



ROLE OF START-UPS IN EMPLOYMENT GENERATION AND ECONOMIC DEVELOPMENT

Tanha Natthuji Shinde,

Asst. Prof.(C.H.B)

Bhiwapur Mahavidyalaya, Bhiwapur

Abstract

Start-ups have become one of the most visible engines of job creation and economic change in India. Since the launch of the Startup India initiative in January 2016, the country has built one of the largest start-up ecosystems in the world, with well over one lakh recognised ventures, over a hundred unicorns and a steadily rising number of direct jobs. This paper examines the role of start-ups in generating employment and promoting economic development in India. It uses secondary data from government sources, industry reports and published literature to explain the growth of the ecosystem, the channels through which start-ups create jobs, their contribution to innovation, regional balance, women's participation and exports, and the challenges they face. The study finds that start-ups contribute to employment through direct hiring, indirect supply-chain and gig opportunities, and self-employment, while supporting economic development through innovation, productivity, investment and wider regional spread. However, high failure rates, funding volatility, skill gaps and regulatory complexity limit their full potential. The paper concludes with policy suggestions for strengthening the ecosystem.

Keywords: start-ups, entrepreneurship, employment generation, economic development, Startup India, innovation, unicorns

1. Introduction

Employment and growth are two of the central concerns of any developing economy. India has one of the youngest populations in the world, and every year millions of young people enter the labour market. Traditional sources of employment such as agriculture, government service and large organised industry cannot absorb all of them. In this setting, entrepreneurship, and especially the start-up model, is seen as a practical route to create new jobs, new products and new businesses at the same time.

A start-up is generally understood as a young, innovative business built around a scalable idea, a new technology or a new business model, and aimed at rapid growth. Unlike a conventional small shop or family enterprise, a start-up usually seeks to solve a problem in a new way, often using digital technology, and may grow quickly if the model works. Companies such as Flipkart, Ola, Paytm, Zomato, Byju's and Zerodha show how ideas that began in small offices have grown into large employers and brands.

The Government of India formally recognised the importance of this sector by launching the Startup India initiative on 16 January 2016, with a promise of simpler rules, tax benefits and easier access to finance. Since then, the number of recognised start-ups has grown from a few hundred to well over a lakh. This paper studies how far these ventures have contributed to employment and to broader economic development.

2. Objectives of the Study

1. To understand the concept and features of start-ups in the Indian context.
2. To study the growth of the start-up ecosystem in India.
3. To analyse the role of start-ups in employment generation.
4. To examine the contribution of start-ups to economic development.
5. To identify the major challenges faced by start-ups and suggest remedies.



3. Research Methodology

The study is descriptive and analytical in nature and is based wholly on secondary data. Information has been drawn from publications and portals of the Department for Promotion of Industry and Internal Trade (DPIIT), the Startup India portal, NASSCOM and industry reports, the Economic Survey, and reputed journal articles, books and news sources. The figures quoted are rounded and approximate, and are meant to show broad trends. Readers should confirm the latest numbers on official portals before citing them in formal submissions. The study is limited by its reliance on secondary data and by the fact that start-up numbers change rapidly.

4. Review of Literature

The link between entrepreneurship and economic growth has a long history in economic thought. Joseph Schumpeter argued that entrepreneurs drive growth through “creative destruction”, where new products and methods replace older ones and push the economy to a higher level. This idea remains the theoretical base for studying start-ups.

Later studies on new firms in developed economies found that young firms, rather than old large firms, account for a large share of net new jobs, even though many of them fail. Researchers have also shown that start-ups raise competition, which in turn pushes established firms to improve efficiency.

In the Indian context, NASSCOM and consulting-firm reports have described the rapid rise of technology-led ventures and their role in creating skilled jobs, attracting venture capital and building new digital services. Studies by scholars on Startup India have generally noted that policy support, easier compliance and funding schemes have improved the environment, but they also point to uneven access to finance, a concentration of ventures in a few metro cities and weak support for ventures outside the technology sector. The present paper builds on these views and brings together the employment and development aspects in a single discussion.

5. Conceptual Framework

5.1 Features of Start-ups

- **Innovation:** a new product, process or business model.
- **Scalability:** the ability to grow quickly without a matching rise in cost.
- **Technology orientation:** heavy use of software, data and digital platforms.
- **Risk and uncertainty:** high chances of failure alongside high potential returns.
- **Dependence on external funding:** angel investors, venture capital and government schemes.

