports are increasing although there is increase in the number of

start-ups established. Here, the start-ups are not of any help to decrease the imports of Indian economy. There should be a negative relation established between the start-ups and the imports

7.7 Impact of start-ups on foreign exchange reserve

Table 7: No. of Start-ups and foreign exchange reserve

Year	No. of start-ups recognized by DPIIT	Foreign exchange reserve in US million
2017	5373	-21550
2018	8724	-53574
2019	17390	3339
2020	41317	-59498

Source: Based on compilation of Secondary data

Result: correlation between no. of start-ups and foreign exchange reserve= - 0.51826 **Interpretations:** I have calculated co-relation co-efficient between no. of start-ups registered and foreign exchange reserve. There is negative co-relation between no. of start-ups registered and foreign exchange reserve. There should be positive co-relation between start-ups and foreign exchange reserve. Start-ups are negatively affecting to foreign exchange reserve of Indian economy which is not a good indicator.

7.8 Summary of above findings

Table 8: Correlation between start-ups and various variable of Indian economy

Variables of Indian	Co-relation	Result	Impact
GDT at current	0.91139	Positive co-relation	Positive
GNI at current price	0.913965	Positive co-relation	Positive
Per capita GDP	0.907769857	Positive co-relation	Positive
Export	0.683161736	Positive co-relation	Positive
Import	0.614393865	Positive co-relation	Positive
Balance of payment	0.586541351	Positive co-relation	Positive
Foreign reserve	-0.51826	Negative co-relation	Negative

Source: Based on compilation of Secondary data

8. Conclusion

Start-ups play a crucial role in fostering the economic growth of a country in today's globe. Currently, we see a significant number of young individuals in our country emerging with inventive and distinctive concepts. These concepts may be implemented via the establishment of start-up companies. The young people of the country should not be concerned about their shortcomings and should have the audacity to embrace dangers. Commencing a company enterprise throughout previous ages was arduous. Prior to starting a company venture, entrepreneurs must carefully evaluate several factors. However, it is noteworthy that the global landscape is now undergoing a significant transformation, becoming more dynamic. The preceding analysis clearly demonstrates a favourable correlation between start-ups and numerous economic indicators, including GDP, GNI, per capita GDP, and exports.

Hence, the government is actively promoting entrepreneurship and implementing measures to facilitate firm establishment, which bodes well for the future of India's startup economy. This would undoubtedly enhance the Indian economy and contribute to the growth of the GDP in the following decade.

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