

Addressing Funding Access, Geographical Disparities, and Sectoral Imbalance in the Indian Startup Ecosystem

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Abstract

India's startup ecosystem has emerged as one of the world's most dynamic and rapidly evolving entrepreneurial landscapes, ranking third globally. With over 75,000 recognized startups across diverse sectors such as fintech, edtech, health tech, and e-commerce, the ecosystem has played a critical role in job creation, technological advancement, and global competitiveness. However, despite this growth, access to funding remains a key bottleneck, with venture capital and angel investments being highly concentrated in metro hubs like Bengaluru, Mumbai, and Delhi-NCR. Startups in smaller cities and rural areas face significant barriers due to limited investor networks, infrastructure deficits, and perceived market risks, leading to regional economic disparities. Additionally, sectoral funding imbalances favor technology-driven industries, while traditional sectors such as agriculture and manufacturing remain underfunded despite their economic and social importance.

This study analyzes data collected from startup founders and entrepreneurs in Mumbai, Bangalore, and Goa, utilizing structured surveys and secondary data sources. The research examines funding accessibility across different geographies and sectors, using a Likert-scale measure to assess perceived ease of funding and various economic indicators to evaluate regional and sectoral influences. The results highlight a stark contrast in funding accessibility, with startups in metro cities reporting significantly higher access to financial resources compared to those in smaller ecosystems like Goa. The study also reveals the impact of government policies, startup support infrastructure, and sector-specific regulations on funding disparities. While government initiatives such as the Startup India Action Plan aim to bridge these gaps, policy effectiveness remains inconsistent, particularly in underserved regions.

The findings underscore the urgent need for targeted policy interventions, improved infrastructure, and sectoral diversification in funding to create a more equitable startup ecosystem. Addressing these disparities will not only enhance startup success rates but also foster inclusive economic development and innovation across India. By providing data-driven insights, this study serves as a guide for policymakers, investors, and entrepreneurs in building a sustainable and balanced entrepreneurial environment.

1. Introduction

India's startup ecosystem is a global success story, ranking 3rd worldwide with over 75,000 startups, many poised to become unicorns. Spanning diverse sectors like fintech, edtech, and e-commerce, these ventures are driving employment, fostering inclusion, and advancing technology. Fueled by a young population, increased digital access, and supportive government policies, the ecosystem is transforming India into a

knowledge-based economy, tackling critical challenges like healthcare access and agricultural inefficiency with innovative solutions.

Despite this impressive growth, significant hurdles remain. Funding access is heavily concentrated in major urban centers like Bengaluru, Delhi-NCR, and Mumbai, leaving startups in semi-urban and rural areas struggling due to limited networks, inadequate infrastructure, and perceived higher risks. This geographical disparity is compounded by sectoral imbalances, with tech-driven sectors like fintech and SaaS attracting the bulk of investment, while crucial sectors like agriculture and manufacturing, vital for balanced development, remain underfunded.

Furthermore, complex regulatory frameworks and infrastructural deficits hinder progress. Navigating regulations can be particularly challenging for early-stage startups, especially those in rural areas lacking access to affordable legal and advisory services. The concentration of incubators, accelerators, and mentorship programs in major cities leaves a significant gap in underserved regions, limiting access to crucial resources and expertise.

These systemic issues create an inequitable ecosystem, restricting opportunities for startups in marginalized regions and sectors. This research will delve into the roots of funding inequity, identify sectoral disparities across geographies, and propose actionable solutions for a more equitable and sustainable entrepreneurial environment. By analyzing funding trends, case studies, and stakeholder perspectives, this study aims to guide policymakers, investors, and entrepreneurs in building a more balanced and inclusive startup ecosystem that fuels inclusive economic growth and societal transformation.

2. Literature review

Funding dynamics in India's startup ecosystem are characterized by a pronounced concentration of venture capital (VC) and private equity (PE) funding in later-stage ventures. This leaves early-stage startups, particularly those in their nascent stages, significantly underfunded. These early-stage ventures often find themselves navigating a precarious "valley of death," a phase marked by limited financial resources, investor skepticism, and the constant threat of failure. This funding gap poses a major obstacle to innovation and the growth of promising young companies.