5.2 Who is a “Recognised Start-up” in India

To be officially recognized as a start-up by the Indian government (DPIIT), a business must meet these conditions:

- **Business structure:** Registered as a private limited company, a partnership firm, or an LLP.
- **Age:** Founded less than 10 years ago.
- **Revenue limit:** Yearly sales have never crossed Rs 100 crore in any year since starting.
- **Core focus:** Creating or improving products, services, or processes, or having a business model that can scale up quickly to create jobs and wealth.
- **Key Benefits of Official Recognition**
- **Tax relief:** Exemptions on certain business taxes.
- **Less paperwork:** Allowed to self-certify compliance for several labor and pollution laws.
- **Intellectual property support:** Faster and cheaper patent approvals.
- **Government contracts:** Easier rules to sell products and services directly to government departments.

6. Growth of the Start-up Ecosystem in India

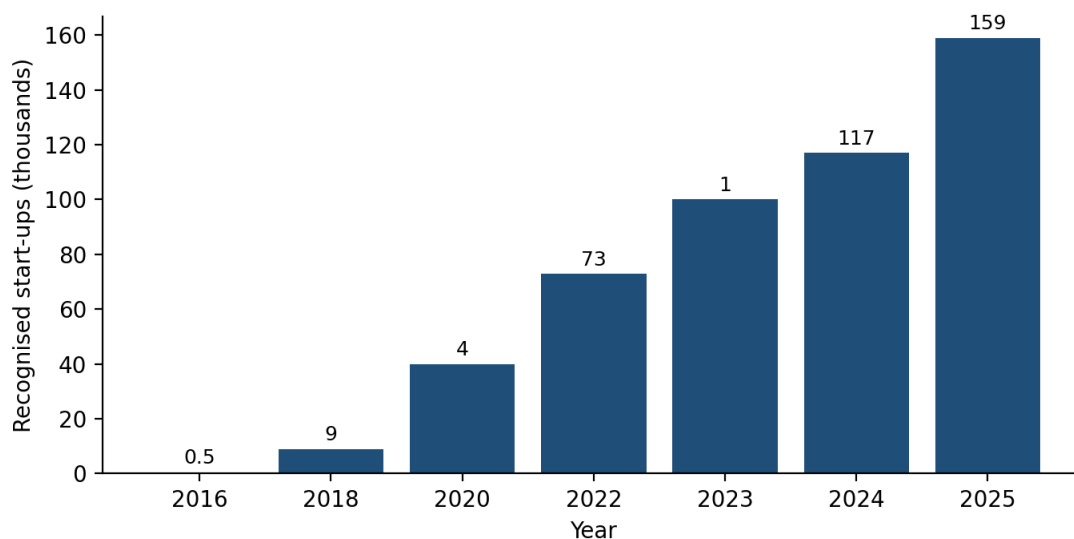
India is among the top three start-up ecosystems in the world by number of ventures. The growth in recognised start-ups since 2016 has been dramatic, as the approximate figures below show.

Table 1: Approximate growth of DPIIT-recognised start-ups in India

Year (approx.)	Recognised start-ups	Remark
2016	About 500	Startup India launched
2018	About 8,000 to 9,000	Early expansion
2020	About 40,000	Rapid registration growth
2022	About 73,000	Post-pandemic digital boom
2023	Above 1,00,000	Crossed one lakh mark
2024	About 1,17,000	Over 12 lakh direct jobs reported
2025	About 1,59,000	Further steady growth

Source: Compiled from DPIIT and Startup India portal data; figures are rounded and approximate.

Figure 1: Growth of recognised start-ups (in thousands, approximate)



The number of unicorns, meaning start-ups valued at one billion US dollars or more, also rose from a handful in 2014 to over a hundred by 2022-24. Sectors such as fintech, e-commerce, software-as-a-service, edtech, health-tech, logistics and agri-tech have produced many of these.

Funding has been uneven. Private funding into Indian start-ups rose sharply to a peak of roughly 35 to 38 billion US dollars in 2021, fell to about 24 to 25 billion in 2022, and declined further to around 10 to 12 billion in 2023, reflecting a global slowdown in venture investment. This volatility shows that the ecosystem remains sensitive to global capital conditions.

7. Role of Start-ups in Employment Generation

Employment generation is the most direct social contribution of start-ups. It happens through several channels.

7.1 Direct Employment

Start-ups hire engineers, designers, marketers, finance staff, operations managers and sales teams. According to DPIIT reports, recognised start-ups had created over 12 lakh direct jobs by early 2024, and later figures reported by the government put the total higher still, at well above 15 lakh. The average start-up employs a relatively small team, but because their number is very large, the combined effect is

significant. Many of these jobs are in higher-skill, higher-wage categories than traditional small business jobs.

