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Government Support for Startups: A Comprehensive Analysis of Funding Initiatives and the Role of the Indian Government in Nurturing the Startup Ecosystem

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Abstract
This research paper explores the role of government funds and initiatives in nurturing and enhancing startup ecosystems. Focusing on the Indian context, the study examines the comprehensive support provided by the Indian government to promote the growth and development of startups. Through a robust methodology involving secondary research and systematic review of government sources, the research identifies and catalogs nearly 50 distinct startup schemes, including grants, subsidies, incubators and financial assistance programs. The Indian government has dedicated divisions and ministries, such as Atal Innovation Mission and the Department for Promotion of Industry and Internal Trade (DPIIT), to provide comprehensive assistance to new enterprises. Moreover, the government has prioritized the establishment of high-quality incubators and accelerators across the country to foster collaboration, innovation, and knowledge exchange among entrepreneurs. The research underscores the vital role played by government funds and initiatives in overcoming financial barriers and empowering startups to pursue innovative ideas. The remarkable progress made by India in the Global Innovation Index rankings further demonstrates the positive impact of government investment in nurturing a thriving startup ecosystem. The success stories of other vibrant startup ecosystems, such as Singapore, Israel, and Barcelona, further underscore the importance of government funding and initiatives in driving startup growth and success. The research concludes that government support serves as a catalyst for the development of vibrant startup ecosystems, driving economic growth, job creation, and societal advancement. The research contributes to the existing knowledge on entrepreneurship and startup ecosystem development, enabling stakeholders to capitalize on the government's support system.

Keywords: Innovation, Entrepreneurship, Government grants, Startups, Global Innovation Index

1. Introduction

India's startup ecosystem holds a remarkable distinction as the world's third largest, with projections indicating a year-on-year growth of 12-15% (Startup India, 2019). The success of establishing a new enterprise is intricately linked to the environment in which the startup's founders and co-founders operate (Singh et al., 2019). A startup company, characterized by its rapid growth and focus on meeting market demands through innovative products,
services, or processes, plays a crucial role in driving economic growth and addressing consumer challenges (Narayan et al., 2019; Senyard, 2015).

Collaborative efforts from various stakeholders, with government funding as a pivotal catalyst for innovation, are necessary to create and nurture a thriving startup ecosystem (Moore, 2006). Recognizing this, the government assumes a crucial role in fostering business and startup ecosystems, providing equitable support to all businesses while facilitating the attainment of competitive advantages (Bennett & Robson, 2003).

In India, the government has acknowledged the imperative of establishing a long-term ecosystem that attracts talent, investors, and entrepreneurs, acting as a foundation for aspiring innovators (Khanduja & Kaushik, 2008). Efforts to develop the startup ecosystem have led to improved business efficiency, as evidenced by India's rise in rankings from 130 to 63 in the most recent World Bank Report. By implementing measures to simplify regulations, reduce bureaucratic obstacles, and extend financial assistance, mentorship programs, and networking opportunities, the government has nurtured a culture of entrepreneurship, attracted investments, and positioned India as a prominent hub for innovation and technology-driven enterprises (Jain, 2019).

Recent investments by the Indian government have further solidified India's position as a thriving startup hub, fostering an innovative and entrepreneurial mindset among its citizens. Initiatives and schemes like Startup India, Atal Innovation Mission, and Meity Startup Hubs have been launched to provide aspiring entrepreneurs with the necessary support and access to capital. Streamlined regulations, tax exemptions, and intellectual property rights protection have also been enacted to create a conducive ecosystem for startup development. Additionally, various ministries and state governments run funding, incubation, and mentorship programs to support small startups (DBT, DST, DRDO).

The Make in India campaign, launched in 2014, has played a crucial role in fostering startup establishment by garnering support from international business leaders and prospective investors. The campaign aims to position India as a dominant force in global manufacturing and design, resulting in significant investments, particularly in foreign direct investment (FDI), across sectors such as railways, defense, and space. This emphasizes the importance of streamlined regulatory policies that facilitate investment and enhance the business environment in India (Make in India, 2022).

In conclusion, India's startup ecosystem is experiencing remarkable growth, with the government playing a pivotal role in fostering its development. Through supportive measures, financial assistance, and streamlined regulations, the government has attracted investments, nurtured entrepreneurship, and positioned India as a global hub for innovation and technology-driven enterprises. These efforts, coupled with initiatives like Make in India, have contributed to India's rise as a thriving startup destination.