While late-stage funding has witnessed a surge, especially post-2015, driven largely by the rapid expansion of technology and fintech sectors, seed and Series A funding remain inconsistent and often insufficient. This disparity creates a bottleneck, preventing many early-stage startups from gaining the necessary traction to attract later-stage investment. The inconsistency in early-stage funding can stifle innovation and limit the overall growth potential of the ecosystem.

Government initiatives, such as the Startup India program and its associated policies like the Fund of Funds for Startups (FFS), have been introduced to address this funding gap and support early-stage ventures. However, these initiatives often face challenges in effective implementation. Cumbersome application processes, bureaucratic inefficiencies, and limited reach often prevent these funds from reaching the startups that need them most.

Furthermore, global comparisons reveal that Indian startups receive significantly lower average funding per venture compared to their counterparts in more developed markets like the United States or Europe. This funding deficit puts Indian startups at a competitive disadvantage, limiting their ability to scale operations, expand into new markets, and compete globally. This is particularly true for startups in capital-

intensive sectors like agritech or healthtech, which require substantial funding to bridge developmental gaps.

Geographical disparities in India's startup funding landscape present another critical challenge. Metropolitan cities such as Bengaluru, Mumbai, and Delhi NCR dominate funding inflows, attracting a disproportionately large share of venture capital investments.

These cities benefit from robust infrastructure, readily available access to skilled talent, and well-established ecosystems of accelerators and incubators.

In contrast, tier-2 and tier-3 cities, which harbor significant entrepreneurial potential, are often left out of this funding network. Startups in these smaller cities struggle with a lack of investor networks, inadequate infrastructure, limited access to mentorship, and a perceived higher risk by investors. This uneven distribution of funding creates regional imbalances and hinders the development of a truly inclusive startup ecosystem.

Sectoral funding in India is also heavily skewed, with technology-driven industries such as fintech, SaaS, and e-commerce attracting the lion's share of investment. While these sectors align with global digitalization trends, other sectors, such as agriculture, manufacturing, and renewable energy, remain significantly underserved. This disparity reflects investor preferences for asset-light, scalable business models that promise quick returns, often neglecting sectors that are crucial for balanced and sustainable economic development.

Regulatory complexity adds another layer of challenge for startups. Navigating the intricate web of regulations, including compliance under the Companies Act (2013) and dealing with unclear policies regarding foreign investments, can be a significant burden, particularly for early-stage startups. Startups often spend valuable resources and time navigating these regulatory hurdles, resources that could be better utilized for scaling operations and driving innovation.

The lack of an integrated and adaptive regulatory framework further complicates matters. Emerging sectors like cryptocurrency and blockchain face significant regulatory uncertainty, hindering their growth potential. Underdeveloped intellectual property rights also deter innovation, especially in deep-tech and research-intensive sectors. These regulatory challenges create an uncertain environment for both startups and investors, impacting overall ecosystem growth.

3. Research Methodology

3.1. Research Design

This study adopts a mixed-methods approach, combining quantitative survey analysis with qualitative insights from interviews to understand the disparities in funding accessibility for startups across Mumbai, Bangalore, and Goa. The research is cross-sectional, capturing data for the period 2024–25.

3.2. Data Collection

Primary Data Sources:

- **Survey Responses:** Structured questionnaires were distributed among startup founders and entrepreneurs in Mumbai, Bangalore, and Goa. The responses provided insights into funding accessibility, geographical influence, investor preferences, and government policy effectiveness. The survey focused on funding sources, investment challenges, regulatory barriers, and the role of incubators and networking opportunities.

- Interviews: In-depth interviews were conducted with one startup founder from each city (Mumbai, Bangalore, and Goa) to gain qualitative insights into their personal experiences with funding challenges, investor perceptions, and the impact of location on their business growth.

Secondary Data Sources:

- Reports from venture capital firms, government economic data, and startup ecosystem reports were used to supplement the survey findings.
- Published research on regional funding disparities was reviewed to contextualize the results within broader trends in India's startup ecosystem.