Table 2: Illustrative growth in reported direct jobs in recognised start-ups

Period (approx.)	Reported direct jobs
2018	About 1.5 lakh to 2 lakh
2020	About 4 lakh to 5 lakh
2022	About 8 lakh to 9 lakh
2024	About 12 lakh
2025	Above 15 lakh

Source: Compiled from DPIIT statements; figures are approximate and rounded.

7.2 Indirect Employment

For every job inside a start-up, further jobs arise outside it. Delivery partners working with food and grocery platforms, drivers connected through ride-hailing apps, sellers on e-commerce marketplaces, warehouse and packaging workers, content creators, and freelancers who provide design, coding or accounting services all earn income because of start-up platforms. Such indirect jobs are difficult to count but are believed to be several times larger than direct jobs.

7.3 Self-Employment and the Gig Economy

Platform-based start-ups have opened flexible earning options for millions, especially young people, women and workers with limited formal education. Gig work has given quick entry into the labour market, though it also raises concerns about job security and social protection, which the Code on Social Security 2020 has begun to address by recognising gig and platform workers.

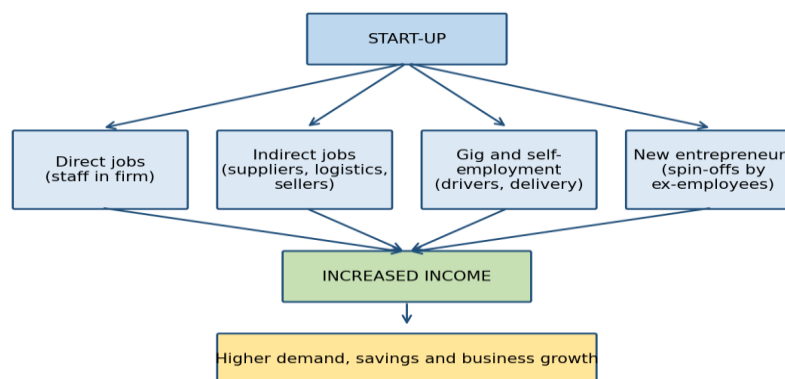
7.4 Skill Development and Entrepreneurship Culture

Start-ups train young people on the job in new technologies such as artificial intelligence, data analytics, cloud computing and digital marketing. Many employees later leave to start their own ventures, creating a chain effect in which one start-up produces several more. This culture of entrepreneurship changes the career choice of graduates, who now consider founding a business as a serious option alongside a salaried job.

7.5 Inclusive Employment

Government data indicate that a substantial share of recognised start-ups have at least one women director or partner, and nearly half now come from tier-2 and tier-3 cities rather than only from metros. This shows that start-ups are slowly spreading opportunities to women and smaller towns, although the deeper rural reach is still limited.

Figure 2: How start-ups create jobs





8. Role of Start-ups in Economic Development

8.1 Contribution to Output and Value Addition

Start-ups add to gross domestic product by creating new products and services and by raising the productivity of existing sectors. Digital payments through UPI, which many fintech start-ups helped popularise, now process several billion transactions each month and have made financial services available to millions of people at low cost. E-commerce and logistics start-ups have widened markets for small manufacturers and artisans.

8.2 Innovation and Technology Diffusion

Start-ups are a major source of innovation. They develop new software, medical devices, clean energy solutions, drones, space technology and agricultural tools. India's rise in the Global Innovation Index rankings, from outside the top 80 in the mid-2010s to around the 40th position in recent editions, is often linked to the growing activity of start-ups and research in the country. Patent filings by Indian residents have also risen in recent years.

8.3 Attracting Investment

Indian start-ups attract large amounts of money from both local and foreign investors, including venture capital funds, private investment firms, and big corporations.

This money helps strengthen the country's economy, expands financial markets, and creates jobs for fund managers and investment professionals.

To boost this further, the Indian government set up a special 10,000 crore rupee fund managed by SIDBI. Instead of giving money directly to businesses, this government program funds private investment firms, which then invest the cash into promising start-ups.

8.4 Increase in Competition and Efficiency

When new firms enter a market with better services or lower prices, established players are forced to improve. In banking, insurance, retail, education and transport, the arrival of start-ups has improved service quality and lowered costs for consumers.

8.5 Regional Balance and Local Development

Big metros like Bengaluru, Delhi NCR, and Mumbai are still the top start-up hubs, but other cities like Pune, Hyderabad, Chennai, Ahmedabad, Jaipur, Kochi, and Nagpur are building thriving start-up communities too.