2. Literature Review

Any startup goes through a series of stages, namely Discovery, Validation, Efficiency, and Scale, as proposed by Kumbhat and Sushil (2018). These stages represent the evolutionary journey of a startup from its initial idea to its growth and expansion. The availability of funding becomes crucial for startups in the early stages of business, as they often face cash flow challenges. The decisions regarding capital structure, including the use of debt and equity, have significant implications for various aspects of a startup's operations, risk profile, performance, and future development possibilities (Cassar, 2002).

Vesper (1980) developed a model aimed at understanding the dynamics of new business formation by identifying critical determinants that influence the formation of new ventures. According to Vesper, knowledge, thought, connections, resources, and implementation play essential roles in new business creation.

Isenberg (2011) highlights that entrepreneurial ecosystems consist of six key domains: accessible markets, availability of finance, conducive culture, quality human capital, progressive policy framework, and institutional support. Governments worldwide are investing in strengthening their startup ecosystems, recognizing the
socioeconomic benefits of startups. Startups generate new jobs and contribute to economic dynamism by fostering market rivalry and stimulating innovation (Kuzmianok, 2016). Government initiatives aimed at promoting vibrant ecosystems for startups and entrepreneurs encompass various measures, including financial aid, guidance, legislative incentives, and the establishment of supportive infrastructures and networks. Moreover, investments in educational programs have been made to cultivate entrepreneurial skills and expertise (Acs & Kallas, 2007).

Fayolle et al. (2006) suggest that governments should provide financial and operational support while creating an environment that encourages an entrepreneurial culture. This involves promoting a favorable attitude towards risk-taking and innovation and nurturing a "culture of entrepreneurship" characterized by social networks, knowledge sharing, and collaboration. Similarly, Fritsch and Wyrwich (2013) examine the efforts of governments to minimize legal and administrative barriers, attracting and supporting entrepreneurs.

A comprehensive study by Font-Cot et al. (2023) on the Barcelona startup ecosystem highlights key government initiatives that fostered growth. Barcelona Activa, a prominent business incubator established in 1986, played a pivotal role. The ODAME program successfully encouraged women entrepreneurs, attracted foreign talent and investments, and boosted local economic activity. The introduction of the Barcelona Green Deal in 2023 and the Barcelona Tech City initiative further solidified Barcelona's position as a vibrant startup ecosystem. Investment activities surged in 2017, with 140 transactions amounting to over 620 million euros, marking a remarkable increase of over 50% from the previous year. In 2018, the investment volume approached a staggering 1 billion euros (Condom-Vilà, 2020), showcasing the ecosystem's immense growth and potential. Barcelona excels in venture capital returns, ranking at the top among European cities in generating high returns for investors (Putz, 2016).

Voxuyen (2022) analyzes the potential benefits of a healthy innovation/startup ecosystem in an Italian context, including the disruption of inefficient monopolies and the optimal utilization of human resources, among other factors (Finotto, 2018). Israel, despite its limited natural resources and population of 8.5 million, has achieved remarkable economic growth, increasing it fifty times in sixty years and ranking 16th in the Global Innovation Index 2022 (Finotto, 2018). Similarly, research conducted in Sweden (Westlund & Olsson, 2011) and Finland (Dhakal, 2020) examines the impact of startups, revealing their contributions to job creation, innovation infusion, and leveraging low rents in rural areas to serve urban clients through advancements in information technology.

Ho (2019) analyzes how the Singaporean Government accelerated its startup and innovation ecosystem. In 2006, the Singapore government established the Research, Innovation, and Business Council (RIEC) to transform Singapore into an enterprising society. Singapore implemented significant reforms, reducing the average duration of bankruptcy proceedings from 29 months to 10 days. Since 2005, Singapore companies have been granted tax exemptions of up to SS200k, while angel investors have been eligible for tax discounts of up to SS250k for their startup investments since 2010. The government-supported Early Stage Venture Fund (ESVF) was established to promote venture capital, angel investing, and in-house government assistance for entrepreneurs. Singapore has emerged as a leader in the ASEAN region, accounting for 66% of the total deal count annually. The number of technology-focused startups in Singapore rose substantially from 2,800 in 2004 to 5,400 in 2014. Through dedicated efforts, Singapore's position in the global startup landscape has advanced significantly, ascending seven spots since 2012 and securing a place in the top ten startup ecosystems. Moreover, the total early-stage entrepreneurial activity (TEA) rate surged from 5.7% in 2004 to over 11% in 2014.