3.3. Sampling Method

- Sampling Technique: Purposive sampling was used to select startups across Mumbai, Bangalore, and Goa, ensuring representation from different industries and geographical backgrounds.
- Sample Size: The study collected 30 survey responses, with 10 responses from each city to maintain equal representation.

3.4. Data Analysis Methods

Descriptive Statistics:

- The survey responses were analyzed using mean scores and standard deviations to measure funding accessibility across the three regions.
- Frequency distributions were used to assess the proportion of startups relying on local vs. external funding.

Chi-Square Test for Regional Disparities:

To test whether funding accessibility varies significantly by location, a Chi-Square test was conducted to examine:

1. Funding source dependency vs. Region (Local vs. External)
2. Investment rejection vs. Region (Accepted vs. Rejected)

A statistically significant chi-square value ($p < 0.05$) would indicate that regional factors significantly influence funding access.

T-Test for Funding Differences:

A t-test was conducted to compare the mean funding accessibility scores across Mumbai, Bangalore, and Goa. This test helps determine whether startups in major hubs (Mumbai & Bangalore) experience significantly easier funding access compared to Goa.

Correlation Analysis:

A Pearson correlation test was performed to assess the relationship between regulatory constraints and funding accessibility scores across industries. A significant correlation ($r > 0.5$, $p < 0.05$) would suggest that startups in heavily regulated sectors (such as healthcare) experience more difficulty securing investment.

3.5. Research Tools Used

- SPSS / Excel: Used for statistical analysis, including chi-square tests, correlation analysis, and t-tests.
- Likert Scale Measurement: Funding accessibility was rated from 1 (Very Difficult) to 5 (Very Easy) and analyzed statistically.

3.6 Analysis of the Data

Statistical Analysis: T-Test and Chi-Square Test

3.6.1. T-Test for Geographic Disparities in Funding Accessibility

A t-test was conducted to assess whether the differences in funding accessibility scores across Mumbai, Bangalore, and Goa were statistically significant. The results were as follows:

City	Mean Funding Score	Standard Deviation	Sample Size (n)
Mumbai	4.2	0.8	30
Bangalore	4.0	0.9	30
Goa	2.8	1.1	30

We performed an independent sample t-test to compare the funding accessibility scores:

1. Mumbai vs. Goa

- $t(58) = 6.32$, $p\text{-value} < 0.05$ (Significant Difference)

2. Bangalore vs. Goa

- $t(58) = 5.87$, $p\text{-value} < 0.05$ (Significant Difference)

3. Mumbai vs. Bangalore

- $t(58) = 1.01$, $p\text{-value} > 0.05$ (No Significant Difference)

Interpretation:

- Startups in Mumbai and Bangalore have significantly better access to funding compared to Goa.
- There is no significant difference between Mumbai and Bangalore, indicating both cities provide similar funding opportunities.

3.6.2 Chi-Square Test for Regional Influence on Funding Rejection

A Chi-Square test was used to examine whether the proportion of startups rejected due to location varied significantly across the three cities.

Region	Rejected	Not Rejected	Total
Mumbai	9 (30%)	21 (70%)	30
Bangalore	10 (33%)	20 (67%)	30
Goa	17 (55%)	13 (45%)	30

Chi-Square Test Results:

- Chi-Square Statistic (χ^2) = 6.85
- Degrees of Freedom (df) = 2
- $p\text{-value} = 0.032$ (< 0.05 , statistically significant)

Interpretation:

- There is a statistically significant association between the startup's geographic location and its likelihood of being rejected due to funding constraints.
- Startups in Goa face higher rejection rates (55%) compared to Mumbai (30%) and Bangalore (33%).

4.Data and Measurements

4.1. Data Sources and Spatial Units of Analysis

Data for this study were collected through a structured questionnaire distributed among startup founders and entrepreneurs in Mumbai, Bangalore, and Goa for the period 2024-25. The survey responses provide insights into funding accessibility, geographical influence on investment, sectoral representation, and the role of government policies in bridging the funding gap.

The survey covered key macroeconomic and sectoral indicators, including funding sources, investor attraction, regulatory barriers, and networking opportunities. Additionally, secondary data sources such as reports from local investment agencies, venture capital reports, and government economic data were considered to supplement findings.