Support centers in colleges and tech parks help local entrepreneurs get started. This spread creates jobs locally, boosts smaller economies, and stops people from having to move to giant cities for work.

8.6 Exports and Global Presence

Many Indian start-ups work with clients around the world, especially in areas like software, online business tools, digital healthcare, and design.

Several of these companies have also opened offices in other countries. This brings foreign money into India and builds the nation's reputation as a global tech leader.

8.7 Social Impact

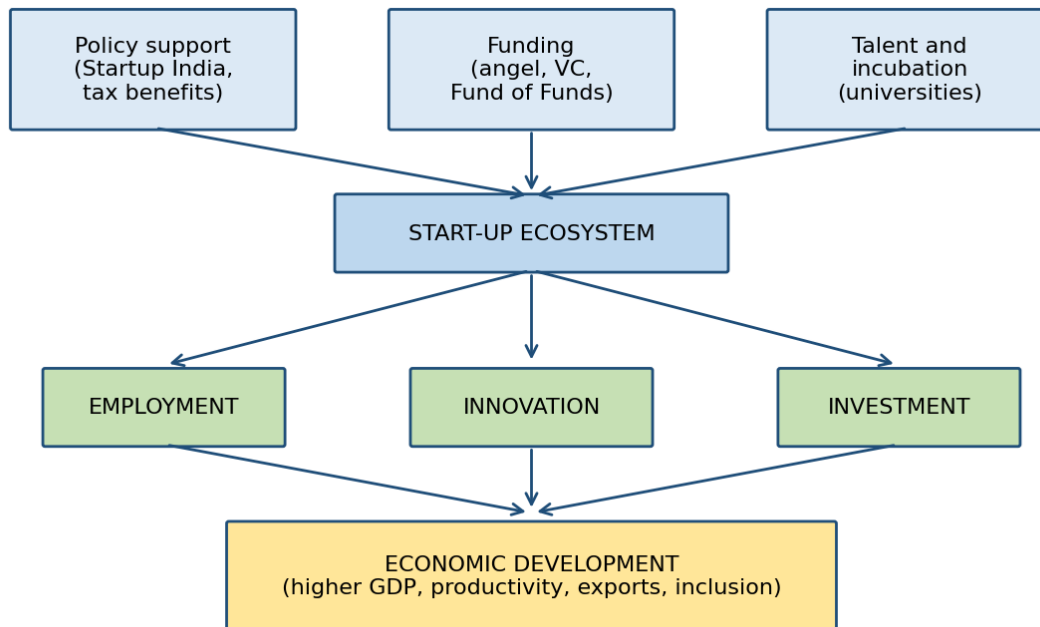
- **Farming tech (Agri-tech):** Helps farmers find fair crop prices and connect directly to buyers.
- **Healthcare tech (Health-tech):** Brings online doctor visits and medical care to distant villages.
- **Education tech (Ed-tech):** Makes learning tools and classes available to more students.
- **Clean energy and recycling:** Protects nature by reducing pollution and managing waste.

Together, these businesses make essential services available to everyone while protecting the environment.

Table 3: Summary of start-up contribution to development

Dimension	Contribution
Employment	Direct, indirect, gig and self-employment
Innovation	New products, patents, technology adoption
Investment	Venture capital, private equity, Fund of Funds
Regional growth	Hubs beyond metros, tier-2 and tier-3 growth
Inclusion	Women-led ventures, financial and digital access
Trade	Software and service exports, foreign exchange
Society	Agri-tech, health-tech, ed-tech, green solutions

Figure 3: Linkage between start-ups, employment and development



9. Government Initiatives Supporting Start-ups

- **Startup India (2016):** a flagship action plan to simplify compliance, give tax relief and promote funding.
- **Fund of Funds for Start-ups (FFS):** Rs 10,000 crore corpus operated through SIDBI.
- **Startup India Seed Fund Scheme:** about Rs 945 crore for proof of concept, prototype development, trials and market entry.
- **Credit Guarantee Scheme for Start-ups:** collateral-free loans backed by a guarantee.
- **Tax benefits:** income tax exemption for eligible start-ups for three consecutive years out of a prescribed period, and relief on certain capital gains and angel investments.
- **Atal Innovation Mission and Atal Incubation Centres:** support for innovation in schools and incubation in institutions.
- **Make in India, Digital India, Skill India and Stand-Up India:** complementary programmes that support manufacturing, digital infrastructure, skill building and entrepreneurship among women and SC/ST groups.
- **State start-up policies:** states such as Karnataka, Gujarat, Maharashtra, Telangana and Kerala offer their own incentives, and the national ranking of states on start-up support encourages healthy competition.