Subrahmanya (2017) provides an example of Bangalore, India, and analyzes how the development of various public sector educational institutions and the growing influx of industries and corporations transformed Bangalore into the "Silicon Valley of India." Bangalore's startup ecosystem has flourished due to favorable conditions created by government initiatives and investments in supporting entrepreneurship.

Holaday et al. (2019) examined the startup ecosystem in Kerala, India, and the impact of government efforts in improving it. The Government of Kerala launched the Kerala Startup Mission (KSUM), a state government organization dedicated to creating a fertile environment for companies to launch, grow, and scale. KSUM provides support in technology development, entrepreneurship, and other areas. Investments in the sector have proven
successful, with the ecosystem witnessing a significant increase in the number of incubated startups, rising from 300 in 2015 to 1,500 in 2018.

These studies collectively demonstrate the importance of government policies, initiatives, and supportive ecosystems in fostering startup growth and development. By understanding the dynamics of new venture formation, creating conducive cultures, minimizing barriers, and providing financial and operational support, governments can nurture thriving entrepreneurial ecosystems that contribute to economic growth, job creation, and innovation.

![Graphical representation of growth of startups(Kerala Startup Mission, 2018)](image)

**Figure 1:** Graphical representation of growth of startups(Kerala Startup Mission, 2018)

### 3. Methodology

This research paper presents a comprehensive analysis of the investment and funding initiatives undertaken by the Indian government to nurture and catalyze the growth of the startup ecosystem in India. To ensure the credibility and reliability of the findings, we have implemented a robust methodology that involves a secondary research approach. The primary focus of our research is to identify and catalog state funding opportunities specifically tailored for startups, including grants, subsidies, incubators, accelerators, seed funding, unsecured credit, and financial assistance programs. To gather relevant and accurate data, we systematically reviewed government websites and reports, specifically targeting funding opportunities provided by the government. By relying solely on verified government sources, we ensure the integrity and dependability of the collected data.

<table>
<thead>
<tr>
<th>Table 1.1: Various schemes, grants and initiatives for startups</th>
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<tr>
<td><strong>Phase</strong></td>
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<tr>
<td>Incubation</td>
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<td>Ideation Phase</td>
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Table 1.2: Various schemes, grants and initiatives for startups

<table>
<thead>
<tr>
<th>Stage</th>
<th>AIM (Atal Innovation Mission)</th>
<th>Meity (Ministry of Electronics and Information Technology)</th>
<th>MOPNG (Ministry of Petroleum &amp; Gas)</th>
<th>DST (Department of Science &amp; Technology)</th>
<th>DRDO (Defence Research and Development Organisation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Students</td>
<td>Atal Tinkering lab grant $25000 per ATL</td>
<td>1)Meity Tide 2.0 handholding 2000+ startups &amp; funding support upto $3.4mn 2)XR Startup programme $25000 grant for 40 startups</td>
<td>1)Nidhi centre of excellence support $6.25 mn in 5 years. 2)PRISM Incubation Grant up to $62500</td>
<td>DDTII incubator financial support upto $12500</td>
<td></td>
</tr>
<tr>
<td>Incubation</td>
<td>Atal Incubation Centre grant of $1.25 mn for 5 years</td>
<td>Samridh investment of up to $50000 to the startup</td>
<td>The Start Up fund committed by Oil PSUs for next 3 years is $37.5mn.</td>
<td>Technology Development Fund cost of up to $1.25 mn , 90% funded</td>
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<tr>
<td>Later Stage</td>
<td>ANIC funding up to $125000</td>
<td>Samridh investment of up to $50000 to the startup</td>
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Tables 1.1 and 1.2 delineate a comprehensive array of government schemes. The columns encompass diverse ministries and their respective initiatives, while the rows are organized based on the startup's stage, incubation, and the nature of funding (equity). This meticulous categorization aids stakeholders in discerning an array of programs relevant to their respective fields of interest. Additionally, the systematic arrangement enhances accessibility, allowing for easy identification and selection of suitable initiatives.

To facilitate easy understanding and navigation of the government initiatives and startup schemes, we have organized the government schemes into two categories: the age/scale of the startup and the government ministry that has initiated the particular program. This categorization aids entrepreneurs in identifying the schemes most suitable for their ventures and distinguishes between various government initiatives effectively.