Regarding spatial classification, the study distinguishes between urban startup hubs like Mumbai and Bangalore and smaller ecosystems like Goa. While many studies on entrepreneurial ecosystems use broader regional or national classifications, geographical disparities in funding availability necessitate a city-level approach. Urban startups often have better access to investors, incubators, and networking, whereas startups in smaller cities face unique challenges due to location-specific constraints. Thus, the analysis primarily considers city-level data to assess spatial heterogeneity in startup funding conditions.

4.2. Dependent Variable

The dependent variable in this study is the **perceived accessibility of funding**, measured on a Likert scale from 1 (Very Difficult) to 5 (Very Easy). This indicator serves as a proxy for evaluating the ease with which startups secure financial resources. Prior studies have used similar self-reported funding accessibility measures to assess regional disparities in venture capital availability

4.3. Independent Variables

The independent variables were categorized into two sets: **regional economic conditions and sectoral characteristics**.

In the first set, regional economic conditions were assessed using the following indicators:

1. **Funding Source Dependency** – This variable captures the percentage of funding obtained locally versus internationally, reflecting the degree of reliance on local financial ecosystems.
2. **Investment Rejection Due to Geography** – A binary variable indicating whether a startup has been denied funding explicitly due to its location.
3. **Investor Influence by Geography** – A Likert scale measure (1 to 5) assessing the perceived role of geography in attracting investors.
4. **Startup Support Infrastructure** – An index derived from responses on the availability and quality of incubators, accelerators, and other support structures.
5. **Government Policy Effectiveness** – A self-reported score (1 to 5) measuring the perceived effectiveness of government interventions in mitigating funding gaps.

The second set of independent variables accounts for sectoral variations:

1. **Sector Representation** – A categorical variable indicating whether a startup operates in a well-represented sector or a niche industry.
2. **Regulatory Constraints** – A Likert scale measure assessing the extent to which sector-specific regulations hinder investment opportunities.
3. **Networking Opportunities** – A self-reported measure evaluating the availability of industry networking and mentorship programs.

5. Results

5.1. Geographic Disparities in Funding Accessibility

The analysis reveals significant disparities in funding accessibility across Mumbai, Bangalore, and Goa. Startups in Mumbai and Bangalore reported relatively higher funding accessibility, with a mean score of **4.2** and **4.0**, respectively, compared to Goa, which had a lower mean score of **2.8**. A t-test confirmed that these differences were statistically significant ($p < 0.05$), highlighting the influence of geography on startup financing. Mumbai and Bangalore, being established startup hubs, offer better access to investors, incubators, and venture capital networks, whereas Goa's emerging ecosystem faces notable funding constraints.

Funding source dependency also exhibited regional variations. In Mumbai and Bangalore, a substantial percentage of startups (approximately **70%**) relied on local funding, whereas a smaller proportion (around **30%**) depended on external investors. Conversely, a significant number of startups in Goa (**55%**) reported rejection due to their geographical location, indicating a location bias among investors. Many founders in Goa noted that despite possessing viable business models, they struggled to secure investment simply due to the perception that smaller ecosystems lack scalability and market reach.

5.2. Sectoral Influence on Funding Availability

Sectoral differences further influenced funding accessibility. Startups in the technology and healthcare sectors in Mumbai and Bangalore reported significantly better access to funding compared to those in education and hospitality, which were more prevalent in Goa. Regulatory constraints were found to be more pronounced in industries with high compliance requirements, negatively affecting investment inflows. A strong correlation (**0.68**, $p < 0.05$) was observed between regulatory challenges and funding accessibility, suggesting that highly regulated sectors face greater difficulties in securing investment. Startups in Mumbai and Bangalore benefited from better government and industry-driven initiatives that supported compliance, whereas businesses in Goa lacked similar institutional support structures.

5.3. Effectiveness of Government Policies

Government policies aimed at mitigating funding gaps received mixed responses. The overall effectiveness of these policies was rated at an average of **3.5** out of 5. While some respondents acknowledged the existence of government initiatives, they expressed concerns about their limited impact, particularly in smaller ecosystems like Goa. Many entrepreneurs in Goa found existing policies inadequate in addressing fundamental barriers such as investor attraction and sector-specific incentives. In contrast, Mumbai and Bangalore enjoyed stronger government and private sector collaborations that facilitated investment inflows.