10. Challenges Faced by Start-ups

1. **High failure rate:** a large share of start-ups close within the first few years because of weak business models, poor market fit or cash shortage.
2. **Funding gap and volatility:** early-stage and smaller-city founders find it hard to raise money, and funding slows sharply during global downturns, leading to layoffs, as seen in 2022 and 2023.
3. **Regulatory and compliance burden:** multiple registrations, tax issues and changing rules still trouble many founders despite reforms.
4. **Skill shortage:** employers often report a gap between what graduates know and what start-ups need, especially in advanced technology.
5. **Infrastructure gaps:** unreliable connectivity, limited incubators and weak logistics in smaller towns.
6. **Job quality concerns:** gig and contract work may lack security, benefits and stable income.
7. **Concentration in a few cities and sectors:** most activity is in technology and consumer services, and in a few metros.
8. **Limited exit and market access:** difficulty in listing, being acquired or entering government procurement.
9. **Cyber and data risks:** growing concern around privacy, fraud and data security for digital ventures.

11. Findings

1. **Rapid Ecosystem Growth:** The number of officially registered start-ups in India jumped from a few hundred in 2016 to over 100,000, making India one of the largest start-up hubs globally.
2. **Massive Job Creation:** Start-ups have generated more than 1.2 million direct jobs alongside many more delivery, freelance, and supply-chain roles, mostly hiring young and skilled workers.
3. **Broad Economic Impact:** They boost the economy by bringing new ideas, attracting foreign and local investment, improving efficiency, increasing competition, growing exports, and tackling social problems.
4. **Wider Reach and Inclusion:** More women founders and smaller towns (Tier-2 and Tier-3 cities) are joining in, helping spread wealth beyond big metros—though disparities still exist.
5. **Key Obstacles to Stability:** Unpredictable funding, frequent business closures, a shortage of right skills, and heavy paperwork make many of these jobs insecure over the long run.
6. **Uneven Government Support:** While government programs have made running a business easier, people in smaller cities often lack awareness of or direct access to these benefits.

12. Suggestions

- **Widen access to early-stage finance** through more seed funds, angel networks and regional venture funds, especially for founders outside metros.
- **Reduce compliance and simplify exit rules** by integrating registrations on a single window and making winding-up faster.
- **Align education with industry** through internships, incubators on campus, entrepreneurship courses and industry-led skill programmes.
- **Strengthen infrastructure in smaller cities** such as better connectivity, shared workspaces and testing labs.
- **Protect gig and platform workers** by implementing social security measures so that start-up jobs are also decent jobs.



- **Encourage start-ups in manufacturing, agriculture, healthcare and clean energy**, not only in software and consumer apps, so that growth is more balanced.
- **Promote mentoring and market linkages** by connecting founders with experienced entrepreneurs, large corporations and government buyers.
- **Support women and marginalised founders** through targeted schemes, credit and training.

13. Conclusion

Start-ups have moved from the margins to the centre of India's economic story. By combining innovation with entrepreneurship, they create jobs directly in their own teams, indirectly through supply chains and platforms, and through self-employment for many who would otherwise struggle to find work. At the same time, they promote investment, raise productivity, improve services, spread opportunities across regions and address social problems. The experience of the last decade shows that supportive policy, accessible finance and a culture of enterprise can change a country's economic direction.

Yet the ecosystem is still young and fragile. Failure rates are high, funding cycles are unpredictable, and job quality is not uniform. If India is to convert start-up enthusiasm into lasting employment and balanced development, it must strengthen early-stage finance, simplify regulation, build skills, improve infrastructure beyond the big cities and protect the workers who power the new economy. With these steps, start-ups can become a durable pillar of inclusive growth and help India move toward its goal of becoming a developed economy.

References

1. Department for Promotion of Industry and Internal Trade (DPIIT), Government of India. Startup India portal and press releases. startupindia.gov.in
2. Ministry of Finance, Government of India. Economic Survey (various years), chapters on start-ups and innovation.
3. NASSCOM. India Tech Start-up Ecosystem reports (various years).
4. World Intellectual Property Organization (WIPO). Global Innovation Index (various years).
5. SIDBI. Fund of Funds for Start-ups: scheme documents and annual reports.
6. Schumpeter, J. A. (1934). The Theory of Economic Development. Harvard University Press.
7. Ministry of Labour and Employment, Government of India. Code on Social Security, 2020.