By aggregating and analyzing these resources, our research aims to serve as a valuable reference for entrepreneurs, policymakers, and stakeholders seeking to leverage government support for startup development. The
comprehensive analysis of the Indian government's investment and funding initiatives provides a clear overview of the available opportunities and programs. This research contributes to the existing knowledge on entrepreneurship and startup ecosystem development, enabling stakeholders to make informed decisions and capitalize on the government's support system.

We highlight several key initiatives launched by the Indian government, such as the Atal Innovation Mission, Startup India, MeITY startup hubs, and programs initiated by different ministries and state governments. For example, Startup India offers measures such as a seed fund of $118.125 million, a credit guarantee scheme of up to $1.25 million, and a three-year income tax exemption for new ventures.

The Atal Innovation Mission (AIM) promotes innovation and entrepreneurship through Atal tinkering labs for school-going children and Atal Incubation Centres offering grants of up to $1.25 million. Additionally, departments like the Department of Biotechnology (DBT) have introduced schemes like the Biotechnology Ignition Grant (BIG) and the Biotechnology Industry Partnership Program (BIPP) that provide financial support to startups in the biotechnology sector.

Furthermore, the Defense Research and Development Organization (DRDO) has launched the Technology Development Fund, which funds up to 90% of project costs up to $1.25 million. Various state governments, including Kerala, Telangana, and Odisha, have also established their own startup ecosystem initiatives with incubators and accelerators such as T-Hub and O-hub, fostering mentorship and industry expertise.

The Indian government's comprehensive support system for startups encompasses a wide range of initiatives and programs at both national and state levels. These efforts promote innovation, entrepreneurship, and collaboration among aspiring founders, backed by substantial financial assistance. The findings of this research highlight the significance of the Indian government's initiatives in facilitating startup growth and development.

4. Findings

Fundraising plays a pivotal role in the success of startups operating in the growth stage or beyond, enabling them to scale from a smaller user base to a significantly broader consumer base. The Government of India has launched an impressive array of financial programs in recent years to promote and empower startup businesses, creating an environment conducive to entrepreneurial growth within the country. Demonstrating unwavering commitment to supporting the startup mission and nurturing a thriving culture of entrepreneurship in India, the government has developed a diverse portfolio of nearly 50 distinct startup schemes.

To underscore the significance of startups, the Indian government has dedicated an entire division, Startup India, within ministries like the Department for Promotion of Industry and Internal Trade (DPIIT), to provide comprehensive assistance to new enterprises. Moreover, the government has implemented strategic measures to actively promote the growth and development of nascent firms nationwide (Garg, M., & Gupta, S., 2021). This compilation of various schemes indicates the government's active investment of capital and resources to improve the current startup ecosystem in the country. In addition to funding opportunities and grants, the government has prioritized enhancing the quality and quantity of incubators and accelerators across the country.

Startup incubators play a crucial role beyond providing infrastructure; they foster collaboration, innovation, and knowledge exchange among entrepreneurs. These incubators serve as catalysts for local economic growth, job creation, and technological advancements (Peters et al., 2004). Alongside central government initiatives such as Atal Incubation Centres (AIC), states like Telangana and Odisha have established their own incubators, namely T-Hub and O-Hub, respectively, to promote innovation and entrepreneurship within their regions.

The Indian government's comprehensive support system for startups, comprising a wide range of funding opportunities, grants, and incubators, demonstrates a holistic approach to fostering entrepreneurship and fueling economic growth. The findings of this study highlight the government's commitment to actively invest in capital
and resources to strengthen the startup ecosystem in India, providing entrepreneurs with the necessary support to thrive and contribute to the country’s development.

5. Conclusion

Government funds and initiatives are pivotal in nurturing and enhancing startup ecosystems, providing essential financial support to empower early-stage startups in overcoming financial barriers and pursuing innovative ideas. Beyond monetary aid, government initiatives encompass a wide range of resources, including mentorship programs, networking opportunities, and specialized infrastructure access, which are invaluable for startup success. The Indian government serves as an intriguing case study, as it has made significant investments in various key areas to foster its startup ecosystem.

Through initiatives such as Startup India, Atal Innovation Mission, and Meity Startup Hubs, the Indian government has strategically simplified regulations, reduced bureaucratic obstacles, and offered financial assistance, mentorship programs, and networking opportunities. These concerted efforts have positioned India as a prominent hub for innovation and technology-driven enterprises. Notably, India’s remarkable progress is reflected in its ranking of 40th on the Global Innovation Index (GII Report 2023), a significant leap from its previous position of 81st in just eight years. This achievement underscores the profound impact of government investment in nurturing a thriving startup ecosystem.