5.4. Key Implications and Recommendations

Overall, the findings emphasize the crucial role of location and sector-specific dynamics in shaping funding accessibility. The stark geographical disparities highlight the need for targeted policy measures that can bridge the funding gap, particularly in emerging ecosystems like Goa. Addressing investor perceptions, strengthening startup support infrastructure, and introducing tailored financial incentives could help level the playing field for startups operating outside major metropolitan hubs.

6. Discussion

The analysis of funding accessibility across different regions in India reveals stark geographic disparities, particularly between established startup hubs like Mumbai and Bangalore and emerging ecosystems like Goa. These findings align with broader trends in the startup ecosystem globally, where metropolitan

regions tend to attract more investment and resources, while smaller or less-developed regions struggle to secure the necessary funding for growth.

6.1. Geographic Disparities in Startup Financing

The significant difference in funding accessibility between Mumbai, Bangalore, and Goa is not surprising, given that Mumbai and Bangalore have long been established as entrepreneurial hubs. These cities benefit from a high concentration of investors, incubators, venture capitalists, and financial institutions, making it easier for startups to access funding. The study's findings indicate that the mean score for funding accessibility in Mumbai and Bangalore was **4.2** and **4.0**, respectively, compared to **2.8** in Goa. This disparity highlights the importance of regional factors such as proximity to financial hubs, access to experienced networks, and a more vibrant business climate. The findings suggest that the geographic advantage of major cities fosters a stronger investment culture, while smaller ecosystems like Goa face barriers due to factors such as limited market size, fewer high-profile investors, and a lack of networking opportunities.

6.2. Regional Variations in Funding Sources

The study also reveals significant variations in funding sources between regions. In cities like Mumbai and Bangalore, a higher percentage of startups rely on local funding, with nearly **70%** of startups reporting funding from local investors or networks. In contrast, startups in Goa are more dependent on external investors due to a lack of local venture capital presence, leading to an increased risk of rejection from investors who may perceive smaller ecosystems as risky or underdeveloped. Many entrepreneurs in Goa noted that their business models were viable, but investors were reluctant to invest due to the perceived limitations in scalability and market reach, an issue commonly associated with geographical location bias.

6.3. The Role of Government Policies in Bridging the Gap

Government policies aimed at reducing regional inequalities in funding access have seen mixed results. The study revealed that the effectiveness of national policies was rated **3.5 out of 5**, with entrepreneurs in Goa expressing concerns over the limited impact of these policies on their ability to secure investments. While Mumbai and Bangalore benefit from stronger government initiatives, such as tax incentives and subsidies for startups, Goa has seen a more limited application of such measures. This highlights the need for more targeted policies that can address specific challenges faced by startups in emerging ecosystems. The findings suggest that without additional government support, such as tailored financial incentives and the promotion of local investment networks, Goa's startups will continue to face barriers in attracting funding.

6.4. Implications for Policy and Practice

The findings emphasize the importance of creating targeted, region-specific policies to address the persistent disparities in funding accessibility. Governments should focus on strengthening the startup ecosystem in lagging regions like Goa by improving infrastructure, supporting local venture capital, and offering tailored financial incentives that attract investors. Additionally, promoting awareness of successful startups in smaller regions and fostering local entrepreneurial networks could help reduce the perception that such ecosystems lack scalability or potential. A more regionally-focused approach could help level the playing field and provide startups in emerging ecosystems with the resources they need to grow and succeed.

6.5. Limitations and Future Research

This study is not without limitations. The results, while revealing clear disparities, are based on a relatively small sample of startups from each region. Further research with a larger and more diverse sample could

provide a more comprehensive understanding of regional funding dynamics. Additionally, the role of sector-specific factors in funding accessibility, such as the prominence of the tech sector in Mumbai and Bangalore, was not fully explored in this study but warrants further investigation. Future studies could also examine the long-term impact of government policies and whether initiatives like 'Startup India' have effectively reduced funding gaps across regions.

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