Furthermore, the success stories of other thriving startup ecosystems in Singapore, Israel, and Barcelona further emphasize the crucial role of government funding and initiatives in fueling growth and success. The collaborative approach between governments and startups creates an environment conducive to entrepreneurship, attracting talent, and fostering disruptive innovation. This symbiotic relationship contributes to economic growth and facilitates the resolution of complex societal challenges. Government funds and initiatives serve as catalysts for the development of vibrant startup ecosystems, driving progress and enriching societies at large.

6.1. Limitations of the study

While conducting this research on the impact of government funding on startups and various schemes by the Indian government, it is important to acknowledge certain limitations that may affect the scope and generalizability of the findings. These limitations should be considered in interpreting the results and drawing conclusions.

1. Timeframe Constraints: The research paper is conducted within a specific time frame, and therefore, the analysis might not capture the most recent developments or changes in government funding and schemes. The dynamic nature of the startup ecosystem suggests that new initiatives or modifications to existing schemes may have been implemented after the research cutoff date. Thus, some recent developments may not be fully accounted for in this study.

2. External Influences: The government schemes listed above are subject to changes influenced by economic conditions, market trends, and global events. As such, the effectiveness and availability of funding opportunities may fluctuate over time. These factors, which are beyond the scope of this research paper, may introduce additional complexities in interpreting the results.

3. Reliance on Secondary Data: This research relies on secondary data sources, such as government websites and reports, for data collection. While efforts were made to ensure accuracy and reliability, secondary sources may lack specific insights that could be obtained through primary research methods, such as surveys or interviews. The absence of primary data collection may limit the depth of analysis and the ability to explore specific nuances or perspectives related to the impact of government funding on startups.

4. Coverage Limitations: The paper may not be able to cover the entire spectrum of startups available in India. Although extensive efforts were made to identify and catalog various government schemes, there might be additional programs or initiatives that were not included in this study. The coverage of startups and funding opportunities might be limited, and some niche sectors or specific geographic regions may not have been extensively explored.
Despite these limitations, this research paper provides valuable insights into the impact of government funding on startups in India. The findings should be considered in the context of these limitations, and future research could overcome these constraints by incorporating primary data collection methods and conducting longitudinal studies to capture the evolving nature of government support for startups.

6.2 Future prospects

This research paper provides a foundation for future investigations into government funding and its impact on startups in India. The findings and insights presented in this study open up several avenues for further research and exploration. The future prospects of this study include:

1. Longitudinal Analysis: Conducting longitudinal studies to track the effectiveness and evolution of government funding initiatives over time would enhance our understanding of the long-term impact on startup growth and development. By analyzing trends and patterns, researchers can identify the sustainability and scalability of various schemes, enabling policymakers to refine and optimize their strategies.

2. Comparative Studies: Comparing the government funding ecosystems in different countries or regions can provide valuable insights into the best practices and success factors in promoting startup growth. Comparative studies can help identify lessons learned and transferable models, facilitating knowledge exchange among policymakers and fostering international collaborations.

3. Evaluation of Program Outcomes: Conducting in-depth evaluations of specific government funding programs and their outcomes would enable a comprehensive assessment of their effectiveness. By analyzing the impact of these programs on startup success rates, job creation, innovation, and economic growth, researchers can provide evidence-based recommendations for program improvement and expansion.

4. Qualitative Research: Supplementing the existing quantitative analysis with qualitative research methods, such as interviews and case studies, would offer a deeper understanding of the experiences and challenges faced by entrepreneurs in accessing government funding. Qualitative research can capture unique perspectives, shed light on success stories, and provide insights into the barriers and facilitators encountered by startups in utilizing government support.

5. Policy Recommendations: Building upon the findings of this study, future research can focus on developing practical policy recommendations for policymakers and government agencies. These recommendations can encompass strategies for streamlining administrative processes, enhancing transparency and accessibility, and fostering collaboration between the government, startups, and other ecosystem stakeholders.

By pursuing these future prospects, researchers can contribute to the body of knowledge on government funding for startups and further advance the understanding of how public support can catalyze entrepreneurial growth. These endeavors will enable policymakers, entrepreneurs, and stakeholders to make informed decisions, optimize resource allocation, and create an enabling environment for the sustainable development of vibrant startup ecosystems.

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